

**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C.

**Form 10-Q**

**Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

**For the Quarter Ended September 30, 2006 (Unaudited)**

**Commission File Number 0-04041**

**ALLIED MOTION TECHNOLOGIES INC.**

(Incorporated Under the Laws of the State of Colorado)

**23 Inverness Way East, Suite 150  
Englewood, Colorado 80112  
Telephone: (303) 799-8520**

**84-0518115**

(IRS Employer Identification Number)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerate filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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: 6,533,424 as of November 1, 2006

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ALLIED MOTION TECHNOLOGIES INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In Thousands)  
(Unaudited)

	September 30, 2006	December 31, 2005
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 702	\$ 624
Trade receivables, net of allowance for doubtful accounts of \$427 and \$281 at September 30, 2006 and December 31, 2005, respectively	11,453	10,087
Inventories, net	10,701	9,185
Deferred income taxes	982	402
Prepaid expenses and other	635	577
Total Current Assets	<u>24,473</u>	<u>20,875</u>
Property, plant and equipment, net	12,293	12,939
Deferred income taxes	75	582
Goodwill and intangible assets	18,436	18,941
Total Assets	<u>\$ 55,277</u>	<u>\$ 53,337</u>
<b>Liabilities and Stockholders' Investment</b>		
Current Liabilities:		
Current maturities of capital lease obligations	\$ 136	\$ 180
Debt obligations	9,702	7,155
Accounts payable	5,808	5,543
Accrued liabilities and other	4,198	3,877
Income taxes payable	1,101	664
Total Current Liabilities	<u>20,945</u>	<u>17,419</u>
Long-term capital lease obligations, net of current portion	33	92
Debt obligations, net of current portion	812	4,654
Deferred income taxes	2,113	1,862
Pension and post-retirement obligations	3,397	3,503
Total Liabilities	<u>27,300</u>	<u>27,530</u>
Commitments and Contingencies		
Stockholders' Investment:		
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding	—	—
Common stock, no par value, authorized 50,000 shares; 6,533 and 6,369 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	15,419	14,991
Retained earnings	12,513	10,970
Other comprehensive income (loss)	45	(154)
Total Stockholders' Investment	<u>27,977</u>	<u>25,807</u>
Total Liabilities and Stockholders' Investment	<u>\$ 55,277</u>	<u>\$ 53,337</u>

See accompanying notes to financial statements.

ALLIED MOTION TECHNOLOGIES INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In Thousands, except per share data)  
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Revenues	\$ 20,308	\$ 18,043	\$ 63,662	\$ 55,411
Cost of products sold	15,244	13,845	48,596	42,901
Gross margin	<u>5,064</u>	<u>4,198</u>	<u>15,066</u>	<u>12,510</u>
Operating costs and expenses:				
Selling	780	817	2,433	2,413
General and administrative	1,810	1,354	5,780	4,285
Engineering and development	986	832	2,894	2,729
Amortization of intangible assets	254	252	757	761
Total operating costs and expenses	<u>3,830</u>	<u>3,255</u>	<u>11,864</u>	<u>10,188</u>
Operating income	<u>1,234</u>	<u>943</u>	<u>3,202</u>	<u>2,322</u>
Other income (expense), net:				
Interest expense	(251)	(282)	(756)	(814)
Other income (expense), net	<u>11</u>	<u>(28)</u>	<u>(21)</u>	<u>(17)</u>

Total other expense, net	(240)	(310)	(777)	(831)
Income before income taxes	994	633	2,425	1,491
Provision for income taxes	(377)	(250)	(882)	(572)
Net income	\$ 617	\$ 383	\$ 1,543	\$ 919
Basic net income per share:				
Net income per share	\$ 0.10	\$ 0.06	\$ 0.24	\$ 0.15
Basic weighted average common shares	6,489	6,344	6,434	6,209
Diluted net income per share:				
Net income per share	\$ 0.09	\$ 0.06	\$ 0.22	\$ 0.13
Diluted weighted average common shares	6,977	6,710	6,920	6,940

See accompanying notes to financial statements.

ALLIED MOTION TECHNOLOGIES INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In Thousands)  
(Unaudited)

	For the nine months ended September 30,	
	2006	2005
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 1,543	\$ 919
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,440	2,411
Provision for doubtful accounts	153	36
Provision for obsolete inventory	363	250
Deferred income taxes	138	148
Other	93	151
Changes in assets and liabilities, net of effects from acquisition:		
(Increase) decrease in -		
Trade receivables	(1,405)	(1,928)
Inventories, net	(1,747)	(619)
Prepaid expenses and other	(54)	(59)
Increase (decrease) in -		
Accounts payable	150	(26)
Accrued liabilities and other	668	(1,217)
Net cash provided by operating activities	2,343	66
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(1,005)	(1,628)
Acquisition costs for Owosso Corporation	—	(275)
Net cash used in investing activities	(1,005)	(1,903)
<b>Cash Flows From Financing Activities:</b>		
Borrowings on line-of-credit, net	227	2,723
Proceeds from capital leases	51	—
Repayments on term loans	(1,645)	(1,490)
Repayments of capital lease obligations	(160)	(93)
Stock transactions under employee benefit stock plans	261	724
Net cash provided by (used in) financing activities	(1,266)	1,864
Effect of foreign exchange rate changes on cash	6	(3)
Net increase in cash and cash equivalents	78	24
Cash and cash equivalents at beginning of period	624	456
Cash and cash equivalents at September 30	\$ 702	\$ 480
<b>Supplemental disclosure of cash flow information:</b>		
Net cash paid during the period for:		
Interest	\$ 708	\$ 843
Income taxes	\$ 248	\$ 262
Noncash Investing and Financing Activities:		
Stock-Based Compensation	\$ 66	\$ 24

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ALLIED MOTION TECHNOLOGIES INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**1. Basis of Preparation and Presentation**

Allied Motion Technologies Inc. (the Company) is engaged in the business of designing, manufacturing and selling motion control products to a broad spectrum of customers throughout the world. The Company is organized into five subsidiaries: Emoteq, Computer Optical Products, Motor Products, Stature Electric and Premotec.

