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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from**

**Commission file number: 0-04041**

**ALLIED MOTION TECHNOLOGIES INC.**

(Exact name of registrant as specified in its charter)

**Colorado**

(State or other jurisdiction of incorporation or organization)

**84-0518115**

(I.R.S. Employer Identification No.)

**23 Inverness Way East, Suite 150**

**Englewood, Colorado**

(Address of principal executive offices)

**80112**

(Zip Code)

Registrant's telephone number, including area code: **(303) 799-8520**

Securities registered pursuant to Section 12(b) of the Act: **Common Stock, no par value Nasdaq Capital Market**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of voting stock held by non-affiliates of the Registrant, computed by reference to the average bid and asked prices of such stock as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$43,300,000.

Number of shares of the only class of Common Stock outstanding: 7,289,824 as of March 13, 2008

**DOCUMENTS INCORPORATED BY REFERENCE**



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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 loss of significant customers or enforceability of the Company's contracts in connection with a merger, acquisition, disposition, bankruptcy, or otherwise, the ability of the Company to meet the technical specifications of its customers, the continued availability of parts and components, increased competition and changes in competitor responses to the Company's products and services, changes in government regulations, availability of financing, the ability of the Company's lenders and financial institutions to provide additional funds if needed for operations or for making future acquisitions or the ability of the Company to obtain alternate financing if present sources of financing are terminated, the ability to attract and retain qualified personnel who can design new applications and products for the motion industry, the ability of the Company to identify and consummate favorable acquisitions to support external growth and new technology, the ability of the Company to establish low cost region 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.

## **PART I**

### **Item 1. Business.**

Allied Motion Technologies Inc. (Allied Motion or the Company) was organized under the laws of Colorado in 1962 and operates primarily in the United States and Europe. Allied Motion utilizes its underlying core "Electromagnetic Motion Technology/Know How" to provide compact, high performance products as solutions to a variety of motion applications. The Company is engaged in the business of designing, manufacturing and selling motor, servo motion and optical encoder products to a broad spectrum of customers throughout the world. The Company's products are manufactured at our facilities as well as contract manufacturing facilities in China and Eastern Europe.

Examples of the end products using Allied Motion's technology in the medical and health care industries include wheel chairs, scooters, stair climbers, vehicle lifts, patient handling tables, electric

powered surgical hand pieces, programmable pumps to meter and administer infusions associated with chemotherapy, pain control and antibiotics; nuclear imaging systems, automated pharmacy dispensing equipment, kidney dialysis equipment, respiratory ventilators and heart pumps. In electronics, our products are used in the handling, inspection, and testing of components and in the automation and verification of final products such as a PC, game equipment, cell phone etc. Our motors are used in the HVAC systems of trucks, buses, RV's, boats and off-road construction/farming equipment. These motors operate a variety of actuation systems (e.g., lifts, slide-outs, covers etc.), they provide improved fuel efficiency while the vehicles are idling and are used in drive by wire applications to electrically replace a variety of mechanical linkages. Our products are also utilized in high performance vehicles, vehicles using alternative fuel systems such as LPG, fuel cell and hybrid vehicles. Our geared motor products are utilized in commercial grade floor cleaners, polishers and material handling devices for factories and commercial buildings. Our products are also used in a variety of military/defense applications including inertia guided missiles, mid range munitions systems, weapons systems on armed personnel carriers and in security and access control in camera systems, door access control and in airport screening and scanning devices. Other end products utilizing our technology include high definition printers; tunable lasers and spectrum analyzers for the fiber optic industry; processing equipment for the semiconductor industry, as well as cash dispensing machines (ATM's).

Allied Motion is organized into five subsidiaries: Emoteq Corporation (Emoteq—Tulsa, OK), Computer Optical Products, Inc. (COPI—Chatsworth, CA), Motor Products Corporation (Motor Products—Owosso, MI), Stature Electric, Inc. (Stature—Watertown, NY) and Precision Motor Technology B.V. (Premotec—Dordrecht, The Netherlands). To provide additional production support of its subsidiaries, Allied Motion also has production capabilities in Slovakia and China.

Emoteq designs, manufactures and markets high performance brushless and brush DC motors, drives and control electronics with a growing emphasis on complete motion system solutions tailored to meet the exact needs of its customers. Motor types include servo motors, frameless motors, torque motors and high speed (60,000 RPM+) brushless DC motors. Markets served include semiconductor manufacturing, industrial automation, medical equipment, and military and aerospace.

COPI manufactures optical encoders. They are used to measure rotational and linear movements of parts in diverse applications such as printers, sorting machinery, machine tools, robots, medical equipment, tunable lasers and spectrum analyzers. The primary markets for the optical encoders are in the aerospace and defense, industrial, computer peripheral manufacturing, medical and telecommunications sectors. COPI also designs, manufactures and markets fiber optic-based encoders with special characteristics, such as immunity to radio frequency interference and high temperature tolerance, suited for industrial, aerospace and military environments. Applications include airborne navigational systems, anti-lock braking transducers, missile flight surface controls and high temperature process control equipment.

Motor Products has been a motor producer for more than sixty years and is a vertically integrated manufacturer of customized, highly engineered fractional horsepower permanent magnet DC and brushless DC motors serving a wide range of original equipment applications. The motors are used in mobile HVAC systems, actuation systems, and specialty and general purpose pumps in a variety of markets including trucks, buses, boats, RV's, off-road vehicles, health, fitness, medical and industrial equipment.

Stature Electric manufactures fractional and integral horsepower gear motors, Permanent Magnet DC motors, Brushless DC motors and motor part sets. Stature's component products are sold primarily to original equipment manufacturers (OEM'S) that use them in their end products. Stature Electric excels at engineering, designing, packaging and applying integrated gearing and motor solutions for the commercial and industrial equipment, healthcare, recreation and non-automotive transportation markets.

Premotec has been manufacturing small precision electric motors for more than thirty years utilizing four different motor technologies: Brushless DC, Coreless DC, Iron Core DC, and Permanent Magnet Stepper and Synchronous motors. Premotec also offers a range of reduction gearboxes tailored to a number of these motors. Premotec's products are sold to OEM customers in Europe, the United States and Korea and through distributors to smaller OEM's in almost all countries of the European Union. The products are used in a wide variety of medical, professional and industrial applications, such as dialysis equipment, industrial ink jet printers, cash dispensers, bar code readers, laser scanning equipment, fuel injection systems, HVAC actuators, waste water treatment, dosing systems for the pharmaceutical industry, textile manufacturing, document handling equipment and studio television cameras.

### ***Product Distribution***

The Company maintains a direct sales force. In addition to its own marketing and sales force, the Company has independent sales representatives, agents and distributors to sell its various product lines in certain markets.

### ***Competition***

The Company faces competition in all of its markets, although the number of competitors varies depending upon the product. The Company believes there are numerous competitors in the motion control market. Competition involves primarily product performance and price, although service and warranty are also important.

### ***Availability of Raw Materials***

All parts and materials used by the Company are in adequate supply. No significant parts or materials are acquired from a single source or for which an alternate source is not also available.

### ***Patents, Trademarks, Licenses, Franchises and Concessions***

The Company holds several patents and trademarks regarding components used by the various subsidiaries and has several patents pending on new products recently developed, which are considered to be of major significance.

### ***Working Capital Items***

The Company currently maintains inventory levels adequate for its short-term needs based upon present levels of production. The Company considers the component parts of its different product lines to be readily available and current suppliers to be reliable and capable of satisfying anticipated needs.

### ***Sales to Large Customers***

During years 2007 and 2006, no single customer accounted for more than 10% of total revenues.

### ***Sales Backlog***

The Company's backlog at December 31, 2007 consisted of sales orders totaling approximately \$32,060,000 while backlog at December 31, 2006 was \$28,234,000. In our commercial motors markets, the Company continues to serve customers requesting shipments on a "pull system" whereby the Company agrees to maintain available inventory that the customer "pulls" or takes delivery as they need the products. At the time the customer pulls the product, the Company records the sale. There can be no assurance that the Company's backlog will be converted into revenue.

## **Engineering and Development Activities**

The Company's expenditures on engineering and development for the years ended December 31, 2007 and 2006 were \$3,963,000 and \$3,823,000, respectively. Of these expenditures, no material amounts were charged directly to customers.

## **Environmental Issues**

No significant pollution or other types of hazardous emission result from the Company's operations and it is not anticipated that the Company's operations will be materially affected by Federal, State or local provisions concerning environmental controls. However, there can be no assurance that any future regulations will not affect the Company's operations.

## **Foreign Operations**

The information required by this item is set forth in Note 8 of the Notes to Consolidated Financial Statements contained herein.

## **Employees**

At December 31, 2007 the Company had approximately 505 full-time employees.

## **Available Information**

The Company maintains a website at [www.alliedmotion.com](http://www.alliedmotion.com). The Company makes available, free of charge on or through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after it electronically files or furnishes such materials to the SEC.

The Company has adopted a Code of Ethics for its chief executive officer, president and senior financial officers regarding their obligations in the conduct of Company affairs. The Company has also adopted a Code of Ethics and Business Conduct that is applicable to all directors, officers and employees. The Codes are available on the Company's website. The Company intends to disclose on its website any amendment to, or waiver of, the Codes that would otherwise be required to be disclosed under the rules of the SEC and the Nasdaq Capital Market. A copy of both Codes is also available in print to any stockholder upon written request addressed to Allied Motion Technologies Inc., 23 Inverness Way East, Suite 150, Englewood, CO 80112-5711, Attention: Secretary.

## **Item 2. Properties.**

As of December 31, 2007, the Company occupies facilities as follows:

Description / Use	Location	Approximate Square Footage	Owned Or Leased
Corporate headquarters	Englewood, Colorado	3,000	Leased
Office and manufacturing facility	Chatsworth, California	8,500	Leased
Office and manufacturing facility	Tulsa, Oklahoma	25,000	Leased
Office and manufacturing facility	Dordrecht, The Netherlands	36,000	Leased
Office and manufacturing facility	Owosso, Michigan	85,000	Owned
Office and manufacturing facility	Watertown, New York	107,000	Owned

The Company's management believes the above-described facilities are adequate to meet the Company's current and foreseeable needs. All facilities described above are operating at less than full capacity.

**Item 3. Legal Proceedings.**

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

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Allied Motion's common stock is traded on the Nasdaq Capital Market System and trades under the symbol AMOT. The number of holders of record as reported by the Company's transfer agent of the Company's common stock as of the close of business on March 13, 2008 was 569. The Company did not pay or declare any dividends during years 2007 and 2006, and the Company's long-term financing agreement prohibits the Company from doing so without prior approval.

The following table sets forth, for the periods indicated, the high and low prices of the Company's common stock on the Nasdaq Capital Market System, as reported by Nasdaq.

	Price Range	
	High	Low
<b>YEAR ENDED DECEMBER 31, 2006</b>		
First Quarter	\$ 4.50	\$ 3.60
Second Quarter	5.99	3.42
Third Quarter	5.49	4.49
Fourth Quarter	7.00	4.53
<b>YEAR ENDED DECEMBER 31, 2007</b>		
First Quarter	\$ 7.94	\$ 5.02
Second Quarter	7.44	5.75
Third Quarter	7.89	4.01
Fourth Quarter	5.07	4.25

**Equity Compensation Plan Information**

The following table shows the equity compensation plan information of the Company at December 31, 2007.

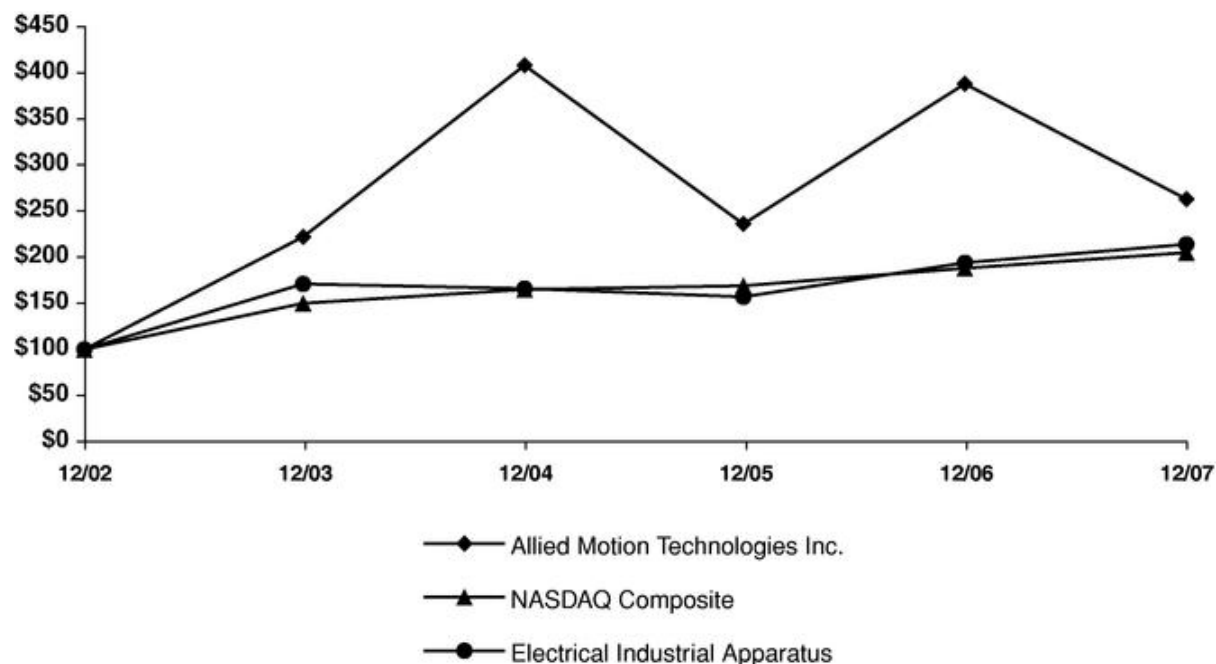
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	843,200	\$ 3.75	336,951



**PERFORMANCE GRAPH**

The following performance graph reflects change in the Company's cumulative total stockholder return on Common Stock as compared with the cumulative total return of the NASDAQ Stock Market Index and the NASDAQ Electrical and Industrial Apparatus Index for the period of five years ended December 31, 2007.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
**Among Allied Motion Technologies Inc., The NASDAQ Composite Index**  
**And Electrical Industrial Apparatus**



\*\$100 invested on 12/31/02 in stock or index—including reinvestment of dividends.  
 Fiscal year ending December 31.

