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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, 2003

OR

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

For the transition period from _____ to _____

Commission file number 0-4041

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: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, no par value**

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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of December 31, 2003, 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 approximated \$5,799,000.

Number of shares of the only class of Common Stock outstanding: 5,018,455 as of March 19, 2004

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PART I

Item 1. Business.

Allied Motion Technologies, Inc. (the Company) was organized under the laws of Colorado in 1962. The Company is engaged in the business of designing, manufacturing and selling motor and servo motion products primarily to the Commercial Motor, Industrial Motion Control and Aerospace and Defense markets. Prior to July 29, 2002, the Company was also engaged in designing, manufacturing and selling advanced systems and instrumentation to the worldwide power and process industries. As discussed more fully in Note 2 of the Notes to Consolidated Financial Statements, on July 29, 2002, the Company sold substantially all of its Power and Process Business, and in March 2003 finalized the sale of the Calibrator Business, completing the sale of all its Power and Process Business, therefore transforming the Company and focusing all of its resources in the motor and motion products markets (Motion Strategy). The Company operates primarily in the United States and the United Kingdom. Prior to the sale of its Power and Process Business, the Company also had joint venture investments in China. Prior to October 2002, the Company was known as Hathaway Corporation. In connection with the sale of its Power and Process Business, the Hathaway name became the property of the buyers. At the October 2002 Annual Meeting of Stockholders, a proposal was approved to amend the Articles of Incorporation to change the Company's name to Allied Motion Technologies, Inc.

Allied Motion utilizes its underlying core "Electromagnetic Motion Know How" to provide compact, high performance products as solutions to a variety of motion applications. The served markets include on and off road vehicles, semi-conductor equipment, packaging, medical, actuation, military, commercial aviation and industrial automation, and fiber-optic based telecommunications. End products using Allied Motion technology include HVAC systems for trucks, buses and off-road vehicles, medical equipment, processing equipment for the semiconductor industry, missile and munitions control systems for the military, anti-lock brake and fuel cell applications for the specialty automotive market, satellite tracking systems, MRI scanners, high definition printers and tunable lasers, wavelength meters and spectrum analyzers for the fiber optic industry as well as various applications in the medical market.

Allied Motion is organized into three subsidiaries: Emoteq Corporation (Emoteq—Tulsa, OK), Computer Optical Products, Inc. (COPI—Chatsworth, CA), and Motor Products Corporation (Motor Products—Owosso, MI).

Emoteq designs, manufactures and markets direct current brushless motors, related components, and drive and control electronics as well as a family of static frequency converters for military and aerospace applications and has extensive experience in power electronics design and software development required for the application of specialized drive electronics technology. Markets served include semiconductor manufacturing, industrial automation, medical equipment, and military and aerospace. Emoteq also manufactures precision direct current fractional horsepower motors and certain motor components and spare parts and replacement equipment for general-purpose instrumentation products. Industrial equipment and military products are the major application for the motors.

Optical encoders are manufactured by COPI. 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

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

On February 10, 2004, the Company signed a merger agreement to acquire Owosso Corporation located in Watertown, New York. The closing of the merger is scheduled for the second quarter of 2004 and is subject to approval by Owosso's shareholders, the filing of an effective registration statement for the Company's securities and customary closing conditions. Owosso's sole operating subsidiary, Stature Electric, Inc., manufactures fractional and integral horsepower motors, gear motors, and motor part sets. Significant markets for Stature include commercial products and equipment, healthcare, recreation and non-automotive transportation. Stature's component products are sold throughout North America and in Europe, primarily to original equipment manufacturers that use them in their end products.

Fiscal Year End Change

The Company changed its fiscal year end from June 30 to December 31 effective December 31, 2002; and, therefore, the Company reported a six-month transition period ending December 31, 2002. The following table describes the periods presented in this Form 10-K.

Period:	Referred to as:
Audited results from January 1, 2003 through December 31, 2003	Year 2003
Unaudited results from January 1, 2002 through December 31, 2002	Twelve Month Comparative Period
Audited results from July 1, 2002 through December 31, 2002	Transition Period
Unaudited results from July 1, 2001 through December 31, 2001	Six Month Comparative Period
Audited results from July 1, 2001 through June 30, 2002	Fiscal Year 2002
Audited results from July 1, 2000 through June 30, 2001	Fiscal Year 2001

Product Distribution

The Company maintains a direct sales force. In addition to its own marketing and sales force, the Company has independent sales representatives and agents 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.

Financial Information about Operating Segments

The information required by this item is set forth in Note 11 of the Notes to Consolidated Financial Statements contained herein.