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

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates prevailing during the month of transaction. The resulting translation adjustments are included in the cumulative translation adjustment component of stockholders' investment in the accompanying consolidated balance sheets. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and include all adjustments which are, in the opinion of management, necessary for a fair presentation. Certain information and footnote disclosures normally included in financial statements which are prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States 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 consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

It is suggested that the accompanying condensed interim 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, 2005 that was previously filed by the Company.

**Recent Accounting Pronouncements**

In December 2004, the Financial Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), which is a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123") and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*. SFAS 123R requires measurement of all employee stock-based compensation awards using a fair-value method and the recording of such expense in the consolidated financial statements. The Company selected the Black-Scholes option-pricing model as the most appropriate fair-value method for stock option awards and will recognize compensation cost on a straight-line basis over the awards' vesting periods. The Company adopted SFAS 123R on January 1, 2006. See note 5 for further detail.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, *Inventory Costs* ("SFAS 151"), which amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing*. This statement requires abnormal amounts of idle facility expense, freight, handling costs and wasted material to be excluded from inventory costing and instead included as period expenses. In addition, this standard requires the allocation of fixed production overhead to be based on normal capacity of the production facilities. The Company adopted the standard on January 1, 2006 and it did not have an impact on our Condensed Consolidated Financial Statements.

In September 2006, the Financial Accounting Standards Board ("FASB") released FASB statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." Statement No. 158 requires the Company to recognize, in its statement of financial position, an asset for a defined benefit pension and postretirement plans's overfunded status or a liability for a plan's underfunded status and to recognize changes in the funded status of the plans in comprehensive income in the year in which the changes occur. Statement No. 158 is effective for the Company's fiscal year ending December 31, 2006 and will be applied prospectively. For all plans, the Company anticipates an increase in stockholders' equity. The Company has not yet calculated the amount of the increase. The Statement does not affect the results of operations.

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." The Interpretation requires that realization of an uncertain income tax position must be "more likely than not" (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Further, the Interpretation prescribes the benefit to be recorded in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. The Interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new

disclosures regarding unrecognized tax benefits. The Interpretation is effective in the first quarter 2007 for Allied Motion and the Company plans to adopt the Interpretation when required. The Interpretation is currently being evaluated by Allied Motion for its full impact. At this time, the Company believes it has properly and adequately provided for all income tax positions and therefore expects minimal impact from adopting the Interpretation.

In September 2006, the Financial Accounting Standards Board issued FASB No. 157, "Fair Value Measurements." FAS 157 is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by GAAP; it does not create or modify any current GAAP requirements to apply fair value accounting. The Standard provides a single definition for fair value that is to be applied consistently for all accounting applications, and also generally describes and prioritizes according to reliability the methods and inputs used in valuations. FAS 157 prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in GAAP. The new measurement and disclosure requirements of FAS 157 are effective for Allied Motion in the first quarter 2008. The Company expects no significant impact from adopting the Standard.

## 2. Inventories

Inventories, valued at the lower of cost (first-in, first-out basis) or market, are as follows (in thousands):

	September 30, 2006	December 31, 2005
Parts and raw materials	\$ 8,082	\$ 7,739
Work-in process	2,322	1,418
Finished goods	2,015	1,710
	<u>12,419</u>	<u>10,867</u>
Less reserves	(1,718)	(1,682)
	<u>\$ 10,701</u>	<u>\$ 9,185</u>

## 3. Property, Plant and Equipment

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

	September 30, 2006	December 31, 2005
Land	\$ 332	\$ 332
Building and improvements	4,577	4,537
Machinery, equipment, tools and dies	15,906	15,271
Furniture, fixtures and other	1,022	764
	<u>21,837</u>	<u>20,904</u>
Less accumulated depreciation	(9,544)	(7,965)
	<u>\$ 12,293</u>	<u>\$ 12,939</u>

## 4. Stockholders' Investment

Changes in stockholders' investment for the nine months ended September 30, 2006 and 2005, consisted of the following (in thousands):

	For the nine months ended September 30,			
	2006		2005	
	Shares Outstanding	Amount	Shares Outstanding	Amount
Balances at beginning of period	6,369	\$ 25,807	6,070	\$ 24,360
Stock transactions under employee benefit stock plans and option exercises	125	263	234	575
Stock-based compensation – restricted stock awards	39	64	43	24
Stock-based compensation – stock options	—	14	—	—
Payment on loan to Employee Stock Ownership Plan	—	—	—	155
Tax benefit from NQ option exercises	—	87	—	45
Foreign currency translation adjustment	—	199	—	(290)
Net income	—	1,543	—	919
Balance at end of period	<u>6,533</u>	<u>\$ 27,977</u>	<u>6,347</u>	<u>\$ 25,788</u>

## 5. Stock-Based Compensation

The Company's Year 2000 Stock Incentive Plan provides for awards of stock options, stock appreciation rights and restricted stock to employees and directors, as determined by the board of directors.

### *Stock Options*

Effective January 1, 2006, the Company implemented FASB Statement No. 123R (Statement 123R) *Accounting for Share-Based Payment*, an amendment of FASB Statement No. 123, adopting the modified prospective method of implementation. Statement 123R requires recognition of the grant-date fair value of stock options and other equity-based compensation issued to employees in the income statement. The cost of share based payments, using the fair value of the options at the grant date assuming the Black-Scholes option-pricing model, is recognized on a straight-line basis over the vesting period. During the quarter and nine months ended September 30, 2006, the Company recognized \$5,000 and \$16,000 in compensation expense related to outstanding stock options. Total unrecognized compensation cost related to unvested stock-based awards as of September 30, 2006, is zero.