	12/02	12/03	12/04	12/05	12/06	12/07
<b>ALLIED MOTION TECHNOLOGIES INC.</b>	100	222	408	236	388	263
<b>NASDAQ STOCK MARKET (U.S.)</b>	100	150	165	169	188	205
<b>ELECTRICAL INDUSTRIAL APPARATUS</b>	100	171	166	157	194	214

**Item 6. Selected Financial Data.**

The following tables summarize data from the Company's financial statements for the fiscal years 2003 through 2007; the Company's complete annual financial statements and notes thereto for the current fiscal year appear in Item 8 herein.

	For the year ended December 31,				
	2007	2006	2005	2004	2003
In thousands (except per share data)					
<b>Statements of Operations Data:</b>					
Revenues	\$ 84,559	\$ 82,768	\$ 74,302	\$ 62,738	\$ 39,434
Net income	\$ 2,396	\$ 1,931	\$ 923	\$ 2,250	\$ 948
Diluted income per share	\$ .33	\$ .28	\$ .13	\$ .36	\$ .19

Stature and Premotec were acquired in 2004. The first full year of revenues for these divisions is 2005.

	December 31,				
	2007	2006	2005	2004	2003
<b>Balance Sheet Data:</b>					
Total assets	\$ 51,507	\$ 52,612	\$ 53,337	\$ 54,820	\$ 27,497
Total current and long-term debt	\$ 4,422	\$ 9,829	\$ 12,081	\$ 14,407	\$ 2,312

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.****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. Examples of the end products using Allied Motion's technology in the medical and health care industries include wheel chairs, scooters, stair climbers, vehicle lifts, patient handling tables, electric powered surgical hand pieces, programmable pumps to meter and administer infusions associated with chemotherapy, pain control and antibiotics; nuclear imaging systems, automated pharmacy dispensing equipment, kidney dialysis equipment, respiratory ventilators and heart pumps. In electronics, our products are used in the handling, inspection, and testing of components and in the automation and verification of final products such as PC's, game equipment, cell phones, etc. Our motors are used in the HVAC systems of trucks, buses, RV's, boats and off-road construction/farming equipment. These motors operate a variety of actuation systems (e.g., lifts, slide-outs, covers etc.), they provide improved fuel efficiency while the vehicles are idling and are used in drive by wire applications to electrically replace a variety of mechanical linkages. Our products are also utilized in high performance vehicles, vehicles using alternative fuel systems such as LPG, fuel cell and hybrid vehicles. Our geared motor products are utilized in commercial grade floor cleaners, polishers and material handling devices for factories and commercial buildings. Our products are also used in a variety of military/defense applications including inertia guided missiles, mid range munitions systems, weapons systems on armed personnel carriers and in security and access control in camera systems, door access control and in airport screening and scanning devices. Other end products utilizing our technology include high definition printers; tunable lasers and spectrum analyzers for the fiber optic industry; processing equipment for the semiconductor industry, as well as cash dispensing machines (ATM's).

Today, five companies form the core of Allied Motion. The companies, Emoteq, Computer Optical Products, Motor Products, Stature Electric and Premotec offer a wide range of standard 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.

The Company has made considerable progress in implementing its new corporate strategy, with the driving force of "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. AST utilizes a tool kit to effect desired changes through well defined processes such as Strategy Deployment, Target Marketing, Value Stream Mapping, Material Planning, Standard Work and Single Minute Exchange of Dies.

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 sub-contract manufacturing facilities in China and Slovakia. The Company has increased efforts in 2007 to identify opportunities where production in low cost regions can improve profitability while delivering the same high quality products.

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

The Company continues to pursue aggressive motor and drive development plans for new products that leverage the combined technology base of the Allied Motion companies. The Company focuses on new product designs that design-out cost, provide higher level, value-added performance solutions and meet the needs of our served markets. Over the last few years, the Company announced several new motor designs targeted at various markets. It normally takes twelve months to get new products designed into new customer applications. The Company is realizing improved results from its new products and will continue to realize more improvements in the future.

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

## Operating Results

### Year 2007 compared to 2006

(in thousands)	For the year ended December 31,		Increase (decrease)	
	2007	2006	\$	%
Revenues	\$ 84,559	\$ 82,768	\$ 1,791	2%
Cost of products sold	63,952	63,207	745	1%
Gross margin	20,607	19,561	1,046	5%
Gross margin percentage	24%	24%	—	—
Operating costs and expenses:				
Selling	3,611	3,227	384	12%
General and administrative	7,776	7,782	(6)	0%
Engineering and development	3,963	3,823	140	4%
Amortization of intangible assets	1,033	1,012	21	2%
Total operating costs and expenses	16,383	15,844	539	3%
Operating income	4,224	3,717	507	14%
Interest expense	699	983	(284)	(29)%
Other income	(58)	(166)	(108)	(65)%
Total other expenses, net	641	817	(176)	(22)%
Income before income taxes	3,583	2,900	683	24%
Provision for income taxes	1,187	969	218	22%
Net income	\$ 2,396	\$ 1,931	\$ 465	24%

**NET INCOME** The Company achieved net income of \$2,396,000 or \$.33 per diluted share for 2007 compared to \$1,931,000 or \$.28 per diluted share for 2006.

**EBITDA** EBITDA was \$7,754,000 for 2007 compared to \$7,166,000 for 2006. 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 \$84,559,000 in 2007 compared to \$82,768,000 in 2006. This 2% increase is primarily attributable to increased sales in industrial, electronics, distribution and aerospace & defense markets, partially offset by decreases in the medical mobility and vehicle markets. The primary reasons for the decrease in sales to customers in the medical mobility market were caused by program changes by one of our large customers and also the reduction in Medicare's payment for such products. The primary reasons for the decline in the motor vehicle market are due to declines in the U.S. construction industry and increased price competition from other low cost region producers. We are placing an increased emphasis on our low cost region operations to ensure we are globally competitive on a cost basis while maintaining the same high technical and commercial standards we have already established.

Sales to U.S. customers accounted for 63% of our sales in 2007, with the balance to customers primarily in Europe and Canada. Sales to U.S. customers were down 5% for 2007 and sales to customers outside the U.S. were up 18%. The weakness of the U.S. dollar against the Euro accounted for 2% of sales increase in 2007 over 2006.

**GROSS MARGINS** Gross margin as a percentage of revenues was 24% for 2007 and 2006. This reflects the continued emphasis on sales of the Company's industrial and electronics markets which provide a higher gross margin from their 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 mostly offset by increases in the material costs of the Company's products due to an increase in the cost of copper and the weakness in the value of the U.S. dollar plus the under absorption of overhead costs in two of our divisions that experienced sales declines in 2007.

**SELLING EXPENSES** Selling expenses were \$3,611,000 and \$3,227,000 in 2007 and 2006, respectively. The 12% increase in selling expenses is primarily due to increased efforts to strengthen our sales capabilities with more sales personnel and sales incentive programs for our sales personnel. Selling expense as a percentage of revenues increased to 4.3% in 2007 compared to 3.9% last year.

**GENERAL AND ADMINISTRATIVE EXPENSES** General and administrative expenses were \$7,776,000 in 2007 compared to \$7,782,000 in 2006. General and administrative expenses as a percentage of revenues were 9.2% and 9.4% for years 2007 and 2006, respectively. Increases in salaries, benefits and incentive compensation were primarily offset by a reduction in full-time employees.

**ENGINEERING AND DEVELOPMENT EXPENSES** Engineering and development expenses were \$3,963,000 and \$3,823,000 for 2007 and 2006, respectively. The 4% increase is attributable to Company efforts on new product designs and new customer applications to meet the needs of its served markets.

**AMORTIZATION OF INTANGIBLE ASSETS** Amortization of intangible assets was \$1,033,000 in 2007 and \$1,012,000 in 2006.

**INTEREST EXPENSE** Interest expense was \$699,000 and \$983,000 for 2007 and 2006, respectively. The 29% decrease in interest is directly attributed to the decrease in outstanding debt obligations and lower interest rates.

**INCOME TAXES** The provision for income taxes was \$1,187,000 for year 2007 compared to \$969,000 for 2006. The effective rate 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 33% in 2007 and 2006.

### **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 year ended December 31, 2007 and 2006 is as follows (in thousands):

	For the year ended December 31,	
	2007	2006
Net income	\$ 2,396	\$ 1,931
Interest expense	699	983
Provision for income tax	1,187	969
Depreciation and amortization	3,472	3,283
Income before interest expense, provision for income taxes and depreciation and amortization (EBITDA)	\$ 7,754	\$ 7,166

## Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents decreased \$135,000 during 2007 to a balance of \$534,000 at December 31, 2007. The decrease compares to a \$45,000 increase in 2006. During 2007, operations provided \$5,856,000 in cash compared to \$3,634,000 during 2006. This significant increase of \$2,222,000 is primarily due to improvements in receivables, inventories and accounts payable as a result of increased efforts to collect on sales in a more timely manner, continued implementation of lean accounting measures to limit the amount of inventory that must be kept on hand, and increased business activity, partially offset by an increase in income tax payments.

Net cash used in investing activities was \$1,284,000 and \$1,422,000 for 2007 and 2006, respectively, which all related to the purchase of property and equipment.

Net cash used in financing activities was \$4,738,000 compared to \$2,174,000 for the years 2007 and 2006, respectively. This increased use of \$2,564,000 is primarily the result of \$3,239,000 additional net payments on debt and capital lease obligations, net of refinancing costs partially offset by an increase of \$675,000 of cash received from employee stock transactions.

At December 31, 2007, the Company had \$4,395,000 of debt obligations representing borrowings on the term loan and line-of-credit.

The Company's working capital, capital expenditure and debt service requirements are expected to be funded from cash provided by operations and amounts available under the Company's credit facilities. On May 7, 2007, the Company entered into a credit agreement with JPMorgan Chase Bank, N.A. and J.P. Morgan Europe Limited to provide term debt of \$4 million and revolving credit of up to \$11 million and €3 million. The new facility was used to pay off the Company's existing domestic and European bank debt and will also provide funds for working capital needs and to finance future growth for the Company. The debt is secured by substantially all the assets of the Company.

The new credit facility described above has a five year term. The term debt is payable in twenty equal quarterly installments of \$200,000 over the five year term. No principal payments are required on the revolving credit facilities prior to maturity. The interest rates on the agreement are variable rates based on one or more interest rate indices. The interest rates in effect as of December 31, 2007 were 6.24% on the term loan and 5.86% on the line-of-credit. As of December 31, 2007, the amount available under the lines-of-credit was \$14,623,000.

The agreement contains certain financial covenants related to maximum leverage, minimum fixed charge coverage and minimum tangible net worth of the company. The Company was in compliance with all covenants at December 31, 2007.

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 1.5%, with a minimum of 4.75% (6.25% as of December 31, 2007), and amounts borrowed are secured by Premotec's accounts receivable. The facility had no outstanding balance as of December 31, 2007. The amount available under the overdraft facility was € 300,000 (\$441,000 at December 31, 2007 exchange rate).

### **Price Levels and the Impact of Inflation**

The effect of inflation on the Company's costs of production has been minimized through production efficiencies, lower costs of materials and surcharges passed on to customers. The Company anticipates that these factors will continue to minimize the effects of any foreseeable inflation and other price pressures from the industries in which it operates. As the Company's manufacturing activities mainly utilize semi-skilled labor, which is relatively plentiful in the areas surrounding the Company's production facilities, the Company does not anticipate substantial inflation-related increases in the wages of the majority of its employees.

### **Recent Accounting Pronouncements**

In February 2007 the Financial Accounting Standards Board ("FASB") issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115," which permits companies to choose, at specified election dates, to measure certain financial instruments and other eligible items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are subsequently reported in earnings. The decision to elect the fair value option is generally irrevocable, is applied instrument by instrument and can only be applied to an entire instrument. The standard will be effective for the Company as of January 1, 2008 and is currently under evaluation. At this time, the Company does not expect to elect the fair value option for any eligible items and did not early adopt the standard as permitted.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). This statement requires recognition of the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability in the statement of financial position and changes in that funded status to be recognized in comprehensive income in the year in which the changes occur. The recognition provisions of SFAS 158 were adopted during the fourth quarter of the year ended December 31, 2006. See Note 7—Pension and Postretirement Welfare Plans for the effect of the adoption of SFAS No. 158. SFAS No. 158 also prescribes the measurement date of a plan to be the date of its year-end balance sheet effective for years ending after December 15, 2008. The Company was not affected by adopting the latter component of the Standard.

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 have a "more likely than not" probability of being sustained based on technical merits before it can be recognized in the financial statements, 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 Company adopted FIN 48 on January 1, 2007. Adoption of FIN 48 did not have a material impact on our Consolidated Financial Statements.