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.

Patents, Trademarks, Licenses, Franchises and Concessions

The Company holds several patents and trademarks regarding components used by the various subsidiaries; however, none of these patents and trademarks are considered to be of major significance.

Seasonality of the Business

The Company's business is not of a seasonal nature; however, revenues may be influenced by customers' fiscal year ends and holiday seasons.

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 Year 2003, the Transition Period, and Fiscal Year 2002, no single customer accounted for more than 10% of total revenues. During Fiscal Year 2001 one customer accounted for 20% of the Company's consolidated revenue from continuing operations. The customer is a leading manufacturer of test instrumentation for the fiberoptic telecommunications industry. During Fiscal Year 2002, the customer cancelled a \$4.75 million order. The Company's products

are still designed into the customer's products, however deliveries of our products have been halted by the customer because of the economic downturn. The Company is also delivering products to this customer under other orders at this time.

Sales Backlog

The Company's backlog at December 31, 2003 consisted of sales orders totaling approximately \$13,383,000 while backlog at December 31, 2002 was \$13,663,000. In our commercial motors markets, the Company is experiencing an increased number of its customers going 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 order and sale. Approximately 50% of our customers in commercial motors markets were on a pull system in 2003 compared to 35% in 2002. Accordingly, this trend will reduce the amount of backlog since these customers are no longer giving the Company long-term orders that it delivers against over time and, therefore, the amount of backlog compared to prior periods is not necessarily an accurate indication of the future sales of the Company compared to prior periods.

There can be no assurance that the Company's backlog can be converted into revenue.

Government Sales

Approximately \$86,000 of the Company's backlog as of December 31, 2003 consisted of contracts with the United States Government. The Company's contracts with the government contain a provision generally found in government contracts that permits the government to terminate the contract at its option. When the termination is attributable to no fault of the Company, the government would, in general, have to pay the Company certain allowable costs up to the time of termination, but there is no compensation for loss of profits.

Engineering and Development Activities

The Company's expenditures on engineering and development for Year 2003 were \$1,853,000. For the Transition Period, Fiscal Years 2002, and 2001 engineering and development from continuing

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operations were \$754,000, \$846,000, and \$962,000, respectively. Of these expenditures, no material amounts were charged directly to customers.

Environmental Issues

No significant pollution or other types of emission result from the Company's operations and it is not anticipated that the Company's proposed operations will be 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.

See Item 3 Legal Proceedings and Note 8 of the Notes to Consolidated Financial Statements contained herein for additional information required by this item.

Foreign Operations

The information required by this item is set forth in Note 11 of the Notes to Consolidated Financial Statements contained herein.

Employees

At December 31, 2003 the Company had approximately 343 full-time employees.

Available Information

The Company maintains a website at 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 filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after it electronically files or furnishes such materials to the Securities and Exchange Commission.

The Company has adopted a Code of Ethics for its chief executive officer, president and senior financial officers. A copy of this Code has been filed as an exhibit to this Form 10-K. The Company intends to make the Code available on the Company's website and to disclose on this website any amendment to this Code. Waivers under this Code, if any, will be disclosed under the rules of the SEC and the Nasdaq Small Cap Market. A copy of this Code 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.

Item 2. Properties.

As of December 31, 2003, 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	Tulsa, Oklahoma	25,000	Leased
Office and manufacturing facility	Chatsworth, California	22,000	Leased
Warehouse facility	Tulsa, Oklahoma	10,000	Leased
Office and manufacturing facility	Owosso, Michigan	82,500	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.

In 2001, the Company, with other parties, was named as a defendant in an environmental contamination lawsuit. The lawsuit relates to property that was occupied by the Company's Power and Process Business over 37 years ago. In connection therewith, the Company agreed to settle the lawsuit and recorded an estimated charge for the settlement and related legal fees of \$1,429,000 (\$961,000 net of tax) during the fiscal year ended June 30, 2002. The settlement agreement received court approval during the Transition Period. While the Company believes that the suit against the Company was without merit, it agreed to the settlement to eliminate future costs of defending itself and the uncertain risks associated with litigation. Additional information required by this item is set forth in Note 8 of the Notes to Consolidated Financial Statements contained herein.

The Company is also 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.

Item 4. Submission of Matters to a Vote of Security Holders.

The Company held its annual stockholders' meeting on October 23, 2003. The stockholders voted on one item.