Prior to January 1, 2006, the Company accounted for its employee stock compensation plans as prescribed under Accounting Principles Boards Opinion No. 25, *Accounting for Stock Issued to Employees* (APB Opinion 25). All options granted had an exercise price equal to the market value of the underlying common stock on the date of grant and therefore no stock-based compensation cost was reflected in net income. Had compensation cost for the Company's stock-based compensation plan been determined using the fair value of the options at the grant date, assuming the Black-Scholes option-pricing model, the Company's net income and income per share would have been reduced to the pro forma amounts indicated below for the three and nine months ended September 30, 2005 (in thousands):

	For the three months ended September 30, 2005	For the nine months ended September 30, 2005
Net income		
Reported net income	\$ 383	\$ 919
Stock-based compensation expense, net of taxes	(25)	(94)
Pro forma net income	<u>\$ 358</u>	<u>\$ 825</u>
Basic net income per share:		
Reported basic net income per share	\$ 0.06	\$ 0.15
Pro forma basic net income per share	\$ 0.06	\$ 0.13
Diluted net income per share:		
Reported diluted net income per share	\$ 0.06	\$ 0.13
Pro forma diluted net income per share	\$ 0.05	\$ 0.12

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The following is a summary of option activity, during the nine months ended September 30, 2006:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at beginning of period	1,448,650	\$ 3.62	4.1	
Granted	—	—		
Forfeited	(42,000)	4.88		
Exercised	(159,500)	2.77		
Outstanding at end of Period	<u>1,247,150</u>	\$ 3.68	3.5	\$ 1,408,000
Exercisable at end of period	<u>1,247,150</u>	\$ 3.68	3.5	\$ 1,408,000

There have been no options granted since October, 2004. During the nine months ended September 30, 2006, options to purchase 159,500 shares were exercised with an aggregate intrinsic value totaling approximately \$325,000.

### **Restricted Stock**

On March 31, 2006, 42,000 of unvested restricted stock awards were granted with a value of \$3.795 per share. The value at the date of grant is amortized to compensation expense over the related three year vesting period. Shares of restricted stock are forfeited if an employee leaves the Company before the vesting date. Shares that are forfeited become available for future grant under the Company's Year 2000 Stock Incentive Plan. During the quarter ended September 30, 2006 and 2005, compensation expense, net of forfeitures, of \$27,000 and \$16,000 was recorded, respectively. During the nine-months ended September 30, 2006 and 2005, compensation expense, net of forfeitures, of \$66,000 and \$24,000 was recorded, respectively.

The following is a summary of restricted stock activity during the nine-months ended September 30, 2006:

	Number of Restricted Shares
Outstanding at beginning of year	44,000
Granted	42,000
Forfeited	(2,000)
Vested	(14,009)
Outstanding at end of period	<u>69,991</u>

## **6. Earnings per Share**

Basic income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted income per share is determined by dividing the net income or loss by the sum of (1) the weighted average number of common shares outstanding and (2) if not anti-dilutive, the effect of stock awards determined utilizing the treasury stock method. Outstanding options totaling 488,000 and 367,000 had a dilutive effect for the three months ended September 30, 2006 and 2005, respectively. Outstanding options totaling 486,000 and 731,000 had a dilutive effect for the nine months ended September 30, 2006 and 2005, respectively. Stock options to purchase 215,000 and 895,000 shares of common stock were excluded from the calculation of diluted income per share for the three months ended September 30, 2006 and 2005, respectively, since the results would have been anti-dilutive. Stock options to purchase 378,000 and 127,000 shares of common stock were excluded from the calculation of diluted income per share for the nine months ended September 30, 2006 and 2005, respectively, since the results would have been anti-dilutive.

## 7. Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" requires disclosure of operating segments, which as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company operates in one segment for the manufacture and marketing of motion control products for original equipment manufacturers and end user applications. In accordance with SFAS No. 131, the Company's chief operating decision maker has been identified as the Office of the President and Chief Operating Officer, which reviews operating results to make decisions about allocating resources and assessing performance for the entire company. SFAS No. 131, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under SFAS No. 131 due to their similar customer base and similarities in: economic characteristics; nature of products and services; and procurement, manufacturing and distribution processes. Since the Company operates in one segment, all financial information required by SFAS No. 131 can be found in the accompanying condensed consolidated financial statements and within this note.

The Company's wholly owned foreign subsidiary, Premotec, located in Dordrecht, The Netherlands is included in the accompanying condensed consolidated financial statements. Financial information related to the foreign subsidiaries is summarized below (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Revenues derived from foreign subsidiaries	\$ 4,473	\$ 3,303	\$ 14,288	\$ 10,065
Identifiable assets	\$ 9,158	\$ 8,233	\$ 9,158	\$ 8,233

Sales to customers outside of the United States by all subsidiaries were \$6,310,000 and \$4,814,000 for the quarters ended September 30, 2006 and 2005, respectively, and \$19,795,000 and \$14,964,000 for the nine months ended September 30, 2006 and 2005, respectively.

During the quarters and nine months ended September 30, 2006 and 2005, no single customer accounted for more than 10% of total revenues.

## 8. Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by and distributions to stockholders.

Comprehensive income is computed as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Net income	\$ 617	\$ 383	\$ 1,543	\$ 919
Foreign currency translation adjustment	36	(5)	199	(290)
Comprehensive income	\$ 653	\$ 378	\$ 1,742	\$ 629

## 9. Goodwill and Intangible Assets

Included in goodwill and intangible assets on the Company's consolidated balance sheets are the following (in thousands):

	September 30, 2006	December 31, 2005	Estimated Life
Goodwill	\$ 12,968	\$ 12,818	
Amortizable intangible assets			
Customer lists	4,434	4,371	8 years
Trade name	1,340	1,340	10 years
Design and technologies	2,558	2,494	8 years

Accumulated amortization	(2,864)	(2,082)
Net intangible assets	5,468	6,123
Total goodwill and intangible assets	<u>\$ 18,436</u>	<u>\$ 18,941</u>

The change in the carrying amount of goodwill for 2006 is as follows (in thousands):

	September 30, 2006	December 31, 2005
Balance at beginning of period	\$ 12,818	\$ 13,246
Effect of foreign currency translation	150	(326)
Other	—	(102)
Balance at end of period	<u>\$ 12,968</u>	<u>\$ 12,818</u>

Amortization expense for intangible assets was \$254,000 and \$252,000 for the quarters ended September 30, 2006 and 2005, respectively, and \$757,000 and \$761,000 for the nine months ended September 30, 2006 and 2005, respectively.