### **Item 7A. 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 from 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.

**Foreign Currency Risk**

Sales from Premotec 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. A 10% change in the Euro vs. the U.S dollar could affect the Company's earnings by approximately \$200,000, and net assets by approximately \$700,000. The Company does not believe that reasonably possible near-term changes in exchange rates will result in a material effect on future results or cash flows of the Company.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Allied Motion Technologies Inc.  
Denver, Colorado

We have audited the accompanying consolidated balance sheets of Allied Motion Technologies Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' investment and comprehensive income and cash flows for the years then ended. In connection with our audit of the consolidated financial statements, we have also audited the consolidated financial statement Schedule II—Valuation and Qualifying Accounts for the year ended December 31, 2007 and 2006. The Company's management is responsible for these consolidated financial statements and financial statement schedule. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allied Motion Technologies Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Ehrhardt Keefe Steiner & Hottman PC

March 14, 2008  
Denver, Colorado

ALLIED MOTION TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	December 31, 2007	December 31, 2006
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 534	\$ 669
Trade receivables, net of allowance for doubtful accounts of \$254 and \$293 at December 31, 2007 and 2006, respectively	10,223	10,225
Inventories, net	11,000	10,807
Deferred income taxes	724	778
Prepaid expenses and other	1,171	619
Total Current Assets	23,652	23,098
Property, plant and equipment, net	11,133	12,173
Goodwill and intangible assets, net	16,722	17,341
Total Assets	\$ 51,507	\$ 52,612
<b>Liabilities and Stockholders' Investment</b>		
Current Liabilities:		
Debt obligations	827	9,066
Accounts payable	5,197	4,826
Accrued liabilities and other	4,563	4,226
Income taxes payable	669	1,179
Total Current Liabilities	11,256	19,297
Debt obligations, net of current portion	3,595	763
Deferred income taxes	1,452	1,318
Pension and post-retirement obligations	1,207	1,712
Total Liabilities	17,510	23,090
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; 6,942 and 6,533 shares issued and outstanding at December 31, 2007 and 2006, respectively	16,746	15,469
Retained earnings	15,297	12,901
Accumulated other comprehensive income	1,954	1,152
Total Stockholders' Investment	33,997	29,522
Total Liabilities and Stockholders' Investment	\$ 51,507	\$ 52,612

See accompanying notes to consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

ALLIED MOTION TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	For the year ended December 31, 2007	For the year ended December 31, 2006
Revenues	\$ 84,559	\$ 82,768
Cost of products sold	63,952	63,207
Gross margin	20,607	19,561
Operating costs and expenses:		
Selling	3,611	3,227
General and administrative	7,776	7,782
Engineering and development	3,963	3,823
Amortization of intangible assets	1,033	1,012
Total operating costs and expenses	16,383	15,844
Operating income	4,224	3,717
Other income (expense), net:		
Interest expense	(699)	(983)
Other income, net	58	166
Total other expense, net	(641)	(817)
Income before income taxes	3,583	2,900
Provision for income taxes	1,187	969
Net income	\$ 2,396	\$ 1,931
Basic net income per share:		
Net income per share	\$ .36	\$ .30
Basic weighted average common shares	6,695	6,460
Diluted net income per share:		
Net income per share	\$ .33	\$ .28
Diluted weighted average common shares	7,247	6,870

See accompanying notes to consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT AND COMPREHENSIVE INCOME

(In thousands)

	Common Stock		Other	Retained Earnings	Other Comprehensive Income Adjustments	Comprehensive Income
	Shares	Amount				
Balances, December 31, 2005	6,369	\$ 15,110	\$ (119)	\$ 10,970	\$ (154)	
Stock transactions under employee benefit stock plans and option exercises	125	371				
Issuance of restricted stock, net of forfeitures	39	151	(151)			
Stock compensation expense		14	93			
Eliminate additional minimum pension liability, net of tax					122	
Amount recognized to initially apply SFAS No. 158, net of tax					824	\$ 946
Foreign currency translation adjustment					360	360
Net income				1,931		1,931
Comprehensive income						\$ 3,237
Balances, December 31, 2006	6,533	\$ 15,646	\$ (177)	\$ 12,901	\$ 1,152	
Stock transactions under employee benefit stock plans and option exercises	333	1,079				
Issuance of restricted stock, net of forfeitures	76	453	(461)			
Stock compensation expense			206			
Amount recognized for SFAS 158, net of tax					169	\$ 169
Foreign currency translation adjustment					633	633
Net income				2,396		2,396
Comprehensive income						\$ 3,198
Balances, December 31, 2007	6,942	17,178	(432)	15,297	1,954	

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT AND COMPREHENSIVE INCOME (Continued)

(In thousands)

## ALLIED MOTION TECHNOLOGIES INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the year ended December 31, 2007	For the year ended December 31, 2006
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 2,396	\$ 1,931
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,472	3,283
Provision for doubtful accounts	53	250
Provision for obsolete inventory	314	449
Deferred income tax provision	144	591
Other	381	240
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	184	(203)
Increase in inventories	(224)	(1,849)
Increase in prepaid expenses and other	(402)	(33)
Increase (decrease) in accounts payable	211	(878)
Decrease in accrued liabilities and other	(122)	(606)
Decrease in income taxes payable	(551)	459
Net cash provided by operating activities	5,856	3,634
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(1,284)	(1,422)
Net cash used in investing activities	(1,284)	(1,422)
<b>Cash Flows From Financing Activities:</b>		
Borrowings (repayments) on lines-of-credit, net	(4,233)	(88)
Borrowings on term loans	4,000	—
Repayments on term loans	(5,181)	(2,198)
Proceeds from capital leases	—	52
Repayments of capital lease obligations	(109)	(201)
Stock transactions under employee benefit stock plans	936	261
Debt issuance costs	(151)	—
Net cash (used in) provided by financing activities	(4,738)	(2,174)
Effect of foreign exchange rate changes on cash	31	7
Net increase (decrease) in cash and cash equivalents	(135)	45
Cash and cash equivalents at beginning of period	669	624
Cash and cash equivalents at end of period	\$ 534	\$ 669
<b>Supplemental disclosure of cash flow information:</b>		
Net cash paid (received) during the period for:		
Interest	\$ 672	\$ 990
Income taxes	1,575	346

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Business**

Allied Motion Technologies Inc. (Allied Motion or the Company) is engaged in the business of designing, manufacturing and selling motion control products to a broad spectrum of customers throughout the world primarily for the commercial motor, industrial motion control, and aerospace and defense markets.

**Principles of Consolidation**

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

**Cash and Cash Equivalents**

Cash and cash equivalents include instruments which are readily convertible into cash (original maturities of three months or less) and which are not subject to significant risk of changes in interest rates. Cash flows from foreign currency transactions are translated using an average rate.

**Accounts Receivable**

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable; however, changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future.

**Inventories**

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

	December 31, 2007	December 31, 2006
Parts and raw materials	\$ 8,326	\$ 8,864
Work-in-process	2,002	1,745
Finished goods	2,433	1,854
	12,761	12,463
Less reserves	(1,761)	(1,656)
	\$ 11,000	\$ 10,807

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Property, Plant and Equipment*

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

	Useful lives	December 31, 2007	December 31, 2006
Land		\$ 332	\$ 332
Building and improvements	5-39 years	4,685	4,585
Machinery, equipment, tools and dies	2-8 years	16,336	15,420
Furniture, fixtures and other	3-10 years	2,349	1,983
		23,702	22,320
Less accumulated depreciation		(12,569)	(10,147)
		\$ 11,133	\$ 12,173

Depreciation expense is provided using the straight-line method over the estimated useful lives of the assets. Amortization of building improvements and leased equipment is provided using the straight-line method over the life of the lease term or the life of the assets, whichever is shorter. Maintenance and repair costs are charged to operations as incurred. Major additions and improvements are capitalized. The cost and related accumulated depreciation of retired or sold property are removed from the accounts and the resulting gain or loss, if any, is reflected in earnings.

Depreciation expense was approximately \$2,439,000 and \$2,271,000 in 2007 and 2006, respectively.

*Goodwill*

Goodwill represents the excess of the purchase price over the fair value of identifiable net tangible and intangible assets acquired in a business combination. Goodwill is required to be tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. The Company completed its annual analysis of the fair value of its goodwill at October 31, 2007, and determined there was no indicated impairment of its goodwill. There can be no assurance that future goodwill impairments will not occur.

*Intangible Assets*

Intangible assets, other than goodwill, are recorded at cost and are amortized over their estimated useful lives using the straight-line method.

*Impairment of Long-Lived Assets*

The Company reviews the carrying values of its long-lived assets whenever events or changes in circumstances indicate that such carrying values may not be recoverable. Under SFAS No. 144, long-lived assets must be carried at historical cost if the projected cash flows from their use will recover their carrying amounts on an undiscounted basis and without considering interest. However, if projected cash flows are less than their carrying value, the long-lived assets must be reduced to their estimated fair value. Considerable judgment is required to project such cash flows and, if required, estimate the fair value of the impaired long-lived asset. No impairments of long-lived assets were recorded in 2007 or 2006.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Warranty**

The Company offers warranty coverage for its products for periods ranging from 12 to 18 months after shipment, with the majority of its products for 12 months. The Company estimates the costs of repairing products under warranty based on the historical average cost of the repairs. The assumptions used to estimate warranty accruals are reevaluated periodically in light of actual experience and, when appropriate, the accruals are adjusted. Estimated warranty costs are recorded at the time of sale of the related product, and are considered a cost of sale. Accrued warranty costs were \$306,000 and \$276,000 as of December 31, 2007 and 2006, respectively.

Changes in the Company's reserve for product warranty claims during 2007 and 2006, were as follows (in thousands):

	December 31, 2007	December 31, 2006
Warranty reserve at beginning of the year	\$ 276	\$ 307
Warranty expenditures	(145)	(115)
Provision	171	79
Effect of foreign currency translation	4	5
Warranty reserve at end of year	\$ 306	\$ 276

**Accrued Liabilities**

Accrued liabilities consist of the following (in thousands):

	December 31, 2007	December 31, 2006
Compensation and fringe benefits	\$ 3,476	\$ 3,221
Warranty reserve	306	276
Other accrued expenses	781	729
	\$ 4,563	\$ 4,226

**Foreign Currency Translation**

In accordance with SFAS No. 52, "Foreign Currency Translation," the assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using end of period exchange rates. Comprehensive income is recorded in the other comprehensive income foreign currency translation adjustment component of stockholders' investment in the accompanying consolidated statement of stockholders' investment and comprehensive income. Revenue and expense transactions use an average rate prevailing during the month of the related transaction. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

**Engineering and Development Costs**

Engineering and development costs are expensed as incurred.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*****Revenue Recognition***

The Company recognizes revenue when products are shipped or delivered (shipping terms may be either FOB shipping point or destination) and title has passed to the customer, persuasive evidence of an arrangement exists, the selling price is fixed or determinable, and collectibility is reasonably assured.

***Basic and Diluted Income per Share from Continuing Operations***

Basic income per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding. Diluted income per share is determined by dividing the net income 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. The dilutive effect of outstanding options was 552,000 and 498,000 for the years 2007 and 2006, respectively. Stock options to purchase 55,000 and 213,000 shares of common stock, were excluded from the calculation of diluted income per share for years 2007 and 2006, respectively, since the results would have been anti-dilutive.

***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.

***Stock-Based Compensation***

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. There were no options granted during 2007 or 2006.

***Fair Values of Financial Instruments***

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, trade receivables, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. The carrying amount of the line-of-credit and term loans approximate their fair value because the underlying instrument is a variable rate note that reprices frequently.

***Income Taxes***

The Company accounts for income taxes in accordance with SFAS No. 109 ("FAS 109"), "Accounting for Income Taxes." Consistent with guidance in FAS 109, the current provision for income taxes represents actual or estimated amounts payable or refundable on tax return filings each year. Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

consolidated balance sheets, and for operating loss and tax credit carryforwards. The change in deferred tax assets and liabilities for the period measures the deferred tax provision or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to the tax provision or benefit in the period of enactment. A valuation allowance may be provided to the extent management deems it is more likely than not that deferred tax assets will not be realized. The ultimate realization of net deferred tax assets is dependent upon the generation of future taxable income, in the appropriate taxing jurisdictions, during the periods in which temporary differences, net operating losses and tax credits become realizable. Management believes that it is more likely than not that the Company will realize the benefits of these temporary differences and operating loss and tax credit carryforwards, net of valuation allowances.

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). The interpretation requires that realization of an uncertain income tax position must have a "more likely than not" probability of being sustained based on technical merits before it can be recognized in the financial statements, assuming a review by tax authorities having all relevant information and applying current conventions. The Company adopted FIN 48 on January 1, 2007. Adoption of FIN 48 did not have a material impact on our Consolidated Financial Statements. The Company does not have significant unrecognized tax benefits and does not anticipate a significant increase or decrease in unrecognized tax benefits within the next twelve months. The Company recognizes income tax related interest and penalties as a component of the provision for income taxes.

***Concentration of Credit Risk***

Trade receivables subject the Company to the potential for credit risk. To reduce this risk, the Company performs evaluations of its customers' financial condition and creditworthiness at the time of sale, and updates those evaluations when necessary. No single customer makes up more than 10% of trade receivables.