The stockholders elected E.E. Prince, R.D. Smith, G.D. Hubbard, D.D. Hock and G.J. Pilmanis to serve on the Board of Directors for the coming year. The vote tabulation was as follows:

Nominee	For	Withheld or Against	Total Shares Outstanding	% of Shares Voting For
E.E. Prince	4,494,347	36,708	5,000,234	89.9%
R.D. Smith	4,374,547	156,508	5,000,234	87.5%
G.D. Hubbard	4,331,581	199,474	5,000,234	86.6%
D.D. Hock	4,312,049	219,006	5,000,234	86.2%
G.J. Pilmanis	4,331,581	199,474	5,000,234	86.6%

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Allied Motion's common stock is traded on the Nasdaq Small Cap Market System and trades under the symbol AMOT. The number of holders of record of the Company's common stock as of the close of business on February 23, 2004 was 552. The Company did not pay or declare any dividends during year 2003, or during the Transition Period, Fiscal Years 2002, and 2001 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 Small Cap Market System, as reported by Nasdaq.

	Price Range	
	High	Low
Fiscal year ended June 30, 2002		
First Quarter	\$ 3.90	\$ 2.04
Second Quarter	3.25	1.75
Third Quarter	3.00	2.60
Fourth Quarter	3.15	2.25
Transition period ended December 31, 2002		
First Quarter	\$ 2.85	\$ 2.05
Second Quarter	2.79	1.70
Year ended December 31, 2003		
First Quarter	\$ 2.12	\$ 1.50
Second Quarter	2.38	1.50
Third Quarter	3.25	1.50
Fourth Quarter	5.00	2.93

Equity Compensation Plan Information

The following table shows the equity compensation plan information of the Company at December 31, 2003.

Plan category	Number of securities to be issued upon exercise of outstanding	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding

Equity compensation plans approved by security holders	1,323,430	\$	3.00	119,540
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Item 6. Selected Financial Data.

The following tables summarize data from the Company's financial statements for the fiscal years 1999 through 2003 and the Transition and Comparative Periods and notes thereto; the Company's complete annual financial statements and notes thereto for the current fiscal year appear in Item 8

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herein. See Management's Discussion and Analysis for discussion of non-recurring items that affect the comparability of results between periods.

Statements of Operations Data:	For the year ended December 31, 2003		For the Twelve Month Comparative Period ended December 31, 2002					
	In thousands (except per share data)							
Revenues from continuing operations	\$	39,434	\$	25,046				
Income (loss) from continuing operations	\$	948	\$	(59)				
Operating loss from discontinued operations		—		(735)				
Gain on sale of power and process business, net of income taxes		—		1,019				
Net income (loss)	\$	948	\$	225				
Diluted income (loss) per share from continuing operations	\$	0.19	\$	(0.01)				
Statements of Operations Data:	For the Six Month Transition Period ended December 31, 2002		For the Six Month Comparative Period ended December 31, 2001					
	In thousands (except per share data)							
Revenues from continuing operations	\$	17,191	\$	7,868				
Income from continuing operations	\$	45	\$	60				
Operating loss from discontinued operations		(736)		(223)				
Gain on sale of power and process business, net of income taxes		1,019		—				
Net income (loss)	\$	328	\$	(163)				
Diluted income per share from continuing operations	\$	0.01	\$	0.01				
Balance Sheet Data:	At December 31, 2003		At December 31, 2002					
Total assets	\$	27,497	\$	28,348				
Total current and long-term debt	\$	2,312	\$	4,133				
Statements of Operations Data:	For the fiscal years ended June 30,							
	2002	2001	2000	1999				
	In thousands (except per share data)							
Revenues from continuing operations	\$	15,723	\$	21,188	\$	18,591	\$	12,980
Income (loss) from continuing operations	\$	(45)	\$	2,024	\$	1,918	\$	(641)
Operating income (loss) from discontinued operations		(221)		(28)		(443)		(884)
Net income (loss)	\$	(266)	\$	1,996	\$	1,475	\$	(1,525)
Diluted income (loss) per share from continuing operations	\$	(0.01)	\$	0.42	\$	0.40	\$	(0.15)
Balance Sheet Data:	At June 30,							

	2002	2001	2000	1999
Total assets	\$ 22,629	\$ 20,203	\$ 19,937	\$ 16,398
Total current and long-term debt	\$ —	\$ 553	\$ 1,546	\$ 1,308

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Because of the risks and uncertainties, investors should not place undue reliance on 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.

Overview

Business

Allied Motion designs, manufactures and sells motion products to a broad spectrum of customers throughout the world primarily for the commercial motor, industrial motion control, and aerospace and defense markets. The Company's products are in use in an ever-greater number of demanding applications in specialty automotive, HVAC, medical, health-fitness, defense, aerospace, semiconductor

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manufacturing, fiber optic-based telecommunications, printing, and graphic imaging market sectors, to name a few.