## 10. Debt Obligations

Debt obligations consist of the following (in thousands):

	September 30, 2006	December 31, 2005
Domestic revolving line-of-credit (A)	\$ 5,236	\$ 4,434
Foreign revolving line-of-credit (B)	—	547
Term loan payable to bank in monthly installments of \$90 plus interest at 8.68%, due in May 2007, secured by machinery and equipment	722	1,535
Term loan payable to bank in monthly installments of \$59 plus interest at the bank's prime rate plus 0.75% (9.0% as of September 30, 2006), plus balloon payment of \$2,863, due in May 2007, secured by buildings, machinery and equipment	3,338	3,872
Term loan payable to bank in quarterly installments of EUR 80 (\$102 at September 30, 2006 exchange rate) plus interest at 5.75% until November, 2006, then at EURIBOR plus 2.5% with a minimum of 4.74%, due in July 2009, secured by Allied Motion Technologies, B.V. shares	1,218	1,421
Total	10,514	11,809
Less current maturities	(9,702)	(7,155)
Long-term debt obligations	<u>\$ 812</u>	<u>\$ 4,654</u>

- (A) Under the domestic revolving line-of-credit agreement (Agreement), the Company has available the lesser of (a) \$10,500,000 or (b) the sum of 85% of eligible trade accounts receivable (excluding Premotec) and 50% of eligible inventory, as defined in the Agreement. The line-of-credit expires in May 2007, unless extended. Under the Agreement, the Company utilizes lock-box arrangements whereby remittances from customers reduce the outstanding debt, therefore the line-of-credit balance has been classified as a current liability. Borrowings under the line-of-credit bear interest at a rate equal to the bank's prime rates plus 1% (9.25% as of September 30, 2006). All borrowings are collateralized by substantially all assets of the Company. The Agreement prohibits the Company from paying dividends and requires that the Company maintain compliance with certain covenants related to tangible net worth and fixed charge coverage. As of September 30, 2006, the Company was in compliance with such covenants. As of September 30, 2006, the amount available under the domestic line-of-credit was \$4,770,000.
- (B) Under the foreign line-of-credit agreement (Foreign Agreement), the Company has available the lesser of (a) EUR 1.25 million, or (b) 85% of eligible trade accounts receivable of Premotec as defined in the Foreign Agreement. The line-of-credit expires in August 2008, unless extended. Borrowings under the line-of-credit bear interest at a rate equal to the bank's base rate plus 1.75%, with a minimum of 4.75% (5.5% at September 30, 2006). Under the Foreign Agreement, remittances from customers reduce the outstanding debt, therefore the balance has been classified as a current liability. As of September 30, 2006, the amount available under the foreign line-of-credit was \$1,003,000.

The Company has a bank overdraft facility payable to a foreign bank with no monthly repayments required, interest due at the bank's base rate plus 2%, with a minimum of 5.25% (5.75% as of September 30, 2006), due on demand, secured by Premotec's inventory. As of September 30, 2006, the amount available under the overdraft facility was \$254,000.

## 11. Pension and Postretirement Welfare Plans

### Pension Plan

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

Components of the net periodic pension expense included in the condensed consolidated statements of operations are as follows (in thousands):

<u>For the three months ended September 30,</u>	<u>For the nine months ended September 30,</u>
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	2006	2005	2006	2005
Service cost	\$ 32	\$ 31	\$ 96	\$ 98
Interest cost on projected benefit obligations	56	53	168	164
Expected return on assets	(72)	(69)	(216)	(207)
Amortization of gain	—	—	—	—
Net periodic pension expense	<u>\$ 16</u>	<u>\$ 15</u>	<u>\$ 48</u>	<u>\$ 55</u>

The Company expects to contribute approximately \$75,000 to the pension plan for 2006.

#### *Postretirement Welfare Plan*

Motor Products provides postretirement medical benefits and life insurance benefits to current and former employees hired before January 1, 1994 who retire from Motor Products. Employees who retire after January 1, 2005 must have twenty or more years of continuous service in order to be eligible for retiree medical benefits. Partial contributions from retirees are required for the

medical insurance benefits. The Company's portion of the medical insurance premiums are funded from the general assets of the Company. The Company recognizes the expected cost of providing such post-retirement benefits during employees' active service periods.

Net periodic postretirement benefit costs included in the condensed consolidated statements of operations are as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Service cost	\$ —	\$ 21	\$ 2	\$ 62
Interest cost	—	51	7	150
Amortization of gain	—	9	1	26
Net periodic postretirement costs	<u>\$ —</u>	<u>\$ 81</u>	<u>\$ 10</u>	<u>\$ 238</u>

The Company contributed \$13,000 and \$52,000 to the postretirement welfare plan during the three and nine months ended September 30, 2006. The Company expects to contribute approximately \$79,000 to the postretirement welfare plan during 2006.

#### **12. Deferred Compensation Plan**

The Company has a Deferred Compensation Plan effective January 1, 2006. The Plan provides eligible key employees with the opportunity to defer the receipt of base compensation, bonuses, or a combination thereof, receive an allocation of any discretionary amount contributed to the Plan by the Company and receive an allocation of any performance based contributions by the Company. The discretionary contribution expense related to the plan for the quarter and nine-months ended September 30, 2006 was zero and \$24,500, respectively. The Company's board of directors approved a performance contribution for 2006 based on the Company achieving a net profit target. As of September 30, 2006 the performance criteria has not been met and accordingly, no expense has been recorded.