***Use of Estimates***

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. GOODWILL AND INTANGIBLE ASSETS

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

	December 31, 2007	December 31, 2006	Estimated Life
Goodwill	\$ 12,343	\$ 12,072	
Amortizable intangible assets:			
Customer lists	4,589	4,473	8 years
Trade names	1,340	1,340	10 years
Designs and technologies	2,713	2,597	8 years
Accumulated amortization	(4,263)	(3,141)	
Total net intangible assets	4,379	5,269	
Total goodwill and net intangible assets	\$ 16,722	\$ 17,341	

The change in the carrying amount of goodwill for 2007 is as follows (in thousands):

	December 31, 2007
Balance at beginning of period	\$ 12,072
Effect of foreign currency translation	271
Balance at end of period	\$ 12,343

Total amortization expense for intangible assets for the years 2007 and 2006 was \$1,033,000 and \$1,012,000 respectively. Estimated amortization expense for intangible assets is \$1,053,000 for the years ending December 31, 2008 and 2009, \$952,000 for 2010, \$811,000 for 2011, \$426,000 for 2012 and \$85,000 for 2013.

3. DEBT OBLIGATIONS

Debt obligations consisted of the following (in thousands):

	December 31, 2007	December 31, 2006
<b>Credit Agreement (at variable rates)</b>		
Term Loan, 6.24% as of December 31, 2007	\$ 3,600	\$ —
Revolving line-of-credit, 5.86% as of December 31, 2007	795	—
<b>Previous debt agreements</b>		
Domestic revolving line-of-credit	—	4,925
Term loans	—	4,773
<b>Capital lease obligations</b>	27	131
Total	4,422	9,829
Less current maturities	(827)	(9,066)
Long-term debt obligations	\$ 3,595	\$ 763

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. DEBT OBLIGATIONS (Continued)

Effective May 7, 2007, the Company entered into a credit agreement to provide term debt of \$4 million and revolving credit of up to \$11 million and €3 million. The new facility was used to pay off the Company's existing domestic and foreign bank debt and will also provide funds for working capital needs and financing of future growth of the Company. All borrowings are secured by substantially all the assets of the Company.

The credit agreement has a five year term (maturity date of May 7, 2012). The term debt is payable in twenty equal quarterly installments of \$200,000 over the five year term. No principal payments are required on the revolving credit facilities prior to maturity. The interest rates on the agreement are variable rates based on one or more interest rate indices.

The credit agreement contains certain financial covenants related to maximum leverage, minimum fixed charge coverage and minimum tangible net worth of the company. The Company was in compliance with all covenants at December 31, 2007.

At December 31, 2007, approximately \$14.6 million was available under the credit agreement and €300,000 was available under a bank overdraft facility.

Future maturities of debt obligations under the credit agreement are as follows as of December 31, 2007:

2008	\$	800
2009		800
2010		800
2011		800
2012		1,195
		<hr/>
	\$	4,395
		<hr/>

4. INCOME TAXES

The provision for income taxes is based on income before income taxes from continuing operations as follows (in thousands):

	For the year ended December 31, 2007	For the year ended December 31, 2006
	<hr/>	<hr/>
Domestic	\$ 945	\$ 1,030
Foreign	2,638	1,870
	<hr/>	<hr/>
Income before income taxes	\$ 3,583	\$ 2,900
	<hr/>	<hr/>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 4. INCOME TAXES (Continued)

Components of the total provision for income taxes are as follows (in thousands):

	For the year ended December 31, 2007	For the year ended December 31, 2006
Current provision:		
Domestic	\$ 226	\$ 143
Foreign	778	662
Total current provision	1,004	805
Deferred provision (benefit):		
Domestic	286	351
Foreign	(103)	(187)
Total deferred provision	183	164
Provision for income taxes	\$ 1,187	\$ 969

The provision for income taxes differs from the amount determined by applying the federal statutory rate as follows (in thousands):

	For the year ended December 31, 2007	For the year ended December 31, 2006
Tax provision, computed at statutory rate	\$ 1,218	\$ 986
State tax, net of federal impact	177	112
Nondeductible expenses	20	33
Permanent tax deductions	—	(28)
Adjustments to prior year accruals(1)	(7)	26
Effect of foreign tax rate differences	(221)	(82)
Effect of changes in enacted tax law	—	(78)
Expiration of tax credits	4	97
Change in valuation allowance	(4)	(97)
Provision for income taxes	\$ 1,187	\$ 969

(1) Adjustments relate to the resolution of certain prior year income tax related matters.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 4. INCOME TAXES (Continued)

The tax effects of significant temporary differences and credit and operating loss carryforwards that give rise to the net deferred tax assets are as follows (in thousands):

	December 31, 2007	December 31, 2006
<b>Current Deferred tax assets:</b>		
Allowances and other	\$ 503	\$ 394
Tax credit carryforwards	132	136
Net operating loss carryforwards	303	466
	<u>938</u>	<u>996</u>
Total deferred tax assets	938	996
Valuation allowance	(214)	(218)
	<u>724</u>	<u>778</u>
Net current deferred tax assets	\$ 724	\$ 778
<b>Noncurrent:</b>		
<b>Deferred tax assets:</b>		
Employee benefit plans	438	611
Other	26	25
<b>Deferred tax liabilities:</b>		
Property, plant and equipment	(970)	(1,123)
Goodwill and intangibles	(925)	(831)
Other	(21)	—
	<u>(1,452)</u>	<u>(1,318)</u>
Net noncurrent deferred tax liability	\$ (1,452)	\$ (1,318)

The Company has a domestic net operating loss carryforward of \$843,000 expiring in 2023 through 2025 and domestic tax credit carryforwards expiring in 2013.

Realization of the Company's deferred tax assets is dependent upon the Company generating sufficient taxable income in the appropriate tax jurisdictions in future years to obtain benefit from the reversal of net deductible temporary differences and from utilization of net operating losses and tax credit carryforwards. The Company has recorded a valuation allowance due to the uncertainty related to the realization of certain deferred tax assets existing at December 31, 2007. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed. Management believes that it is more likely than not that the Company will realize the benefits of its deferred tax assets, net of valuation allowances as of December 31, 2007.

The Company files income tax returns in the U.S. federal, various states and The Netherlands taxing jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state tax examinations in its major tax jurisdictions for periods before 2003. The Company is no longer subject to tax examinations in The Netherlands for periods before 2002.

The Company does not have any significant unrecognized tax benefits and does not anticipate a significant increase or decrease in unrecognized tax benefits within the next twelve months. Amounts recognized for income tax related interest and penalties as a component of the provision for income taxes are immaterial for years ended December 31, 2007 and 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. STOCK-BASED COMPENSATION PLANS

*Allied Motion Stock Incentive Plans*

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

As of December 31, 2007, the Company had 336,951 shares of Common Stock available for grant under stock incentive plans.

**Stock Options**

Option activity during years 2006 and 2007 was as follows:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2005	1,448,650	3.62	
Granted	—		
Forfeited	(44,000)		
Exercised	(159,500)		\$ 338,000
Balance, December 31, 2006	1,245,150	3.68	
Granted	—		
Forfeited	(71,250)		
Exercised	(330,700)		\$ 676,000
Balance, December 31, 2007	843,200	3.75	\$ 771,236

Under the terms of the plans, options may not be granted at less than 85% of fair value. All options granted to date have been granted at fair value as of the date of grant. The aggregate intrinsic value is calculated based on the difference of the fair value of the stock and the option exercise price on the date of the exercise. As of December 31, 2007, all outstanding options are exercisable. Cash received from the exercise of stock options for the years ended December 31, 2007 and 2006 was \$792,000 and \$185,000, respectively.

Exercise prices for options outstanding at December 31, 2007 are as follows:

	Range of Exercise Prices			Total
	\$1.77 - \$2.90	\$3.20 - \$4.83	\$5.46 - \$6.72	\$1.77 - \$6.72
Options Outstanding:				
Number of options	295,000	406,700	141,500	843,200
Weighted average exercise price	\$ 2.24	\$ 4.12	\$ 5.82	\$ 3.75
Weighted average remaining contractual life	1.7 years	2.9 years	3.7 years	2.6 years

**Restricted Stock**

During 2007 and 2006, 79,100 and 42,000 shares of nonvested restricted stock were awarded with a weighted average value of \$5.89 and \$3.80 per share, respectively. The value at the date of grant is amortized to compensation expense over the related vesting period of approximately three years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 5. STOCK-BASED COMPENSATION PLANS (Continued)

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.

Nonvested restricted stock activity during years 2006 and 2007 was as follows:

	Number of Nonvested Restricted Shares
Balance, December 31, 2005	44,000
Granted	42,000
Forfeited	(2,000)
Vested	(14,009)
Balance, December 31, 2006	69,991
Granted	79,100
Forfeited	(1,283)
Vested	(28,348)
Balance, December 31, 2007	119,460

*Share-Based Compensation Expense***Stock Options**

During the year ended December 31, 2006, the Company recognized \$14,000 in compensation expense related to outstanding stock options. Total unrecognized compensation cost related to unvested stock options awards as of December 31, 2007 and 2006 is zero.

**Restricted Stock**

During 2007 and 2006, compensation expense net of forfeitures, of \$206,000 and \$93,000 was recorded, respectively. As of December 31, 2007, there was \$438,000 of total unrecognized compensation expense related to restricted stock awards which is expected to be recognized over a weighted average period of 1.9 years.

*Allied Motion Employee Stock Ownership Plan*

The Company sponsors an Employee Stock Ownership Plan (ESOP) that covers all U.S. employees who work over 1,000 hours per year. The terms of the ESOP require the Company to make an annual contribution equal to the greater of i) the Board established percentage of pretax income before the contribution (5% in 2007 and 2006) or ii) the annual interest payable on any loan outstanding to the Company. Company contributions to the Plan were \$186,000, and \$153,000 accrued for 2007 and 2006, respectively. Contributions are used to acquire newly issued shares of the Company.

## 6. COMMITMENTS AND CONTINGENCIES

*Operating Leases*

At December 31, 2007, the Company maintains leases for certain facilities and equipment. The Company has entered into facility agreements, some of which contain provisions for future rent



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 6. COMMITMENTS AND CONTINGENCIES (Continued)

increases. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to "Deferred rent obligation," which is included in "Accrued liabilities and other" in the accompanying Balance Sheet. Minimum future rental commitments under all non-cancelable operating leases are as follows (in thousands):

Year ending December 31,	Total
2008	\$ 662
2009	559
2010	448
2011	411
2012	231
Thereafter	177
	<u>\$ 2,488</u>

Rental expense was \$721,000 and \$693,000 in 2007 and 2006, respectively.

**Capital Leases**

The Company leases certain machinery and equipment under agreements that are classified as capital leases. The cost of equipment under capital leases included in the accompanying consolidated balance sheets as property, plant and equipment was \$120,000 and \$583,000 at December 31, 2007 and 2006, respectively. Accumulated amortization of the leased equipment at December 31, 2007 and December 31, 2006 was \$41,000 and \$289,000, respectively. Amortization of assets under capital leases is included in depreciation expense.

The future minimum lease payments required under capital leases is \$27,000 for 2008. The difference between the net present value of the net minimum lease payments and the future minimum lease payments is immaterial.

**Severance Benefit Agreements**

The Company has entered into annually renewable severance benefit agreements with six key employees which, among other things, provide inducement to the employees to continue to work for the Company during and after any period of a potential change in control of the Company. The agreements provide the employees with specified benefits upon the subsequent severance of employment in the event of change in control of the Company and are effective for 24 months thereafter. The amount of severance payments that could be required to be paid under these contracts, if such events occur, totaled approximately \$3,877,000 and \$2,714,000, respectively as of December 31, 2007 and 2006. In addition, severance benefits include, for some employees, a gross-up payment for excise taxes.

**Litigation**

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 7. 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.

The following tables provide a reconciliation of the change in benefit obligation, the change in plan assets and the net amount recognized in the Consolidated Balance Sheet at December 31, 2007 and December 31, 2006 (in thousands):

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
<b>Change in projected benefit obligation:</b>		
Projected benefit obligation at beginning of period	\$ 4,065	\$ 4,096
Service cost	118	128
Employee contributions	12	13
Interest cost	237	222
Actuarial gain	(245)	(205)
Benefits paid	(200)	(189)
	<u>3,987</u>	<u>4,065</u>
Projected benefit obligation at end of period	\$ 3,987	\$ 4,065
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of period	\$ 3,568	\$ 3,219
Actual return on plan assets	269	395
Employee contributions	12	13
Employer contributions	231	130
Benefits and expenses paid	(200)	(189)
	<u>3,880</u>	<u>3,568</u>
Fair value of plan assets at end of period	\$ 3,880	\$ 3,568
	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Excess of projected benefit obligation over fair value of plan assets	\$ 107	\$ 497
Unrecognized gain	257	57
	<u>364</u>	<u>554</u>
Accrued pension cost	\$ 364	\$ 554
Required incremental asset under SFAS No. 158	(257)	(57)
	<u>107</u>	<u>497</u>
Accrued pension cost at end of period	\$ 107	\$ 497

The accumulated benefit obligation for the pension plan was \$3,905,000 at December 31, 2007 and \$3,976,000 at December 31, 2006.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 7. PENSION AND POSTRETIREMENT WELFARE PLANS (Continued)

Benefits expected to be paid from the Plan during each of the next five fiscal years, and in aggregate for the five fiscal years thereafter are:

Year of payment	Amount of Benefit Payment
2008	\$ 239,000
2009	254,000
2010	267,000
2011	273,000
2012	280,000
2013-2017	1,547,000

Components of net periodic pension expense included in the consolidated statements of operations for years 2007 and 2006 are as follows (in thousands):

	For the year ended December 31, 2007	For the year ended December 31, 2006
Service cost	\$ 118	\$ 128
Interest cost on projected benefit obligation	237	222
Expected return on assets	(312)	(280)
Net periodic pension expense	\$ 43	\$ 70

The weighted average assumptions used to determine benefit obligations were as follows:

	December 31, 2007	December 31, 2006
Discount rate	6.50%	6.00%
Rate of compensation increases	5.00%	5.00%

The weighted average assumptions used to determine net periodic benefit cost are as follows:

	For the year ended December 31, 2007	For the year ended December 31, 2006
Discount rate	6.00%	5.50%
Expected long-term rate of return on plan assets	9.00%	9.00%
Rate of compensation increases	5.00%	5.00%

The Company expects to contribute approximately \$85,000 to the pension plan during 2008.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 7. PENSION AND POSTRETIREMENT WELFARE PLANS (Continued)

The pension plan assets allocation at December 31, 2007 and 2006 were as follows:

	December 31, 2007	December 31, 2006
Cash equivalents	1%	5%
Equity securities	70%	70%
Fixed income securities	29%	25%
Total	100%	100%

The pension assets are managed by an outside investment manager. The Company's investment policy with respect to pension assets is to make investments solely in the interest of the participants and beneficiaries of the plans and for the exclusive purpose of providing benefits accrued and defraying the reasonable expenses of administration. The Company strives to maintain investment diversification to assist in minimizing the risk of large losses.