Today, three companies form the core of Allied Motion. The companies, Emoteq, Computer Optical Products and Motor Products 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.

Emoteq Corporation in Tulsa, Oklahoma develops and manufactures advanced servo motor and drive solutions. Emoteq has developed specialized, high performance servo solutions. As a result, Emoteq's products are at work in precision equipment applications around the world from semiconductor manufacturing equipment to fuel cell powered vehicles to high performance target tracking systems.

Computer Optical Products (COPI) in Chatsworth, California solves difficult feedback application problems with innovative optical encoder solutions. Combining their considerable expertise in mechanical, optical, and electronic technologies, COPI's engineers have developed unique encoding solutions for numerous and diverse applications from pre-press imaging equipment to missile seeker heads. Integrating their custom high resolution sine-cosine optical encoders with customers' motor actuators is a particular strength of the company.

Motor Products Corporation in Owosso, Michigan has been supplying fractional horsepower DC motors to original equipment manufacturers in a myriad of industries for over sixty years. Allied Motion acquired Motor Products in July 2002 to further the Company's strategy to become a leading supplier in the motion industry. Motor Products specializes in the design of custom brush DC motors for specific customer applications, and supplies them with uniformly high quality in quantities ranging from tens to the tens of thousands. Motor Products motors are in use worldwide in commercial and industrial applications in HVAC and heat-transfer systems, fans and blowers, pumps, electro-mechanical actuators, and both over-the-road trucks and buses and off-road vehicles.

Business and Strategy Overview

During 2002, management significantly changed the structure and strategy of the Company. The Company had historically operated in two business segments under the name Hathaway Corporation: Motion Control and Power and Process. During 2002, the Company sold substantially all its power and process business segment and transformed the Company to a focused motion company under the name Allied Motion Technologies Inc.

During 2002 and 2003, the Company has made considerable progress in implementing its new corporate strategy, the driving force of which is "Applied Motion Technology/Know How", and in the transformation of Allied Motion into a growth oriented motion company. To ensure the implementation of all of our critical issues that are necessary to accomplish our overall strategy, we launched a formal process, called Strategy Deployment, in each Allied Motion operation. The Strategy Deployment process includes the development of action plans and a rigorous and regular implementation review process to ensure we achieve the objectives of our Strategic Plan.

During 2003, the Company initiated recruitment efforts for various engineering and sales and marketing positions to enhance its ability to increase sales in the future. The overhead cost reductions and the parallel recruitment efforts are consistent with improving our "Areas of Excellence" and the redeployment of resources in support of our strategy as an Applied Motion Technology/Know-How company. Key resources have been added in electrical design, mechanical design and in applied marketing and it is our belief these key resources will allow us to accelerate our current product re-design as well as our new product development efforts. We fully expect our recruiting efforts to

result in cost effective and innovative new designs and solutions that will provide us with the technology platform to obtain a leadership position in our served market segments.

Also during 2003 the Company began the re-alignment of its sales team to focus on selected vertical target market segments. Already, this has resulted in a much better understanding of these markets and through the emphasis on our applications expertise we will now be aligned to provide improved support for our customers in the future which we believe should contribute to the Company's growth in sales and profitability.

During 2003 (on a pro-forma basis for the year including Motor Products for twelve months of 2002), sales increased by approximately \$1 million and operating profits increased approximately \$1.2 million. To accomplish this we utilized what we call a soft implementation of various processes available to our business units through our ever evolving and expanding set of tools. This tool kit contains a well defined set of processes, training programs and procedures that are fundamental to the way we operate our businesses. We have coined the term "AST", for Allied's Systematic Tools. Based on Lean and Six Sigma principles, we provide our employees with well defined methods to addresses various assessment, development, execution and process needs within the Company. These "Tools" include strategy development, strategy deployment, applied marketing, value stream mapping, cellular manufacturing, SMED, Six Sigma, etc. The soft implementation used during the past year will move to a more vigorous and scheduled implementation in each of our business units in 2004. We believe this will allow us to improve profitability of our existing operations as well as effectively integrate new acquisitions.

One of our major challenges, and a risk to our business, is to maintain and improve our price competitiveness. Our 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. For the Company to continue to be competitive in its markets, we must have the ability to continuously improve our cost of doing business while maintaining and improving the quality and performance of our products. To accomplish this, we have placed significant emphasis on reducing our costs through the implementation of AST, re-designing products and designing new products for cost improvement and manufacturing efficiency, sourcing materials and components from global low cost sources and establishing manufacturing capabilities in low cost regions. The continuous improvement in our cost of doing business is an integral part of our corporate strategy.