#### **13. Reclassifications**

Certain prior year balances were reclassified to conform to the current year presentation. Those reclassifications had no impact on net income, stockholders' investment or cash flows from operations as previously reported.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*All statements contained herein that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the word "believe," "anticipate," "expect," "project," "intend," "will continue," "will likely result," "should" or words or phrases of similar meaning. Forward-looking statements involve known and unknown risks and uncertainties that may cause actual results of the Company to differ materially from the forward-looking statements. The risks and uncertainties include international, national and local general business and economic conditions in the Company's motion markets, introduction of new technologies, products and competitors, the ability to protect the Company's intellectual property, the ability of the Company to sustain, manage or forecast its growth and product acceptance, success of new corporation strategies and implementation of defined critical issues designed for growth and improvement in profits, the continued success of the Company's customers to allow the Company to realize revenues from its order backlog and to support the Company's expected delivery schedules, the continued viability of the Company's customers and their ability to adapt to changing technology and product demand, the ability of the Company to meet the technical specifications of its customers, the continued availability of parts and components, increased competition and changes in competitor responses to the Company's products and services, changes in government regulations, availability of financing, the ability of the Company's lenders and financial institutions to provide additional funds if needed for operations or for making future acquisitions or the ability of the Company to obtain alternate financing if present sources of financing are terminated, the ability to attract and retain qualified personnel who can design new applications and products for the motion industry, the ability of the Company to identify and consummate favorable acquisitions to support external growth and new technology, the ability of the Company to establish Chinese manufacturing and component sourcing capabilities, and the ability of the Company to control costs for the purpose of improving profitability. The Company's ability to compete in this market depends upon its capacity to anticipate the need for new products, and to continue to design and market those products to meet customers' needs in a competitive world. Actual results, events and performance may differ materially. Readers are*

cautioned not to place undue reliance on these forward-looking statements as a prediction of actual results. The Company has no obligation or intent to release publicly any revisions to any forward looking statements, whether as a result of new information, future events, or otherwise.

New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. The Company's expectations, beliefs and projections are expressed in good faith and are believed to have a reasonable basis; however, the Company makes no assurance that expectations, beliefs or projections will be achieved.

## Overview

Allied Motion designs, manufactures and sells motion products to a broad spectrum of customers throughout the world primarily for the commercial motor, industrial motion control, and aerospace and defense markets. The Company's products are used in demanding applications in medical equipment, HVAC systems for trucks, busses and off-road vehicles, the specialty automotive market, industrial automation, pumps, health-fitness, defense, aerospace, semiconductor manufacturing, fiber optic-based telecommunications, printing, and graphic imaging market sectors, to name a few.

Today, five subsidiary companies form the core of Allied Motion. The subsidiaries, Emoteq, Computer Optical Products, Motor Products, Stature Electric and Premotec offer a wide range of motors, encoders and drives for original equipment manufacturers (OEM) and end user applications. A particular strength of each company is its ability to design and manufacture custom motion control solutions to meet the needs of its customers.

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The Company has made considerable progress in implementing its new corporate strategy, the driving force of which is "Applied Motion Technology/Know How". The Company's commitment to Allied's Systematic Tools, or AST for short, is driving continuous improvement in quality, delivery, cost and growth.

One of the Company's major challenges is to maintain and improve price competitiveness. The Company's customers are continually being challenged by their markets and competitors to be price competitive and they are requiring their suppliers to deliver the highest quality product at the lowest price possible. Currently, the Company is producing some of its motor sub-assemblies and finished products at a sub-contract manufacturing facility in China. The Company will continue to look for opportunities where production in China for certain projects are anticipated to result in increased profits.

The Company's products contain certain metals, and the Company has been experiencing increases in the costs of these metals, particularly copper, steel and zinc, which are key materials in its products. The Company has reacted by aggressively sourcing material at lower cost from Asian markets, combining the sourcing of metals to benefit from volume purchasing and by passing on surcharges to its customers.

The Company has an aggressive motor development plan for new standalone products and new product lines that leverage the combined technology base of the Allied Motion companies. The Company continues to focus on new product designs that design-out cost, provide higher performance and meet the needs of its served markets. Early in 2006, the Company announced several new motor designs targeted at various markets. Each of these motors are targeted at precision motor applications. It normally takes twelve to eighteen months to get new products designed into new customer applications. All product development efforts are focused on adding value for its customers in its served markets.

Management believes the strategy it has developed for the Company will accomplish its long term goals of increasing shareholder value through the continued strengthening of the foundation necessary to achieve growth in sales and profitability.

## Operating Results

### Quarter Ended September 30, 2006 compared to Quarter Ended September 30, 2005

(in thousands)	For the three months ended September 30,		Increase (decrease)	
	2006	2005	\$	%
Revenues	\$ 20,308	\$ 18,043	\$ 2,265	13%
Cost of products sold	15,244	13,845	1,399	10%
Gross margin	5,064	4,198	866	21%
Gross margin percentage	25%	23%	—	—
Operating costs and expenses:				
Selling	780	817	(37)	(5)%
General and administrative	1,810	1,354	456	34%
Engineering and development	986	832	154	19%
Amortization of intangible assets	254	252	2	1%
Total operating costs and expenses	3,830	3,255	575	18%
Operating income	1,234	943	291	31%
Other income (expense), net:				
Interest expense	(251)	(282)	(31)	(11)%
Other (expense) income, net	11	(28)	(39)	(139)%
Total other (expense) income, net	(240)	(310)	(70)	(23)%
Income before income taxes	994	633	361	57%
Provision for income taxes	(377)	(250)	(127)	(51)%
Net income	\$ 617	\$ 383	\$ 234	61%

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**NET INCOME** The Company achieved net income of \$617,000 or \$.09 per diluted share for the third quarter 2006 compared to net income of \$383,000 or \$.06 per diluted share for the same quarter last year.

**EBITDA** EBITDA was \$2,066,000 for the third quarter 2006 compared to \$1,717,000 for the same quarter last year. EBITDA is a non-GAAP measurement that consists of income before interest expense, provision for income taxes and depreciation and amortization. See information included in “Non - GAAP Measures” below for a reconciliation of net income to EBITDA.

**REVENUES** Revenues were \$20,308,000 in the quarter ended September 30, 2006 compared to \$18,043,000 for the quarter ended September 30, 2005. This 13% increase is primarily attributable to increased sales in medical, industrial tool and electronics markets and in automotive liquid propane fuel pump applications.