***Postretirement Welfare Plan***

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 7. PENSION AND POSTRETIREMENT WELFARE PLANS (Continued)

The following tables provide a reconciliation of the change in the accumulated postretirement benefit obligation and the net amount recognized in the Consolidated Balance Sheet at December 31, 2007 and December 31, 2006 (in thousands):

	December 31, 2007	December 31, 2006
Change in postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of period	\$ 1,215	\$ 2,515
Service cost	24	26
Interest cost	72	68
Actuarial gain	(149)	(1,330)
Benefits paid, net of participant contributions	(62)	(64)
Accumulated postretirement benefit obligation at end of period	\$ 1,100	\$ 1,215
Accrued postretirement benefit cost at the beginning of period	\$ 2,446	\$ 2,698
Net periodic postretirement cost	11	(3)
Employer contributions	(62)	(64)
Other	—	(185)
Accrued postretirement benefit cost	\$ 2,395	\$ 2,446
Required incremental asset under SFAS No. 158	(1,295)	(1,231)
Accrued postretirement benefit cost at end of period	\$ 1,100	\$ 1,215

Net periodic postretirement benefit costs included in the consolidated statements of operations for years 2007 and 2006 are as follows (in thousands):

	For the year ended December 31,	
	2007	2006
Service cost	\$ 24	\$ 26
Interest cost	72	68
Amortization of prior service cost	(12)	(12)
Amortization of (gain)	(73)	(85)
Total benefit cost (income)	\$ 11	\$ (3)

During 2006, certain assumptions, relating to the Company's obligation for contributing a portion of retiree medical premiums, were updated to more closely reflect the Company's contractual obligation. This resulted in a cumulative reduction to previously recognized net periodic postretirement benefit costs of \$115,000, net of tax. The cumulative reduction is reflected in the consolidated statement of operations for 2006, but is not included in the net periodic postretirement benefit cost for 2006 as presented in the table above.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**7. PENSION AND POSTRETIREMENT WELFARE PLANS (Continued)**

For measurement purposes, future increases in the per capita cost of covered health care benefits are assumed. The Company's current contractual obligation requires a per capita fixed Company contribution amount through August 2011. As of December 31, 2007, the Company assumed an increase in its contribution of 5% applied once every four years beginning in 2012. Postretirement medical liabilities can be extremely sensitive to changes in the assumed rate of future medical increases, and, therefore the healthcare cost trend rate assumption has a significant effect on the amounts reported.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.50% and 6.00% as of December 31, 2007 and 2006, respectively. The weighted average discount rate used to determine the net periodic postretirement benefit cost was 6.0% for 2007 and 5.50% for 2006.

Benefits expected to be paid from the Plan during each of the next five fiscal years, and in aggregate for the five fiscal years thereafter are:

Year of payment	Amount of Benefit Payment
<b>2008</b>	\$ 69,000
<b>2009</b>	69,000
<b>2010</b>	73,000
<b>2011</b>	72,000
<b>2012</b>	73,000
<b>2013-2017</b>	373,000

**8. 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 consolidated financial statements and within this note.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. SEGMENT INFORMATION (Continued)

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

	For the year ended and as of December 31,	
	2007	2006
Revenues derived from foreign subsidiaries	\$ 21,586	\$ 18,685
Identifiable assets	10,677	9,300

Sales to customers outside of the United States were \$31,170,000 and \$26,405,000 in years 2007 and 2006, respectively.

During years 2007 and 2006, no single customer accounted for more than 10% of total revenues.

## 9. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for each of the four quarters in years 2007 and 2006 is as follows (in thousands, except per share data):

Year 2007	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 21,986	\$ 20,405	\$ 20,901	\$ 21,267
Gross margin	5,361	4,498	5,288	5,460
Net income	715	347	686	648
Basic income per share	.11	.05	.10	.09
Diluted income per share	.10	.05	.10	.09
Year 2006	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 21,199	\$ 22,155	\$ 20,308	\$ 19,106
Gross margin	4,740	5,262	5,064	4,495
Net income	348	578	617	388
Basic income per share	.05	.09	.10	.06
Diluted income per share	.05	.08	.09	.06

## **Item 9A(T). Controls and Procedures.**

### **Evaluation of Disclosure 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. Under the supervision and with the participation of management, 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-K. Based on this evaluation, the chief executive officer and chief financial officer concluded that they are effective as of December 31, 2007.

### **Management's Report on Internal Control Over Financial Reporting**

Under Section 404 of the Sarbanes Oxley Act of 2002, management is responsible for establishing and maintaining adequate internal control over financial reporting as of the end of each fiscal year and report, based on that assessment, whether the Company's internal control over financial reporting is effective.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

Management has conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation under this framework, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

There has not been any change in the Company's internal controls over financial reporting during the quarter ended December 31, 2007 that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance.**

The Company's definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.

### **Item 11. Executive Compensation.**

The Company's definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.



**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The Company's definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference. Also incorporated by reference is the information in the table under the heading "Equity Compensation Plan Information" included in Item 5 of the Form 10-K.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The Company's definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services.**

The Company's definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

a) The following documents are filed as part of this Report:

**1. Financial Statements**

- a) Consolidated Balance Sheets as of December 31, 2007 and December 31, 2006.
- b) Consolidated Statements of Operations for the years ended December 31, 2007 and 2006.
- c) Consolidated Statements of Stockholders' Investment and Comprehensive Income for the years 2007 and 2006.
- d) Consolidated Statements of Cash Flows for the years 2007 and 2006.
- e) Notes to Consolidated Financial Statements.
- f) Report of Independent Registered Public Accounting Firm.

**2. Financial Statement Schedules**

- II. Valuation and Qualifying Accounts.

**3. Exhibits**

Exhibit No.	Subject
3.1	Amended and Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K files May 3, 2006.)
3.2	Amended and restated Bylaws of the Company (attached herein)
10.0*	The Amended 1991 Incentive and Nonstatutory Stock Option Plan dated August 1, 1998. (Incorporated by reference to Exhibit 10.19 to the Company's Form 10-K for the fiscal year ended June 30, 1998.)
10.1*	Year 2000 Stock Incentive Plan. (Incorporated by reference to Exhibit A to the Company's Proxy Statement dated September 21, 2000.)

- 10.2\* Amendment No. 1 to the Year 2000 Stock Incentive Plan. (Incorporated by reference to Exhibit B to the Company's Proxy Statement dated September 30, 2002.)
- 10.3\* Amendment No. 2 to the Year 2000 Stock Incentive Plan. (Incorporated by reference to Exhibit B to the Company's Proxy Statement dated March 29, 2004.)
- 10.4\* Employment Agreement between Allied Motion Technologies Inc. and Richard D. Smith, effective August 1, 2003. (Incorporated by reference to Exhibit 10.11 to the Company's Form 10-K for the year ended December 31, 2003.)
- 10.5\* Change of Control Agreement between Allied Motion Technologies Inc. and Richard D. Smith, effective July 24, 2003. (Incorporated by reference to Exhibit 10.12 to the Company's Form 10-K for the year ended December 31, 2003.)
- 10.6\* Employment Agreement between Allied Motion Technologies Inc. and Richard S. Warzala, effective March 1, 2003. (Incorporated by reference to Exhibit 10.13 to the Company's Form 10-K for the year ended December 31, 2003.)
- 10.7\* Change of Control Agreement between Hathaway Corporation and Richard S. Warzala, effective May 1, 2002. (Incorporated by reference to Exhibit 10.14 to the Company's Form 10-K for the year ended December 31, 2003.)
- 10.8\* Deferred Compensation Plan effective January, 1 2006 (Incorporated by reference to Exhibit 10.18 to the Company's Form 10-K for the year ended December 31, 2006.)
- 10.9\* First Amendment to the Allied Motion Technologies Inc. Deferred Compensation Plan adopted August 2, 2006 (Incorporated by reference to Exhibit 10.16 to the Company's Form 10-K for the year ended December 31, 2006.)
- 10.10 Credit Agreement dated as of May 7, 2007 among Allied Motion Technologies Inc., as US Borrower, Precision Motor Technology B.V., as EUR Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, J.P. Morgan Europe Limited, as EUR Agent, and the Lenders party hereto (incorporated by reference to Exhibit 10 to the Company's Form 8-K/A dated August 8, 2007.)

- 10.11 2007 Stock Incentive Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement dated March 20, 2007)
- 14.1 Code of Ethics for chief executive officer, president and senior financial officers adopted October 23, 2003. (Incorporated by reference to Exhibit 14.1 to the Company's Form 10-K for the year ended December 31, 2003.)
- 21 List of Subsidiaries (attached herein)
- 23 Consent of Ehrhardt Keefe Steiner & Hottman PC (filed herewith)
- 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.

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\* Denotes management contract or compensatory plan or arrangement.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ALLIED MOTION TECHNOLOGIES INC.

By: /s/ RICHARD D. SMITH

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Richard D. Smith  
*Chief Executive Officer, Chief Financial Officer and Director*

Date: March 14, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signatures	Title	Date
<hr/> <p>/s/ RICHARD D. SMITH</p> <hr/> <p>Richard D. Smith</p>	Chief Executive Officer, Chief Financial Officer and Director	March 14, 2008
<hr/> <p>/s/ RICHARD S. WARZALA</p> <hr/> <p>Richard S. Warzala</p>	President, Chief Operating Officer and Director	March 14, 2008
<hr/> <p>/s/ DELWIN D. HOCK</p> <hr/> <p>Delwin D. Hock</p>	Chairman of the Board of Directors	March 14, 2008
<hr/> <p>/s/ S.R. ROLLIE HEATH, JR.</p> <hr/> <p>S.R. Rollie Heath, Jr.</p>	Director	March 14, 2008
<hr/> <p>/s/ GEORGE J. PILMANIS</p> <hr/> <p>George J. Pilmanis</p>	Director	March 14, 2008
<hr/> <p>/s/ GRAYDON D. HUBBARD</p> <hr/> <p>Graydon D. Hubbard</p>	Director	March 14, 2008
<hr/> <p>/s/ MICHEL M. ROBERT</p> <hr/> <p>Michel M. Robert</p>	Director	March 14, 2008

ALLIED MOTION TECHNOLOGIES INC.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions from Reserves	Other	Balance at End of Period
<b>Year Ended December 31, 2007:</b>					
Reserve for bad debts	\$ 293	\$ 53	\$ (95)	\$ 3	\$ 254
Valuation allowance for deferred tax assets	\$ 218	\$ —	\$ (4)	\$ —	\$ 214
<b>Year Ended December 31, 2006:</b>					
Reserve for bad debts	\$ 281	\$ 250	\$ (243)	\$ 5	\$ 293
Valuation allowance for deferred tax assets	\$ 315	\$ —	\$ (97)	\$ —	\$ 218



BYLAWS  
OF  
ALLIED MOTION TECHNOLOGIES INC.  
ARTICLE I. OFFICES

**1.1 Business Office.**

The principal office of the corporation shall be located at any place either within or outside the state of Colorado as designated in the corporation's most current Annual Report filed with the Colorado Secretary of State. The corporation may have such other offices, either within or without the State of Colorado as the board of directors may designate or as the business of the corporation may require from time to time.

**1.2 Registered Office.**

The registered office of the corporation required by C.R.S. 7-105-101 may, but need not, be identical with the principal office (if located within Colorado). The address of the registered office may be changed from time to time.

ARTICLE II. SHAREHOLDERS

**2.1 Annual Shareholder Meeting.**

The annual meeting of the shareholders shall be held within 180 days after the close of the corporation's fiscal year at a time and date as is determined by the board of directors for the purpose of electing directors and for the transaction of such other business as may come before the meeting.

**2.2 Special Shareholder Meetings.**

(a) *Authority.* Special meetings of the shareholders, for any purpose or purposes described in the meeting notice, may be called by the president or by the board of directors and shall be called by the president at the request of the holders of not less than one-tenth of all outstanding votes of the corporation entitled to be cast on any issues at the meeting.

(b) *Procedure.* If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board of directors of the corporation. No business may be transacted at such special meeting other than specified in such notice. The board of directors shall determine the time and place of such special meeting, which shall be held not less than 30 nor more than 120 days after the date of the receipt of the request. The chairman shall cause notice to be given to the shareholders entitled to vote. If the notice is not given within 60 days after the receipt of the request, the persons or person requesting the meeting may set the time and place of the meeting and give the notice. Nothing contained in this paragraph (b) shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the board of directors may be held.