Subsequent Acquisition

On February 10, 2004, the Company signed a merger agreement to acquire Owosso Corporation located in Watertown, New York. The closing of the merger is scheduled for the second quarter of 2004. Owosso's sole operating subsidiary, Stature Electric, manufactures fractional and integral horsepower motors, gear motors, and motor part sets. Significant markets for Stature include commercial products and equipment, healthcare, recreation and non-automotive transportation. Stature's component products are sold throughout North America and in Europe, primarily to original equipment manufacturers 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. We utilized the framework of our strategy to ensure Stature Electric and Allied Motion were strategically aligned. The markets they serve and the technology they bring are both extensions of and expansions to our current company know-how.

The consideration for the merger of \$14 million will consist of the issuance of approximately 532,200 shares of Allied Motion common stock representing approximately 9.6% of the outstanding shares of the Company after the merger, \$1 million of cash payable to Owosso's preferred shareholders, assumption of \$4.6 million of Owosso's debt and approximately \$6 million of cash to

settle the remainder of Owosso's debt and liabilities at closing. Additional subordinated notes for up to \$500,000 may be issued by Allied Motion effective January 1, 2005 payable over five years if Stature achieves certain revenue levels in 2004. In addition, warrants to purchase 300,000 shares of Allied Motion common stock at \$4.41 per share will be issued to Owosso's preferred shareholders. Allied Motion has received a commitment from PNC Business Credit and Silicon Valley Bank for up to \$18.1 million to complete the acquisition and for working capital needs. The closing of the acquisition is subject to approval by Owosso's shareholders, the effectiveness of a Registration Statement for the Allied Motion common shares to be issued and customary closing conditions.

In addition to the acquisition of Owosso and Stature Electric, the Company continues to be in active discussions with other companies in pursuing strategic acquisitions to both provide external growth and to strengthen its technology base.

Outlook

The following will provide a good snapshot of what Allied Motion will focus its plans on in 2004:

- We will emphasize top line growth. Armed with our expanded "Areas of Excellence" we will launch innovative new products to our served markets and provide better service to our customers through our re-aligned sales team and market segment specialists.
- We will remain loyal to our strategy and will be relentless in our efforts to continue cost reductions internally, utilizing "AST", Allied's Systematic Tools, and externally through our expanded strategic sourcing activities with an increased emphasis on low cost region suppliers.
- We will continue to focus on strengthening our management team and hire top notch personnel to satisfy our critical resource requirements in our Areas of Excellence (applications and design engineering and applied marketing).
- Through the use of "AST", Allied's Systematic Tools, we will ensure the successful integration of Stature within Allied and will position Stature to once again grow in the future.
- We will remain diligent in our efforts to identify and cultivate additional acquisition and business development activities for our Company.

Fiscal Year End Change

The Company changed its fiscal year end from June 30 to December 31 effective December 31, 2002; and, therefore, the Company reported a six-month Transition Period ended December 31, 2002. The following table describes the periods presented in the Management's Discussion and Analysis of Financial Condition and Results of Operations and in the condensed consolidated financial statements and related notes thereto:

Period:	Referred to as:
Audited results from January 1, 2003 through December 31, 2003	Year 2003
Unaudited results from January 1, 2002 through December 31, 2002	Twelve Month Comparative Period
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Unaudited results from July 1, 2001 through December 31, 2001	Six Month Comparative Period
Audited results from July 1, 2001 through June 30, 2002	Fiscal Year 2002
Audited results from July 1, 2000 through June 30, 2001	Fiscal Year 2001

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Operating Results

Year 2003 compared to Twelve Month Comparative Period

Effective July 29, 2002, the Company sold substantially all of its Power and Process Business and effective March 6, 2003, the Company sold its Calibrator Business, completing the sale of the Power and Process Business. Together, these two businesses comprised the Company's Power and Process segment as historically reported. See Note 12 to the accompanying consolidated financial statements for more information regarding these events. In accordance with SFAS No. 144, these businesses have been presented as discontinued operations in the accompanying consolidated financial statements. As such, the operating results from continuing operations of the Company now only include results from the Company's Motion Business. All activities related to the Power and Process segment are excluded from continuing operating results and are included in the results from discontinued operations.

NET INCOME The Company achieved net income of \$948,000 or \$.19 per diluted share for the year 2003 compared to \$225,000 or \$.05 per diluted share for the Twelve Month Comparative Period. The improvement is due to the sale of the Power and Process Business, the addition of Motor Products, improved gross margins through the successful implementation of lean manufacturing initiatives, including modifying manufacturing processes to reduce costs, and a \$442,000 tax benefit related to the realization of a prior year state income tax refund and resolution of certain income tax related issues.