**ORDER BACKLOG** At September 30, 2006, order backlog was \$25,177,000 which is an 8% increase over the balance at September 30, 2005.

**GROSS MARGINS** Gross margin as a percentage of revenues increased to 25% for the quarter ended September 30, 2006 from 23% for the same quarter last year. This improvement reflects the increase in sales of the Company’s industrial market solutions business which provides a higher gross margin from its sales, the cost reductions realized from products being produced at the Company’s contract manufacturing facility in China, and the continuous improvement in efficiencies and productivity from implementation of the Company’s AST tools.

**SELLING EXPENSES** Selling expenses in the third quarter were \$780,000 compared to \$817,000 for the third quarter last year. Selling expense as a percentage of revenues decreased to 3.8% in the quarter ended September 30, 2006 compared to 4.5% in the same quarter last year. The decrease in selling expenses relates to a decrease in sales upon which commissions are paid and personnel changes.

**GENERAL AND ADMINISTRATIVE EXPENSES** General and administrative expenses were \$1,810,000 in the quarter ended September 30, 2006 compared to \$1,354,000 in the quarter ended September 30, 2005. Of this 34% increase, 23% related to incentive bonus and employee benefit expenses and 5% related to audit, legal and professional fees.

**ENGINEERING AND DEVELOPMENT EXPENSES** Engineering and development expenses were \$986,000 in the third quarter and \$832,000 in the same quarter last year. The Company continues to focus resources on new product designs and new customer applications to meet the needs of its served markets.

**AMORTIZATION** Amortization expense was \$254,000 in the quarter ended September 30, 2006 and \$252,000 in the same quarter last year. These costs relate to the amortizable intangible assets acquired in the Motor Products, Stature and Premotec acquisitions.

**INTEREST EXPENSE** Interest expense for the third quarter ended September 30, 2006 was \$251,000 compared to \$282,000 in the quarter ended September 30, 2005. The decrease in interest is directly attributed to the decrease in outstanding debt obligations partially offset by higher interest rates.

**INCOME TAXES** Provision for income taxes was \$377,000 for the third quarter this year compared to \$250,000 in the third quarter last year. The effective rate used to record income taxes is based on projected income for the fiscal year and differs from the statutory amounts primarily due to the impact of differences in state and foreign tax rates. The effective income tax rate as a percentage of income before income taxes

was 38% and 39.5% in the quarters ended September 30, 2006 and 2005, respectively. The difference in the effective tax rates between periods was primarily due to a greater portion of income derived from a foreign jurisdiction with a lower tax rate.

***Nine Months Ended September 30, 2006 compared to Nine Months Ended September 30, 2005***

(in thousands)	For the nine months ended September 30,		Increase (decrease)	
	2006	2005	\$	%
Revenues	\$ 63,662	\$ 55,411	\$ 8,251	15%
Cost of products sold	48,596	42,901	5,695	13%
Gross margin	15,066	12,510	2,556	20%
Gross margin percentage	24%	23%	—	—
Operating costs and expenses:				
Selling	2,433	2,413	20	1%
General and administrative	5,780	4,285	1,495	35%
Engineering and development	2,894	2,729	165	6%
Amortization of intangible assets	757	761	(4)	(1)%
Total operating costs and expenses	11,864	10,188	1,676	16%
Operating income	3,202	2,322	880	38%
Other income (expense), net:				
Interest expense	(756)	(814)	(58)	(7)%
Other (expense) income, net	(21)	(17)	4	1%
Total other (expense) income, net	(777)	(831)	(54)	(6)%
Income before income taxes	2,425	1,491	934	63%
Provision for income taxes	(882)	(572)	(310)	(54)%
Net income	\$ 1,543	\$ 919	\$ 624	68%

**NET INCOME** The Company achieved net income of \$1,543,000 or \$.22 per diluted share for the first nine months of 2006 compared to net income of \$919,000 or \$.13 per diluted share for the same nine months last year.

**EBITDA** EBITDA was \$5,621,000 for the nine months ended September 30, 2006 compared to \$4,716,000 for the nine months ended September 30, 2005. EBITDA is a non-GAAP measurement that consists of income before interest expense, provision for income taxes and depreciation and amortization. See information included in "Non - GAAP Measures" below for a reconciliation of net income to EBITDA.

**REVENUES** Revenues were \$63,662,000 in the nine months ended September 30, 2006 compared to \$55,411,000 for the nine months ended September 30, 2005. This 15% increase is primarily attributable to increased sales in medical, industrial tool and electronics markets and in automotive liquid propane fuel pump applications

**GROSS MARGINS** Gross margin as a percentage of revenues increased to 24% for the nine months ended September 30, 2006 from 23% for the same period last year. This improvement reflects the increase in sales of the Company's industrial market solutions business which provides a higher gross margin from its sales, the cost reductions realized from products being produced at the Company's contract

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manufacturing facility in China, and the continuous improvement in efficiencies and productivity from implementation of the Company's AST tools.

**SELLING EXPENSES** Selling expenses in the first nine months were \$2,433,000 compared to \$2,413,000 for the first nine months last year. Selling expense as a percentage of revenues decreased to 3.8% in the quarter ended September 30, 2006 compared to 4.3% in the same quarter last year. The increase in selling expenses relates to an increase in sales partially offset by a decrease in sales upon which commissions are paid

**GENERAL AND ADMINISTRATIVE EXPENSES** General and administrative expenses were \$5,780,000 in the nine months ended September 30, 2006 compared to \$4,285,000 in the nine months ended September 30, 2005. Of this 35% increase, 21% related to incentive bonus and employee benefit expenses and 7% related to audit, legal and professional fees.

**ENGINEERING AND DEVELOPMENT EXPENSES** Engineering and development expenses were \$2,894,000 in the nine months and \$2,729,000 in the same nine months last year. The Company continues to focus resources on new product designs and new customer applications to meet the needs of its served markets.

**AMORTIZATION** Amortization expense was \$757,000 in the nine months ended September 30, 2006 and \$761,000 in the same nine months last year.