**2.3 Place of Shareholder Meeting.**

Meetings of shareholders may be held in or out of the state of Colorado at locations fixed by the board of directors. If no designation is made the place of meeting shall be the principal office of the corporation in the state of Colorado.

## **2.4 Notice of Shareholder Meeting.**

(a) *Time, Place, Purpose, Effective.* Written notice stating the place, date, and hour of the meeting shall be given not less than 10 nor more than 60 days before the date of the meeting, except that (i) if the number of authorized shares is to be increased, at least 30 days notice shall be given, or (ii) any other notice requirement of the Colorado Business Corporation Act (herein referred to as the "Act") shall be provided. Notice of a special meeting shall include a description of the purpose or purposes of the meeting. Notice of an annual meeting need not include a description of the purpose or purposes of the meeting unless required by the Act, the articles of incorporation or these bylaws. Notice shall be given personally or by mail, private carrier, telegraph, teletype, electronically transmitted facsimile or other form of wire or wireless communication by or at the direction of the chairman or the president or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. Notice shall be deemed to be effective at the earlier of: (i) when deposited in the United States mail, addressed to the shareholder at his address as it appears on the stock transfer books of the corporation, with postage thereon prepaid; (ii) on the date shown on the return receipt if sent by registered or certified mail, return receipt requested, and the receipt is signed by or on behalf of the addressee; (iii) when received; or (iv) 5 days after deposit in the United States mail if mailed postpaid and correctly addressed to an address other than that shown in the corporation's current record of shareholders.

(b) *Undeliverable Notice.* No notice need be sent to any shareholder if three successive notices mailed to the last known address of such shareholder have been returned as undeliverable until such time as another address for such shareholder is made known to the corporation by such shareholder. In order to be entitled to receive notice of any meeting, a shareholder shall advise the corporation in writing of any change in such shareholder's mailing address as shown on the corporation's books and records.

(c) *Adjourned Meeting.* When a meeting is adjourned to another date, time or place, notice need not be given of the new date, time or place if the new date, time or place of such meeting is announced before adjournment at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which may have been transacted at the original meeting. If the adjournment is for more than 120 days, or if a new record date is fixed for the adjourned meeting, a new notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting as of the new record date.

## **2.5 Waiver of Notice.**

A shareholder may waive notice of a meeting before or after the time and date of the meeting by a writing signed by such shareholder. Such waiver shall be delivered to the corporation for filing with the corporate records. Further, by attending a meeting either in person or by proxy a shareholder waives objection to lack of notice or defective notice of the meeting unless the shareholder objects at the beginning of the meeting to the holding of the meeting or the transaction of business at the meeting because of lack of notice or defective notice. By attending the meeting, the shareholder also waives any objection to consideration at the meeting of a particular matter not within the purpose or purposes described in the meeting notice unless the shareholder objects to considering the matter when it is presented.

## **2.6 Fixing of Record Date.**

(a) *Meetings, Distributions.* For the purpose of determining shareholders entitled to (i) notice of or vote at any meeting of shareholders or any adjournment thereof, (ii) receive distributions or share dividends, or (iii) demand a special meeting, or to make a determination of shareholders for any other proper purpose, the board of directors may fix a future date as the record date for any such



determination of shareholders, such date in any case to be not more than seventy days, and, in case of a meeting of shareholders, not less than ten days, prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is fixed by the directors, the record date shall be the date on which notice of the meeting is mailed to shareholders, or the date on which the resolution of the board of directors providing for a distribution is adopted, as the case may be. When a determination of shareholders entitled to vote at any meeting of shareholders is made as provided in this section such determination shall apply to any adjournment thereof unless the board of directors fixes a new record date, which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

(b) *Consent Action, Shareholder Demands.* The record date for determining the shareholders entitled to take action without a meeting shall be the date a writing upon which the action is taken is first received by the corporation. The record date for determining shareholders entitled to demand a special meeting shall be the date of the earliest of any of the demands pursuant to which the meeting is called.

## **2.7 Organization of Shareholder Meeting.**

(a) *Officers of the Meeting.* The chairman of the board of directors shall preside at each meeting of shareholders or, if a chairman of the board of directors has not been appointed or is absent, the chief executive officer or president, in that order, if present, shall preside. In the absence of any such officers, any director present shall preside and if there be more than one director present, a director chosen by majority vote of those directors present shall preside. If no presiding officer is selected as provided above, the meeting shall be chaired by a person chosen by the vote of a majority in interest of the shareholders present in person or represented by proxy and entitled to vote thereat. The secretary or in his or her absence an assistant secretary or in the absence of the secretary and all assistant secretaries a person whom the chairman of the meeting shall appoint shall act as secretary of the meeting and keep a record of the proceedings thereof.

(b) *Conduct of Meeting.* The board of directors of the corporation shall be entitled to make such rules or regulations for conduct of meetings of shareholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the board of directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting including, without limitation, establishing (i) an agenda or order of business for the meeting, (ii) rules and procedures for maintaining order at the meeting and the safety of those present, (iii) limitations on participation in such meeting to shareholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the chairman shall permit, (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof, (v) limitations on the time allotted to questions or comment by participants, and (vi) regulation of the opening and closing of the polls for balloting on matters which are to be voted on by ballot. Unless and to the extent determined by the board of directors or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with rules of parliamentary procedure.

(c) *Business Brought Before the Meeting.* At an annual meeting of the shareholders only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting business must be: (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (ii) otherwise properly brought before the meeting by or at the direction of the board of directors, or (iii) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, including any proposal relating to the nomination of a person under 2.15 to be elected to the Board of Directors of the corporation, the shareholder must have given timely notice

thereof in writing to the secretary of the corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal office of the corporation not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting of shareholders; *provided, however*, that in the event no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year's proxy statement, notice by the shareholder to be timely must be so received at a reasonable time before the solicitation is made. A shareholder's notice to the secretary shall set forth: (i) as to each person whom the shareholder proposes to nominate for election or reelection as a director, the information required to be provided pursuant to 2.15, (ii) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (iii) the name and address, as they appear on the corporation's books, of the shareholder proposing such business, (iv) the class and number of shares of the corporation which are beneficially owned by the shareholder, and (v) any material interest of the shareholder in such business. Notwithstanding the foregoing, in order to include information with respect to a shareholder proposal in the proxy statement and form of proxy for a shareholder's meeting, shareholders must provide notice as required by the regulations promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act"). Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this 2.7(c). The chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting and in accordance with the provisions of this 2.7(c), and, if he should so determine, he shall so declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

## **2.8 Recognition Procedure for Beneficial Owners.**

The board of directors may adopt by resolution a procedure whereby a shareholder of the corporation may certify in writing to the corporation that all or a portion of the shares registered in the name of such shareholder are held for the account of a specified person or persons. The resolution may set forth (i) the types of nominees to which it applies, (ii) the rights or privileges that the corporation will recognize in a beneficial owner, which may include rights and privileges other than voting, (iii) the form of certification and the information to be contained therein, (iv) if the certification is with respect to a record date, the time within which the certification must be received by the corporation, (v) the period for which the nominee's use of the procedure is effective, and (vi) such other provisions with respect to the procedure as the board deems necessary or desirable. Upon receipt by the corporation of a certificate complying with the procedure established by the board of directors, the persons specified in the certification shall be deemed, for the purpose or purposes set forth in the certification, to be the registered holders of the number of shares specified in place of the shareholder making the certification.

## **2.9 Shareholder List.**

The secretary shall make a complete record of the shareholders entitled to vote at each meeting of shareholders arranged in alphabetical order, with the address of and the number of shares held by each. The list must be arranged by voting group (if such exists), and within each voting group by class or series of shares. The shareholder list must be available for inspection by any shareholder beginning at the earlier of 10 days before the meeting or 2 business days after notice of the meeting is given for which the list was prepared and continuing through the meeting. The list shall be available at the corporation's principal office or at a place identified in the meeting notice in the city where the meeting is to be held. A shareholder, his agent or attorney, is entitled on written demand to inspect and, subject to the requirements of 2.17, to copy the list during regular business hours, and at his expense, during the period it is available for inspection. The corporation shall maintain the shareholder

list in written form or in another form capable of conversion into written form within a reasonable time.

## **2.10 Shareholder Quorum and Voting Requirements.**

Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. A majority of the votes entitled to be cast on the matter by the voting group constitutes a quorum of that voting group for action on that matter.

If voting by two or more voting groups on a matter is permitted or required, action on that matter is taken only when voted upon by each of those voting groups counted separately. Action may be taken by one voting group on a matter even though no action is taken by another voting group entitled to vote on the matter.

Once a share is represented for any purpose at a meeting it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting.

If a quorum exists, action on a matter by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless a greater number of affirmative votes is required.

## **2.11 Proxies.**

At all meetings of shareholders a shareholder may vote by proxy by signing an appointment form or similar writing, either personally or by his duly authorized attorney-in-fact. A shareholder may also appoint a proxy by transmitting or authorizing the transmission of a telegram, teletype or other electronic transmission providing a written statement of the appointment to the proxy, a proxy solicitor, proxy support service organization, or other person duly authorized by the proxy to receive appointments as agent for the proxy, or to the corporation. The transmitted appointment shall set forth or be transmitted with written evidence from which it can be determined that the shareholder transmitted or authorized the transmission of the appointment. The proxy appointment form or similar writing shall be filed with the secretary of the corporation before or at the time of the meeting. The appointment of a proxy is effective when received by the corporation and is valid for eleven months unless a different period is expressly provided in the appointment form or similar writing.

Any complete copy, including an electronically transmitted facsimile, of an appointment of a proxy may be substituted for or used in lieu of the original appointment for any purpose for which the original appointment could be used.

Revocation of a proxy does not affect the right of the corporation to accept the proxy's authority unless (i) the corporation had notice that the appointment was coupled with an interest and notice that such interest has been extinguished is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment, or (ii) other notice of the revocation of the appointment is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment. Other notice of revocation may, in the discretion of the corporation, be deemed to include the appearance at a shareholders' meeting of the shareholder who granted the proxy and his voting in person on any matter subject to a vote at such meeting.

The death or incapacity of the shareholder appointing a proxy does not affect the right of the corporation to accept the proxy's authority unless notice of the death or incapacity is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment.

The corporation shall not be required to recognize an appointment made irrevocable if it has received a writing revoking the appointment signed by the shareholder (including a shareholder who is successor to the shareholder who granted the proxy) either personally or by his attorney-in-fact, notwithstanding that the revocation may be a breach of an obligation of the shareholder to another person not to revoke the appointment.

Subject to 2.13 and any express limitation on the proxy's authority appearing on the appointment form, the corporation is entitled to accept the proxy's vote or other action as that of the shareholder making the appointment.

## **2.12 Voting of Shares.**

Each outstanding share entitled to vote shall be entitled to one vote and each fractional share shall be entitled to a corresponding fractional vote upon each matter submitted to a vote at a meeting of shareholders.

Except as provided by specific court order, no shares held by another corporation, if a majority of the shares entitled to vote for the election of directors of such other corporation are held by the corporation, shall be voted at any meeting or counted in determining the total number of outstanding shares at any given time for purposes of any meeting; *provided, however*, the prior sentence shall not limit the power of the corporation to vote any shares, including its own shares, held by it in a fiduciary capacity.

## **2.13 Corporation's Acceptance of Votes.**

(a) *Corresponds to Name of Shareholder.* If the name signed on a vote, consent, waiver, proxy appointment or proxy appointment revocation corresponds to the name of a shareholder, the corporation, if acting in good faith, is entitled to accept the vote, consent, waiver, proxy appointment or proxy appointment revocation and give it effect as the act of the shareholder.

(b) *Does not Correspond.* If the name signed on a vote, consent, waiver, proxy appointment or proxy appointment revocation does not correspond to the name of a shareholder, the corporation, if acting in good faith, is nevertheless entitled to accept the vote, consent, waiver, proxy appointment or proxy appointment revocation and give it effect as the act of the shareholder if:

- (1) the shareholder is an entity as defined in the Act and the name signed purports to be that of an officer or agent of the entity;
- (2) the name signed purports to be that of an administrator, executor, guardian, or conservator representing the shareholder and, if the corporation requests, evidence of fiduciary status acceptable to the corporation has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;
- (3) the name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the corporation requests, evidence of this status acceptable to the corporation has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;
- (4) the name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the shareholder and, if the corporation requests, evidence acceptable to the corporation of the signatory's authority to sign for the shareholder has been presented with respect to the vote, consent, waiver, proxy appointment or proxy appointment revocation;
- (5) two or more persons are the shareholder as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-owners and the person signing appears to be acting on behalf of all the co-owners; or

(6) the acceptance of the vote, consent, waiver, proxy appointment or proxy appointment revocation is otherwise proper under rules established by the corporation that are not inconsistent with this 2.13(b).

(c) *Rejection Upon Reasonable Doubt.* The corporation is entitled to reject a vote, consent, waiver, proxy appointment or proxy appointment revocation if the secretary or other officer or agent authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

(d) *Not Liable In Damages.* The corporation and its officer or agent who accept or reject a vote, consent, waiver, proxy appointment or proxy appointment revocation in good faith and in accordance with the standards of this section are not liable in damages to the shareholder for the consequences of the acceptance or rejection.