INCOME FROM CONTINUING OPERATIONS The Company achieved income from continuing operations of \$948,000 or \$.19 per diluted share for the year 2003 compared to a net loss of \$59,000 or \$.01 per diluted share for the Twelve Month Comparative Period. The improvement is due to the addition of Motor Products, the successful implementation of lean manufacturing initiatives, including modifying manufacturing processes to reduce costs, and a \$442,000 tax benefit related to the realization of a prior year state income tax refund and resolution of certain income tax related issues.

REVENUES Revenues were \$39,434,000 in year 2003 compared to \$25,046,000 for the Twelve Month Comparative Period. Included in revenues for all of year 2003 and five months of the Twelve Month Comparative Period are revenues related to Motor Products, which was acquired on July 30, 2002. Exclusive of revenues from Motor Products, revenues increased 7% in year 2003 over the Twelve Month Comparative Period due to our success in expanding into new industry sectors including military and automotive applications. On a pro forma basis, including Motor Products revenues for the full twelve months ended December 31, 2002, revenues were 3% higher for 2003 compared to the comparable period last year.

GROSS MARGINS Gross margin as a percentage of revenues decreased to 26% for year 2003 from 27% for the Twelve Month Comparative Period. The primary reason for this decline is due to the impact of the Motor Products acquisition. Motor Products has not historically achieved as high a gross margin percentage from the industry sectors to which it sells as is achieved from other industry sectors to which the Company sells its products. Gross margin of 26% in 2003 compares to 22% for the twelve months ended December 31, 2002 on a pro forma basis, including Motor Products for the full period. This improvement from the pro forma basis is primarily due to cost reductions and improved efficiency resulting from the implementation of lean manufacturing initiatives, savings in material costs from purchasing material from off-shore sources and from the restructuring of the operations.

SELLING EXPENSES Selling expenses were \$2,022,000 and \$1,183,000 in year 2003 and the Twelve Month Comparative Period, respectively. This increase is primarily due to the impact of Motor Products, increased selling expenses and commissions related to the increase in revenues, and increased expenses related to the development of a focused marketing strategy including website development.

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GENERAL AND ADMINISTRATIVE EXPENSES General and administrative expenses were \$4,596,000 in year 2003 compared to \$4,311,000 in the Twelve Month Comparative Period. This increase was due to the impact of acquiring Motor Products, increased salary cost associated with the Company's new president and chief operating officer and additional incentive bonus charges.

ENGINEERING AND DEVELOPMENT EXPENSES Engineering and development expenses were \$1,853,000 and \$1,178,000 for year 2003 and the Twelve Month Comparative Periods, respectively. This increase was primarily due to the impact of acquiring Motor Products and additional expenditures associated with engineering product development.

AMORTIZATION AND OTHER Amortization and other expense was \$315,000 in year 2003 and \$132,000 in the Twelve Month Comparative Period. This increase is due to the amortization costs related to the amortizable intangible assets acquired in the Motor Products acquisition.

RESTRUCTURING CHARGE Restructuring charges were \$211,000 and zero for year 2003 and the Twelve Month Comparative Period, respectively. The restructuring expense relates to moving expenses and severance costs arising from workforce reductions from consolidation of the Company's manufacturing facilities.

INTEREST EXPENSE Interest expense for year 2003 was \$226,000 and for the Twelve Month Comparative Period was \$130,000. This increase is due to the additional borrowings related to the financing of the acquisition of Motor Products.

INCOME TAXES The provision for income taxes for year 2003 was \$19,000 compared to a \$17,000 benefit for the Twelve Month Comparative Period. The effective income tax rate as a percentage of income before income taxes from continuing operations was 2% in year 2003 and 47% in the Six Month Comparative Period. The difference in the effective tax rate between periods is primarily due to a \$442,000 tax benefit related to the realization of a prior year state income tax refund and resolution of certain income tax related issues.

DISCONTINUED OPERATIONS Income from discontinued operations was zero in year 2003 compared to \$284,000 in the Twelve Month Comparative Period. Included in the results for the Twelve Month Comparative Period is a pretax gain on the sale of the Power and Process Business of \$1,699,000 which closed on July 29, 2002 and a writedown to the carrying value of the Calibrator Business of \$259,000. Also included in the Twelve Month Comparative Period is operating income from discontinued operations of \$292,000 and a pretax charge for litigation settlement and legal fees of \$1,429,000 to settle an environmental contamination lawsuit filed in 2001 pursuant to which the Company was named as a defendant. The lawsuit related to property that was occupied by the Company's Power Business over 37 years ago. While the Company believed the suit against the Company was without merit, it agreed to the settlement to eliminate future costs of defending itself and the risks associated with litigation.