**INTEREST EXPENSE** Interest expense for the nine months ended September 30, 2006 was \$756,000 compared to \$814,000 in the nine months ended September 30, 2005. The decrease in interest is directly attributed to the decrease in outstanding debt obligations partially offset by higher interest rates.

**INCOME TAXES** Provision for income taxes was \$882,000 for the first nine months this year compared to \$572,000 in the same nine months last year. The effective rate used to record income taxes is based on projected income for the fiscal year and differs from the statutory amounts primarily due to the impact of differences in state and foreign tax rates. The effective income tax rate as a percentage of income before income taxes was 36% and 38% in the nine months ended September 30, 2006 and 2005, respectively. The difference in the effective tax rates between periods was primarily due to a greater portion of income derived from a foreign jurisdiction with a lower tax rate.

### Non-GAAP Measures

EBITDA is provided for information purposes only and is not a measure of financial performance under generally accepted accounting principles. The Company believes EBITDA is often a useful measure of a Company's operating performance and is a significant basis used by the Company's management to measure the operating performance of the Company's business because EBITDA excludes charges for depreciation, amortization and interest expense that have resulted from our debt financings, as well as our provision for income tax expense. Accordingly, the Company believes that EBITDA provides helpful information about the operating performance of its business, apart from the expenses associated with its physical assets or capital structure. EBITDA is frequently used as one of the bases for comparing businesses in the Company's industry. EBITDA does not represent and should not be considered as an alternative to net income, operating income, net cash provided by operating activities or any other measure for determining operating performance or liquidity that is calculated in accordance with generally accepted accounting principles.

The Company's calculation of EBITDA for the three and nine months ended September 30, 2006 and 2005 is as follows (in thousands):

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	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Net income	\$ 617	\$ 383	\$ 1,543	\$ 919
Interest expense	251	282	756	814
Provision for income tax	377	250	882	572
Depreciation and amortization	821	802	2,440	2,411
Income before interest expense, provision for income taxes and depreciation and amortization (EBITDA)	\$ 2,066	\$ 1,717	\$ 5,621	\$ 4,716

### Liquidity and Capital Resources

The Company's cash and cash equivalents increased \$78,000 during the nine months to \$708,000 at September 30, 2006. The increase compares to an increase of \$24,000 in the same period last year.

Net cash provided by operating activities was \$2,343,000 for the nine months ended September 30, 2006 compared to \$66,000 for the nine months ended September 30, 2005. Cash provided by operations included net income of \$1,543,000 plus non-cash charges for depreciation and amortization of \$2,440,000, provisions for doubtful accounts, obsolete inventory and deferred income taxes totaling \$654,000 and other non-cash adjustments of \$93,000. Cash provided by operating activities included an increase in trade receivables and inventories of \$1,405,000 and \$1,747,000 respectively, partially offset by increases in accounts payable and accrued liabilities of \$150,000 and \$668,000 respectively. These increases are primarily due to increased business levels.

Net cash used in investing activities was \$1,005,000 and \$1,903,000 for the nine months ended September 30, 2006 and 2005, respectively. Included in investing activities are purchases of property and equipment were \$1,005,000 and \$1,628,000 during the nine months ended September 30, 2006 and 2005, respectively. During the nine months ended September 30, 2005, approximately \$810,000 related to the set-up of motor manufacturing in China.

Net cash used in financing activities was \$1,266,000 for the nine months ended September 30, 2006 compared to net cash provided of \$1,864,000 for the nine months ended September 30, 2005. In the nine months ended September 30, 2006, the Company had net borrowings on lines-of-credit of \$227,000 compared to \$2,723,000 in the same period last year. The Company repaid \$1,645,000 and \$1,490,000 on term loans during the nine months ended September 30, 2006 and 2005, respectively. The Company repaid \$160,000 and \$93,000 on capital leases during the nine months ended September 30, 2006 and 2005, respectively. During the nine months ended September 30, 2006 the Company received \$261,000 under employee stock plans compared to \$724,000 received in the first nine months last year. Last year's total includes \$155,000 repayment on a previous loan to the Company's employees stock ownership plan and \$129,000 from the employee stock ownership plan.

The Company's working capital, capital expenditure and debt service requirements are expected to be funded from cash provided by operations, the Company's existing cash balance and amounts available under its line-of-credit facilities. As of September 30, 2006, approximately \$6,027,000 was available on the lines-of-credit and overdraft facility. The Company believes the capital currently available to it is sufficient for its currently anticipated needs for the next twelve months. There is no guarantee that the Company will be able to obtain financing on terms acceptable to the Company or at all. A key component of the Company's liquidity relates to the availability of amounts under its lines-of-credit. Any lack of availability of these facilities could have a material adverse impact on the Company's liquidity position.

At September 30, 2006, the Company had \$10,514,000 of bank debt obligations representing borrowings on the domestic line-of-credit and term loans.

Under the domestic revolving line-of-credit agreement (Agreement), the Company has available the lesser of (a)\$10,500,000 or (b) the sum of 85% of eligible trade accounts receivable (excluding Premotec) and 50% of eligible inventory, as defined in the Agreement. The line-of-credit expires in May 2007, unless

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extended. Under the Agreement, the Company utilizes lock-box arrangements whereby remittances from customers reduce the outstanding debt, and therefore the line-of-credit balance has been classified as a current liability. Borrowings under the line-of-credit bear interest at a rate equal to the bank's prime rates plus 1% (9.25% as of September 30, 2006). All borrowings are collateralized by substantially all assets of the Company. The Agreement prohibits the Company from paying dividends and requires that the Company maintain compliance with certain covenants related to tangible net worth and fixed charge coverage. As of September 30, 2006, the Company was in compliance with such covenants. As of September 30, 2006, the amount available under the domestic line-of-credit was \$4,770,000.