(e) *Corporate Action Valid.* Corporate action based on the acceptance or rejection of a vote, consent, waiver, proxy appointment or proxy appointment revocation under this section is valid unless a court of competent jurisdiction determines otherwise.

#### **2.14 Informal Action by Shareholders.**

Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if all of the shareholders entitled to vote consent to such action in writing. Action taken under this section has the same effect as action taken at a meeting and may be described as such in any document.

#### **2.15 Notification of Nominations of Directors.**

Only persons who are nominated in accordance with the procedures set forth in this 2.15 shall be eligible for election as directors. Nominations of persons for election to the board of directors of the corporation may be made at a meeting of shareholders by or at the direction of the board of directors, or by any shareholder of the corporation entitled to vote in the election of directors at the meeting who complies with the notice procedures set forth in this 2.15. Such nominations, other than those made by or at the direction of the board of directors, shall be made pursuant to a timely notice in writing to the secretary of the corporation in accordance with the provisions of paragraph (c) of 2.7. Such shareholder's notice shall set forth (i) as to each person, if any, whom the shareholder proposes to nominate for election or reelection as a director: (A) the name, age, business address and residence address of such person, (B) the principal occupation or employment of such person, (C) the class and number of shares of the corporation which are beneficially owned by such person, (D) a description of all arrangements or understandings between the shareholder and each nominee or any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the shareholders, and (E) any other information relating to such person that is required to be disclosed in solicitation of proxies for elections of directors, or as otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including without limitation such person's written consent to be named in the Proxy Statement, if any, as a nominee and to serving as a director if elected); and (ii) as to such shareholder giving notice, the information required to be provided pursuant to paragraph (c) of 2.7. At the request of the board of directors, any person nominated by a shareholder for election as a director shall furnish to the secretary of the corporation that information required to be set forth in the shareholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this 2.15. The chairman of the meeting shall, if the facts warrant, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by these bylaws, and if he should so determine, he shall so declare at the meeting, and the defective nomination shall be disregarded.

## 2.16 Voting for Directors.

At each election for directors, every shareholder entitled to vote at such election has the right to vote in person or by proxy. Each shareholder may vote one vote per share for as many persons as there are directors to be elected and for whose election the shareholder has the right to vote. That number of candidates equaling the number of directors to be elected having the highest number of votes cast in favor of their election shall be elected to the board of directors; provided, however, to be elected directors must receive the affirmative vote of the holders of at least two-thirds of the shares of the corporation entitled to vote thereon.

## 2.17 Shareholder's Rights to Inspect Corporate Records.

(a) *Absolute Inspection Rights.* If he gives the corporation written notice of his demand at least five business days before the date on which he wishes to inspect and copy, a shareholder (or his agent or attorney) has the right to inspect and copy, during regular business hours, any of the following records, all of which the corporation shall keep at its principal office:

- (1) its articles of incorporation;
- (2) its bylaws;
- (3) the minutes of all shareholders' meetings and records of all action taken by shareholders without a meeting for the past three years;
- (4) all written communications within the past three years to shareholders as a group or to the holders of any class or series of shares as a group;
- (5) a list of the names and business addresses of its current directors and officers;
- (6) its most recent corporate report delivered to the Secretary of State; and
- (7) its most recent annual financial statements and its most recently published financial statement showing in reasonable detail its assets and liabilities and results of its operations.

(b) *Conditional Inspection Right.* In addition to the rights set forth in 2.17(a) a shareholder who has been a shareholder for at least 3 months immediately preceding the demand to inspect or copy, or is a shareholder of at least 5% of all of the outstanding shares of any class of shares of the corporation as of the date the demand is made, is entitled to inspect and copy, during regular business hours at a reasonable location specified by the corporation, any of the following records of the corporation if (i) the shareholder gives the corporation written demand at least 5 business days before the date on which the shareholder wishes to inspect and copy such records, (ii) such demand is made in good faith and for a proper purpose, (iii) the shareholder describes with reasonable particularity the purpose and the records the shareholder desires to inspect and, (iv) the records are directly connected with the described purpose:

- (1) excerpts from minutes of any meeting of the board of directors or from records of any action taken by the board of directors without a meeting, minutes of any meeting of the shareholders or records of any action taken by the shareholders without a meeting, excerpts of records of any action of a committee of the board of directors while acting in place of the board of directors on behalf of the corporation, and waivers of notice of any meeting of the shareholders or the board of directors or any committee of the board of directors;
- (2) accounting records of the corporation; and
- (3) a record of the names and addresses of shareholders of the corporation.

(c) *Copy Costs.* The right to copy records includes, if reasonable, the right to receive copies made by photographic, xerographic, or other means. The corporation may impose a reasonable charge,

covering the costs of labor and material, for copies of any documents provided to the shareholder. The charge may not exceed the estimated cost of production or reproduction of the records.

(d) *Beneficial Owner.* For purposes of this 2.17 the term "shareholder" shall include a beneficial owner whose shares are held in a voting trust and any other beneficial owner who establishes beneficial ownership.

### ARTICLE III. BOARD OF DIRECTORS

#### 3.1 General Powers.

All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the board of directors.

#### 3.2 Number, Tenure, and Qualifications of Directors.

(a) *Number.* The board of directors shall consist of no fewer than three and no more than nine members, as may be determined from time to time by resolution of the Board of Directors within the limits specified above.

(b) *Tenure.* Each director shall hold office until the next annual meeting of shareholders or until removed; *provided, however,* if a director's term expires the director shall continue to serve until a successor shall have been elected and qualified, or until there is a decrease in the number of directors. No person shall be nominated to a term of office on the Company's Board of Directors who has attained the age of 75 or more before the first day of the proposed term of office; however, the Board of Directors shall have discretion to make exceptions to the mandatory retirement policy if special circumstances warrant such an exception.

(c) *Qualifications.* Directors do not need to be residents of Colorado or shareholders of the corporation.

#### 3.3 Regular Meetings of the Board of Directors.

A regular meeting of the board of directors shall be held without other notice than this bylaw immediately after, and at the same place as, the annual meeting of shareholders. The board of directors may provide, by resolution, the time and place for the holding of additional regular meetings without other notice than such resolution.

#### 3.4 Special Meetings of the Board of Directors.

Special meetings of the board of directors may be called by or at the request of the chairman or any two directors. The chairman of the board of directors may fix any place as the place for holding any special meeting of the board of directors, or such meeting may be held by telephone.

#### 3.5 Notice of, and Waiver of Notice for, Special Director Meetings.

Notice of the date, time and place of any special meeting of directors shall be given at least three days previously thereto either orally or in writing. Oral notice is effective when communicated. If mailed, notice of any director meeting shall be deemed to be effective at the earlier of: (i) when received; (ii) five days after deposited in the United States mail, addressed to the director's business office, with postage thereon prepaid; or (iii) the date shown on the return receipt if sent by registered or certified mail, return receipt requested, and the receipt is signed by or on behalf of the director. Any director may waive notice of any meeting. Except as provided in the next sentence, the waiver must be in writing, signed by the director entitled to the notice, and delivered to the corporation for filing with the corporate records. The attendance of a director at a meeting shall constitute a waiver of

notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business and at the beginning of the meeting (or promptly upon his arrival) objects to holding the meeting or transacting business at the meeting because of lack of notice or defective notice, and does not thereafter vote for or assent to action taken at the meeting. Unless required by the articles of incorporation, neither the business to be transacted at, nor the purpose of, any special meeting of the directors need be specified in the notice or waiver of notice of such meeting.

### **3.6 Quorum.**

A majority of the current number of directors fixed pursuant to 3.2 shall constitute a quorum for the transaction of business at any meeting of the board of directors.

### **3.7 Manner of Acting.**

The act of the majority of the directors present at a meeting at which a quorum is present when the vote is taken shall be the act of the board of directors unless the articles require a greater number or percentage.

Any or all directors may participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating may simultaneously hear each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting.

A director who is present at a meeting of the board of directors or a committee of the board of directors when corporate action is taken is deemed to have assented to the action taken unless: (i) he objects at the beginning of the meeting (or promptly upon his arrival) to holding it or transacting business at the meeting and does not thereafter vote for or assent to any action taken at the meeting; or (ii) he contemporaneously requests that his dissent or abstention from specific action taken be entered in the minutes of the meeting; or (iii) he delivers written notice of his dissent or abstention to specific action to the presiding officer of the meeting, before its adjournment, or to the corporation promptly after adjournment of the meeting. The right of dissent or abstention is not available to a director who votes in favor of the action taken.

### **3.8 Director Action Without a Meeting.**

Any action required or permitted to be taken by the board of directors at a meeting may be taken without a meeting if all the directors take the action, and each one signs a written consent describing the action taken. Action taken by consents is effective when the last director signs the consent unless before such time a director has revoked his consent by a writing received by the secretary and unless the consent specifies a different effective date. A signed consent has the effect of a meeting vote and may be described as such in any document.

### **3.9 Removal of Directors.**

The shareholders may remove one or more directors at a meeting if notice has been given that a purpose of the meeting is such removal. The removal may be with or without cause. A director may be removed only by a vote of at least two-thirds of the shares then entitled to vote at an election of directors.

### **3.10 Board of Director Vacancies.**

If a vacancy occurs on the board of directors, including a vacancy resulting from an increase in the number of directors, the shareholders may fill the vacancy, the board of directors may fill the vacancy, or if the directors remaining in office constitute fewer than a quorum of the board, they may fill the



vacancy by the affirmative vote of a majority of all the directors remaining in office. When a vacancy has been filled as permitted by this 3.10 by action of the board of directors or by the directors remaining in office even though fewer than a quorum before action by the shareholders, the shareholders may thereafter act to fill such vacancy only by first removing the director in question.

A vacancy that will occur at a specific later date (by reason of a resignation effective at a later date) may be filled before the vacancy occurs but the new director may not take office until the vacancy occurs.

The term of a director elected by directors to fill a vacancy expires at the next shareholders' meeting at which directors are elected. If elected by the shareholders the director shall hold office for the unexpired term of his predecessor in office. However, if his term expires the director shall continue to serve until his successor is elected and qualifies or until there is a decrease in the number of directors.

### **3.11 Director Compensation.**

By resolution of the board of directors each independent director may be paid compensation and be reimbursed for expenses for attendance at board and corporate meetings and may receive additional compensation for other services to the corporation.

### **3.12 [Omitted.]**

### **3.13 Director Committees.**

(a) *Creation of Committees.* The board of directors may create one or more committees and appoint members of the board of directors to serve on them. Each committee must have two or more members, who serve at the pleasure of the board of directors.

(b) *Required Procedures.* Sections 3.4, 3.5, 3.6, 3.7 and 3.8, which govern meetings, notice and waiver of notice, quorum, manner of acting, and action without meetings of the board of directors, apply to committees and their members.

(c) *Authority.* Each committee shall make recommendations to the board of directors on such subjects as are stated in the resolution creating the committee and no committee shall have authority to act for the board of directors.

## **ARTICLE IV. OFFICERS**

### **4.1 Number of Officers.**

The officers of the corporation shall include, if and when appointed by the board of directors, a chairman of the board of directors (sometimes referred to herein as "chairman") a chief executive officer, a president, a chief operating officer, an executive vice president, one or more vice presidents, a secretary, a chief financial officer, a treasurer and a controller. Such other officers and assistant officers as may be deemed necessary may be appointed by the board of directors. The board of directors may assign such additional titles to one or more of the officers as it deems appropriate. If specifically authorized by the board of directors, an officer may appoint one or more officers or assistant officers. The same individual may simultaneously hold more than one office in the corporation, except that an individual may not hold the office of secretary and either the office of chief executive officer or president.

### **4.2 Appointment and Term of Office.**

The officers of the corporation shall be appointed by the board of directors to serve at the pleasure of the board of directors. The designation of a specified term grants to the officer no contract

rights, and the board can remove the officer at any time prior to the termination of such term. If no term is specified, they shall hold office until they resign, die, or are removed.

#### **4.3 Removal of Officers.**

Any officer or agent may be removed by the board of directors at any time, without notice, with or without cause. Such removal shall be without prejudice to the contract rights, if any, of the person so removed. Appointment of an officer or agent shall not of itself create contract rights.

#### **4.4 Chairman.**

The chairman of the board of directors shall preside at all meetings of the shareholders and of the board of directors at which he is present. The chairman shall have such further powers and perform such duties as are incident to his office or as may be granted to or required of him by the board of directors or by these bylaws including the following:

- (1) Provide leadership to the board
- (2) Assist the board in the discharge of its duties
- (3) Together with the CEO and with input from the other directors, determine the agenda and structure for board and shareholders' meetings
- (4) Act as liaison between the board and management
- (5) Undertake to see that the corporation develops and implements effective corporate governance principles and procedures
- (6) Oversee the development and implementation of an effective corporate strategy
- (7) Recommend the proper committee structure including assignments of members and committee chairmen

#### **4.5 Chief Executive Officer.**

The chief executive officer is the most senior officer of the corporation, and shall have all power and authority implied by that position. He shall have, subject only to direction of the board of directors, supervision and final authority over all other officers except the chairman, and all of the business, property, affairs and policies of the corporation. In the absence of authority granting the power to another officer, the chief executive officer may vote any shares of another corporation which are owned by this corporation. The chief executive officer shall preside at all meetings of the shareholders and of the board of directors when the chairman is not present. Subject to the oversight and supervision of the board of directors, the chief executive officer shall supervise and control the management of the corporation in accordance with these bylaws. Unless another officer is specifically authorized to do so, he may sign and execute all authorized bonds, certificates for shares, contracts, checks or other obligations in the name of the corporation. All other officers of the corporation, except the chairman, shall report to the chief executive officer from time to time, and shall be subject to supervision by the chief executive officer. The chief executive officer shall have general charge of the operation of the business of the corporation including finance and stockholder relations. In general, the chief executive officer shall perform all duties incident to the office and such other duties as may be prescribed by the board of directors from time to time.