Transition Period compared to Six Month Comparative Period

NET INCOME The Company achieved net income of \$328,000 or \$.07 per diluted share for the Transition Period compared to a net loss of \$163,000 or \$.04 per diluted share for the Six Month Comparative Period.

INCOME FROM CONTINUING OPERATIONS The Company achieved income from continuing operations of \$45,000 or \$.01 per diluted share for the Transition Period compared to \$60,000 or \$.01 per diluted share for the Six Month Comparative Period.

REVENUES Revenues were \$17,191,000 in the Transition Period compared to \$7,868,000 for the Six Month Comparative Period. Included in revenues for the Transition Period are revenues related to

Motor Products, which was acquired on July 30, 2002. Exclusive of revenues from Motor Products, revenues increased 3% in the Transition Period over the Six Month Comparative Period due to our success in expanding into new industry sectors including military and automotive applications.

GROSS MARGINS Gross margin as a percentage of revenues decreased to 23% for the Transition Period from 30% for the Six Month Comparative Period. The primary reason for this decline is due to the impact of the Motor Products acquisition. Motor Products margin for the Transition Period was negatively impacted due to the costs associated with the integration of Ohio's manufacturing lines into the Michigan plant, including the hiring and training of more than 50 new employees. However, with the implementation of lean manufacturing and off-shore purchasing initiatives, the Company anticipates Motor Products gross margins to improve to align with the Company's legacy business and for margins to increase company wide.

SELLING EXPENSES Selling expenses were \$726,000 and \$444,000 in the Transition Period and Six Month Comparative Period, respectively. This increase is primarily due to the impact of Motor Products.

GENERAL AND ADMINISTRATIVE EXPENSES General and administrative expenses were \$2,217,000 in the Transition Period compared to \$1,403,000 in the Six Month Comparative Period. This increase was primarily due to the additional \$290,000 expense from the acquisition of Motor Products and increased salary costs and expenses of \$233,000 as a result of hiring additional personnel including the president and chief operating officer of the Company. Additionally the increase was due to \$154,000 in business development expenses primarily related to the Company's new strategic development and lean manufacturing initiatives.

ENGINEERING AND DEVELOPMENT EXPENSES Engineering and development expenses were \$754,000 and \$422,000 for the Transition and Six Month Comparative Periods, respectively. This increase was primarily due to the impact of Motor Products.

AMORTIZATION AND OTHER Amortization and other expense was \$131,000 in the Transition Period and \$4,000 in the Six Month Comparative Period. This increase is due to the amortization costs related to the amortizable intangible assets acquired in the Motor Products acquisition.

INTEREST EXPENSE Interest expense for the Transition Period was \$130,000 and for the Six Month Comparative Period was \$10,000. This increase is due to the additional borrowings related to the financing of the acquisition of Motor Products.

PROVISION FOR INCOME TAXES The provision for income taxes for the Transition Period was \$40,000 and for the Six Month Comparative Period was \$26,000. The effective income tax rate as a percentage of income before income taxes from continuing operations was 47% in the Transition Period and 31%

in the Six Month Comparative Period. The difference in the effective tax rate between periods is primarily due to the impact of foreign taxes.

DISCONTINUED OPERATIONS Income from discontinued operations was \$283,000 in the Transition Period compared to a loss from discontinued operations of \$223,000 for the Six Month Comparative Period. Included in the results for the Transition Period is a pre-tax gain on the sale of the Power and Process Business of \$1,699,000 which closed on July 29, 2002 and a pretax write down to the carrying value of the Calibrator Business of \$259,000. Included in the results for the Six Month Comparative Period is a pretax gain on the sale of Si Fang of \$674,000, net of selling costs. Operating loss in the Transition Period increased from the Six Month Comparative Period primarily because the sale of the Power and Process Business closed on July 29, 2002 and only one month's activity is included in the results of the Transition Period compared to six months results included in the Six Month Comparative Period. The month of July has historically been the least profitable month of each fiscal year.

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Fiscal year 2002 compared to Fiscal year 2001

NET INCOME The Company had a net loss of \$266,000 or \$.06 per diluted share for fiscal year 2002 compared to net income of \$1,996,000 or \$.41 per diluted share for fiscal year 2001.