Under the foreign line-of-credit agreement (Foreign Agreement), the Company has available the lesser of (a) EUR 1.25 million, or (b) 85% of eligible trade accounts receivable of Premotec as defined in the Foreign Agreement. The line-of-credit expires in August 2008. Borrowings under the line-of-credit bear interest at a rate equal to the bank's base rate plus 1.75%, with a minimum of 4.75% (5.5% at September 30, 2006). Under the Foreign Agreement, remittances from customers reduce the outstanding debt, therefore the balance has been classified as a current liability. As of September 30, 2006, the amount available under the foreign line-of-credit was \$1,003,000.

The bank overdraft facility bears an interest rate equal to the bank's base rate plus 2%, with a minimum of 5.25% (5.75% at September 30, 2006). The facility has no expiration date. As of September 30, 2006, the amount available under the overdraft facility was \$254,000.

### **Critical Accounting Policies**

The Company has prepared its financial statements in conformity with accounting principles generally accepted in the United States, and these statements necessarily include some amounts that are based on informed judgments and estimates of management. The Company's significant accounting policies are discussed in Note 1 in the Annual Report on Form 10-K for the year ended December 31, 2005. The policies are reviewed on a regular basis. The Company's critical accounting policies are subject to judgments and uncertainties which affect the application of such policies. The Company uses historical experience and all available information to make these judgments and estimates. As discussed below the Company's financial position or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. The Company's critical accounting policies include:

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance is based on historical experience and judgments based on current economic and customer specific factors. Significant judgments are made by management in connection with establishing the Company's customers' ability to pay at the time of shipment. Despite this assessment, from time to time, the Company's customers are unable to meet their payment obligations. The Company continues to monitor customers' credit worthiness, and use judgment in establishing the estimated amounts of customer receivables which may not be collected. A significant change in the liquidity or financial position of the Company's customers could have a material adverse impact on the collectibility of accounts receivable and future operating results.

Inventory is valued at the lower of cost or market. The Company monitors and forecasts expected inventory needs based on sales forecasts. Inventory is written down or written off when it becomes obsolete or when it is deemed excess. These determinations involve the exercise of significant judgment by management. If actual market conditions are significantly different from those projected by management the recorded reserve may be adjusted, and such

adjustments may have a significant impact on the Company's results of operations. Demand for the Company's products can fluctuate significantly, and in the past the Company has recorded substantial charges for inventory obsolescence and excess inventories.

The Company records deferred tax assets and liabilities for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts recorded in the consolidated financial statements, and for operating loss and tax credit carryforwards. Realization of the recorded deferred tax

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assets is dependent upon the Company generating sufficient taxable income in the appropriate tax jurisdiction in future years to obtain benefit from the reversal of net deductible temporary differences and from tax credit and operating loss carryforwards. A valuation allowance is provided to the extent that management deems it more likely than not that the net deferred tax assets will not be realized. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed.

The Company reviews the carrying values of its long-lived assets, including goodwill and identifiable intangibles, in accordance with SFAS No. 142. SFAS No. 142 provides a fair value test to evaluate goodwill and long-lived asset impairment. As part of the review, the Company estimates future cash flows. Depending upon future assessments of fair value and estimated future cash flows, there could be impairment recorded related to goodwill and other long-lived assets.

The Company provides pension and postretirement benefits for certain domestic retirees and records the cost of the obligations based on estimates. The net periodic costs are recognized as employees render the services necessary to earn the benefits. Several assumptions are used to calculate the expense and liability related to the plans including the discount rate, the expected rate of return on plan assets, the future rate of compensation increases and health care cost increases. The discount rate is selected based on a bond pricing model that relates to the projected future cash flows of benefit obligations. Actuarial assumptions used are based on demographic factors such as retirement and mortality. Actual results could vary materially from the Company's actuarial assumptions, which may have an impact on the amount of reported expense or liability for pension or postretirement benefits.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk represents the risk of loss that may impact the financial position, results of operations or cash flows of the Company due to adverse changes in financial and commodity market prices and rates. The Company is exposed to market risk in the areas of changes in interest rates and changes in foreign currency exchange rates as measured against the United States dollar. These exposures are directly related to its normal operating and funding activities.

#### **Interest Rate Risk**

The interest payable on the Company's domestic and foreign lines-of-credit and its foreign term loan are variable based on the prime rate and Euribor, and are effected by changes in market interest rates. The Company does not believe that reasonably possible near-term changes in interest rates will result in a material effect on future earnings, fair values or cash flows of the Company. A change in the interest rate of 1% on the Company's variable rate debt would have the impact of changing interest expense by approximately \$86,000 annually.

#### **Foreign Currency Risk**

On August 23, 2004, the Company completed the acquisition of Premotec, located in The Netherlands. Sales from this operation are denominated in Euros, thereby creating exposures to changes in exchange rates. The changes in the Euro/U.S. exchange rate may positively or negatively affect the Company's sales, gross margins, net income and retained earnings. The Company does not believe that reasonably possible near-term changes in exchange rates will result in a material effect on future earnings, fair values or cash flows of the Company.

### **Item 4. Controls and Procedures**

The Company's controls and procedures include those designed to ensure that material information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. As of September 30, 2006 the Company's chief executive officer and chief financial officer evaluated the effectiveness of the Company's disclosure controls and procedures designed to ensure that information is recorded, processed, summarized and reported in a timely manner as required by Exchange Act reports such as this Form 10-Q and concluded that they are effective.

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There has not been any changes in the Company's internal controls over financial reporting during the quarter or nine months ended September 30, 2006 that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 6. Exhibits**

- (a) Exhibits
- 31 Certification of the Chief Executive Officer and 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 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

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 9, 2006

ALLIED MOTION TECHNOLOGIES INC.

By: /s/ Richard D. Smith  
Chief Executive Officer and  
Chief Financial Officer

## CERTIFICATION

I, Richard D. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allied Motion Technologies 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. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) Omitted;
  - (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 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 9, 2006

/s/ Richard D. Smith  
Richard D. Smith  
Chief Executive Officer,  
Chief Financial Officer and  
Director

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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 Allied Motion Technologies 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, 2006 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 9, 2006

/s/ Richard D. Smith  
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Richard D. Smith  
Chief Executive Officer and  
Chief Financial Officer

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