#### **4.6 President.**

Subject to the oversight and supervision of the chief executive officer and the board of directors, and to other provisions of these bylaws, the president shall have general charge of the operation of the

business of the corporation. Unless another officer is specifically authorized to do so, the president may sign and execute all authorized bonds, certificates for shares, contracts, checks or other obligations in the name of the corporation. He shall do and perform such other duties as from time to time may be assigned to him by the chief executive officer. The president reports to the chief executive officer. He shall keep the chief executive officer and the board of directors fully informed and shall freely consult with them concerning the business of the corporation in his charge.

#### **4.7 Chief Operating Officer**

The chief operating officer shall report to the president of the corporation and shall be responsible for the day-to-day operations of the corporation. He shall do and perform such other duties as from time to time may be assigned to him by the president or the chief executive officer.

#### **4.8 Executive Vice President.**

In the absence of the president, or in the event of his death, inability or refusal to act, the executive vice president shall perform the duties of the president, and when so acting, shall have all the powers of and be subject to all the restrictions upon the president.

#### **4.9 Vice Presidents.**

If there be more than one vice president, the chief executive officer or the board of directors may designate their seniority (such as first vice president, senior vice president, etc.) and/or the particular department of the corporation of which they shall have charge. The vice presidents in order of their seniority by designation, or if not so designated, in the order of their seniority by appointment, shall perform the duties of the executive vice president in his absence or during his inability to act. If there is no executive vice president, then the vice presidents, in order of their seniority by designation, or if not so designated, then the order of their seniority by appointment, shall perform the duties of the president in his absence or during his inability to act. The vice presidents shall have such other duties and powers as may be assigned to or vested in them by the chief executive officer, the president or the board of directors or by the job description relating to any duties associated with management of a particular department.

#### **4.10 Secretary.**

The secretary shall: (i) keep the minutes of the proceedings of the shareholders and of the board of directors in one or more books provided for that purpose; (ii) see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; (iii) be custodian of the corporate records and of any seal of the corporation and if there is a seal of the corporation, see that it is affixed to all documents the execution of which on behalf of the corporation under its seal is duly authorized; (iv) when requested or required, authenticate any records of the corporation; (v) keep a register of the post office address of each shareholder which shall be furnished to the secretary by such shareholder; (vi) sign with the chief executive officer or the president certificates for shares of the corporation the issuance of which shall have been authorized by resolution of the board of directors; (vii) have general charge of the stock transfer books of the corporation; and (viii) in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to the secretary by the chief executive officer or by the board of directors.

#### **4.11 Chief Financial Officer.**

The chief financial officer shall keep or cause to be kept the books of account of the corporation in a thorough and proper manner and shall render statements of the financial affairs of the corporation in such form and as often as required by the board of directors or the chief executive officer. The chief

financial officer shall perform other duties commonly incident to the office and shall also perform such other duties and such other powers as the board of directors or the chief executive officer shall designate from time to time. The individual holding the office of chief executive officer may perform the duties of chief financial officer and may direct the treasurer or any assistant treasurer, or the controller or any assistant controller to assume and perform the duties of the chief financial officer.

#### **4.12 Treasurer.**

The treasurer shall: (i) have charge and custody of and be responsible for all funds and securities of the corporation; (ii) receive and give receipts for moneys due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in such banks, trust companies, or other depositories as shall be selected by the board of directors; and (iii) in general perform all of the duties incident to the office of treasurer and such other duties as from time to time may be assigned by the chief executive officer or by the board of directors. If required by the board of directors, and at company expense, the treasurer shall give a bond for the faithful discharge of duties in such sum and with such surety or sureties as the board of directors shall determine.

#### **4.13 Assistant Secretaries and Assistant Treasurers.**

The assistant secretaries, when authorized by the board of directors, may sign with the president or a vice president certificates for shares of the corporation the issuance of which shall have been authorized by resolution of the board of directors. The assistant treasurers shall, if required by the board of directors, and at company expense, give bonds for the faithful discharge of their duties in such sums and with such sureties as the board of directors shall determine. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or the treasurer, respectively, or by the chief executive officer or the board of directors.

#### **4.14 Controller.**

The controller shall keep financial records for the corporation and report the financial condition of the corporation as requested from time to time.

#### **4.15 Salaries.**

The compensation of the officers shall be fixed by or in the manner determined by the board of directors.

### ARTICLE V. INDEMNIFICATION OF DIRECTORS, OFFICERS, AGENTS, AND EMPLOYEES

#### **5.1 Indemnification of Directors.**

The corporation shall indemnify any individual made a party to a proceeding because he is or was a director of the corporation against liability incurred in the proceeding, but only if the corporation has authorized the payment in accordance with C.R.S. 7-109.106(1) and a determination has been made in accordance with the procedures set forth in C.R.S. 7-109-106(2) that the director met the standards of conduct in paragraph (a), (b), and (c) below.

(a) *Standard of Conduct* The individual shall demonstrate that:

(1) he conducted himself in good faith; and

(2) he reasonably believed:

(i) in the case of conduct in his official capacity with the corporation that his conduct was in its best interests; and

(ii) in all other cases, that his conduct was at least not opposed to its best interests; and

(3) in the case of any criminal proceeding he had no reasonable cause to believe his conduct was unlawful.

(b) *No Indemnification Permitted in Certain Circumstances.* The corporation shall not indemnify a director under this 5.1:

(1) in connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation; or

(2) in connection with any other proceeding charging improper personal benefit to him, whether or not involving action in his official capacity, in which he was adjudged liable on the basis that personal benefit was improperly received by him.

(c) *Indemnification in Derivative Actions Limited.* Indemnification permitted under this 5.1 in connection with a proceeding by or in the right of the corporation is limited to reasonable expenses incurred in connection with the proceeding.

## **5.2 Advance Expenses for Directors.**

If a determination is made, following the procedures of C.R.S. 7-109-106(2), that the director has met the following requirements; and if an authorization of payment is made, following the procedures and standards set forth in C.R.S. 7-109-106(1), the corporation shall pay for or reimburse the reasonable expenses incurred by a director who is a party to a proceeding in advance of final disposition of the proceeding if:

(1) the director furnishes the corporation a written affirmation of his good faith belief that he has met the standard of conduct described in 5.1(a);

(2) the director furnishes the corporation a written undertaking, executed personally or on his behalf, to repay the advance if it is ultimately determined that he did not meet the standard of conduct (which undertaking must be an unlimited general obligation of the director but need not be secured and may be accepted without reference to financial ability to make repayment); and

(3) a determination is made that the facts then known to those making the determination would not preclude indemnification under 5.1.

## **5.3 Indemnification of Officers, Agents, and Employees Who Are Not Directors.**

The corporation shall indemnify and advance expenses to any officer of the corporation or of any of its subsidiaries or any general manager of any division of the corporation which indemnitee is not a director of the corporation to the maximum extent not inconsistent with public policy. The corporation may indemnify and advance expenses to any employee, fiduciary, or agent of the corporation who is not a director of the corporation if not inconsistent with public policy, as determined by the general or specific action of the board of directors.

# ARTICLE VI. CERTIFICATES FOR SHARES AND THEIR TRANSFER

## **6.1 Certificates for Shares.**

(a) *Content.* Shares of the corporation may be certificated or uncertificated, as provided under Colorado law, and this Article VI shall not be interpreted to limit the authority of the Board of Directors to issue some or all of the shares of any or all of the corporation's classes or series without certificates. If any or all of the corporation's classes or series of shares are issued without certificates, the corporation shall, within a reasonable time after the issuance or transfer of uncertificated shares, provide each stockholder a written statement that includes the information that is required to be

included on the front or back of a stock certificate. Certificates representing shares of the corporation shall at a minimum state on their face the name of the corporation and that it is formed under the laws of Colorado, the name of the person to whom issued, and the number and class of shares and the designation of the series, if any, the certificate represents, and be in such form as determined by the board of directors. Such certificates shall be signed (either manually or by facsimile) by the president or a vice-president and by the secretary or an assistant secretary and may be sealed with a corporate seal or a facsimile thereof. Each certificate for shares shall be consecutively numbered or otherwise identified.

(b) *Legend as to Class or Series.* The designations, relative rights, preferences and limitations applicable to each class and the variations in rights, preferences and limitations determined for each series (and the authority of the board of directors to determine variations for future series) must be summarized on the front or back of each certificate. Alternatively, each certificate may state conspicuously on its front or back that the corporation will furnish the shareholder this information on request in writing and without charge. If uncertificated, the corporation shall send the holder a written statement as required by Colorado law.

(c) *Transferring Shares.* All certificates surrendered to the corporation for transfer shall be cancelled and no new certificate or evidence of uncertificated shares shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor as provided in 6.1(d). Upon the receipt of proper transfer instructions from the registered owner of uncertificated shares, such uncertificated shares shall be cancelled and the transaction shall be recorded upon the books of the corporation.

(d) *Lost Certificates.* A new certificate or certificates shall be issued or uncertificated shares shall be authorized in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. The corporation may require, as a condition precedent to the issuance of a new certificate or certificates or the authorization of uncertificated shares, the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to give the corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

## **6.2 Registration of the Transfer of Shares.**

Registration of the transfer of shares of the corporation shall be made only on the stock transfer books of the corporation. In order to register a transfer the corporation or its transfer agent must be in receipt of appropriate documents evidencing such transfer and, in the case of stock represented by a certificate, the record owner shall surrender the certificate for cancellation properly endorsed by the appropriate person or persons with reasonable assurances that the endorsements are genuine and effective. Unless the corporation has established a procedure by which a beneficial owner of shares held by a nominee is to be recognized by the corporation as the owner, the person in whose name shares stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes.

## **6.3 Restrictions on Transfer of Shares Permitted.**

The board of directors (or shareholders) may impose restrictions on the transfer or registration of transfer of shares (including any security convertible into or carrying a right to subscribe for or acquire shares). A restriction does not affect shares issued before the restriction was adopted unless the holders of the shares are parties to the restriction agreement or voted in favor of the restriction.

A restriction on the transfer or registration of transfer of shares is valid and enforceable against the holder or a transferee of the holder if the restriction is authorized by this section and its existence is noted conspicuously on the front or back of the certificate, or if uncertificated shares, the corporation has sent the holder a written statement of information regarding the restrictions on transfer required on certificates by Colorado law. Unless so noted or the holder is so notified, a restriction is not enforceable against a person without knowledge of the restriction.

#### ARTICLE VII. DISTRIBUTIONS

##### **7.1 Distributions.**

The board of directors may authorize, and the corporation may make, distributions (including dividends on its outstanding shares) in the manner and upon the terms and conditions provided by law and in the corporation's articles of incorporation.

##### **7.2 Dividend Reserves.**

Before payment of any dividend there may be set aside out of any funds of the corporation available for dividends such sum or sums as the board of directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the board of directors shall think best in the interests of the corporation, and the board of directors may modify or abolish any such reserve in the manner in which it was created.

#### ARTICLE VIII. CORPORATE SEAL

##### **8.1 Corporate Seal.**

The board of directors may provide a corporate seal which may be circular in form and have inscribed thereon any designation including the name of the corporation, Colorado as the state of incorporation, and the words "Corporate Seal."

#### ARTICLE IX. AMENDMENTS

##### **9.1 Amendments.**

The corporation's board of directors may amend or repeal the corporation's bylaws unless (i) such power is reserved exclusively to the shareholders, or (ii) the bylaws prohibit the board of directors from doing so. The corporation's shareholders may amend the bylaws even though the bylaws may also be amended by its board of directors.

## QuickLinks

[Exhibit 3.2 Amended and Restated as of October 30, 2007](#)



**LIST OF SUBSIDIARIES**

Computer Optical Products, Inc., COPI, a Colorado Corporation

Emoteq Corporation, a Colorado Corporation

Motor Products Corporation, a Delaware Corporation

Stature Electric, Inc., a Pennsylvania Corporation

Precision Motor Technology B.V., Premotec, incorporated in The Netherlands

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QuickLinks

[Exhibit 21](#)

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and  
Stockholders of Allied Motion  
Technologies Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 33-44997, 333-21337, 333-55344, 333-122281 and 333-149279) on Form S-8 and in the registration statement (No.333-119090) on Form S-3 of Allied Motion Technologies Inc. of our report dated March 14, 2008, with respect to the consolidated balance sheets of Allied Motion Technologies Inc. and subsidiaries as of December 31, 2007 and the related consolidated statements of operations, stockholders' investment and comprehensive income and cash flows for the year then ended and the related financial statement schedule, which report appears in the December 31, 2007 annual report on Form 10-K of Allied Motion Technologies Inc.

Ehrhardt Keefe Steiner & Hottman PC

March 14, 2008  
Denver, Colorado

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QuickLinks

[Exhibit 23](#)

[CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM](#)

**CERTIFICATION**

I, Richard D. Smith, certify that:

1. I have reviewed this annual report on Form 10-K 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)) 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 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 control over financial reporting.

Date: March 14, 2008

/s/ Richard D. Smith

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

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QuickLinks

[Exhibit 31](#)

[CERTIFICATION](#)

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 Annual Report on Form 10-K of the Company for the year ended December 31, 2007 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 14, 2008

/s/ Richard D. Smith

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

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QuickLinks

[Exhibit 32](#)