INCOME FROM CONTINUING OPERATIONS The Company had a loss of \$45,000 or \$.01 per diluted share for fiscal year 2002 compared to income of \$2,024,000 or \$.42 per diluted share for fiscal year 2001. Results for fiscal year 2002 were adversely affected by the economic slowdown, particularly in the semiconductor and telecommunications markets.

REVENUES Revenues from continuing operations were \$15,723,000 and \$21,188,000 in fiscal 2002 and 2001, respectively. The decrease was primarily due to the overall economic slowdown especially in the semiconductor and telecommunications markets.

GROSS MARGINS Gross margin as a percentage of revenues decreased to 32% for fiscal year 2002 from 38% for fiscal year 2001. The decrease in gross margin was due to fixed overhead costs that could not be reduced in direct correlation to reduced revenue.

SELLING EXPENSES Selling expenses were \$901,000 and \$1,162,000 in fiscal years 2002 and 2001, respectively. The decrease was due to decreased commissions and selling expenses related to the decrease in revenues.

GENERAL AND ADMINISTRATIVE EXPENSES General and administrative expenses were \$3,497,000 in fiscal year 2002 compared to \$3,200,000 in fiscal year 2001. This increase was primarily due to increased employee bonus costs.

ENGINEERING AND DEVELOPMENT EXPENSES Engineering and development expenses were \$846,000 and \$962,000 for fiscal years 2002 and 2001, respectively. This decrease was due to cost reductions made by the Company in reaction to the economic slowdown.

AMORTIZATION AND OTHER Amortization and other expense were \$5,000 and \$57,000 for fiscal years 2002 and 2001, respectively. This decrease was primarily due to the amortization of the goodwill associated with the July 1, 1998 acquisition of Emoteq UK being completed in fiscal year 2001.

INTEREST EXPENSE There was no interest expense for fiscal year 2002 compared to \$82,000 for fiscal year 2001. The decrease is due to the elimination of the Company's outstanding debt during the first quarter of fiscal year 2002.

BENEFIT FROM INCOME TAXES The benefit from income taxes for fiscal year 2002 was \$31,000 compared to a provision for income taxes of \$598,000 for fiscal year 2001. The effective income tax rate as a percentage of income before income taxes from continuing operations was a 41% benefit in fiscal year 2002 compared to a 23% provision in fiscal year 2001. The difference in the effective tax rate between periods is primarily due to expenses not deductible for tax purposes and changes in the valuation allowance against the balance of deferred tax assets.

DISCONTINUED OPERATIONS Discontinued operations had a loss of \$221,000 for fiscal year 2002 compared to \$28,000 for fiscal year 2001. Included in the results for fiscal year 2002 is a pre-tax charge for litigation settlement and related legal fees of \$1,429,000 to settle an environmental contamination lawsuit filed in 2001 pursuant to which the Company was named as a defendant. The lawsuit related to property that was occupied by the Company's Power Business over 37 years ago. While the Company believed the suit against the Company was without merit, it agreed to the settlement to eliminate future costs of defending itself and the risks associated with litigation.

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Also included in the results for fiscal year 2002 is the gain on the sale of the Company's investment in the Si Fang joint venture and equity income from the remaining joint venture investments in China, totaling \$833,000 before tax, compared to \$1,170,000 equity income from all joint ventures included in fiscal year 2001. Also included in the results for fiscal year 2001 is a pre-tax restructuring charge of \$587,000 related to the restructuring of the Company's Process Business.

Overall, operating results from discontinued operations decreased in fiscal year 2002 over fiscal year 2001 primarily due to the litigation settlement and reduced income from China joint venture activities, offset by improved margins achieved in fiscal year 2002 due to changes in product mix sold and the effect of the restructuring charge in fiscal 2001.

Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents increased \$5,000 during the Year 2003 to a balance of \$1,960,000 at December 31, 2003. Cash flow provided by operating activities was \$2,152,000 in Year 2003 while cash used in operating activities was \$187,000, \$1,428,000, and \$744,000 in the Twelve Month Comparative Period, the Transition Period, and the Six Month Comparative Period, respectively. Cash flow provided from operations was \$552,000 in fiscal year 2002 and \$815,000 in fiscal year 2001. The differences are primarily due to changes in operating results and working capital changes.

Cash of \$764,000 and \$5,584,000 was used in investing activities during Year 2003 and the Twelve Month Comparative Period, respectively. Cash of \$5,077,000 was used by investing activities during the Transition Period, while cash of \$2,559,000 and \$1,997,000 was generated by investing activities in the Six Month Comparative Period and fiscal year 2002, respectively. Cash of \$1,003,000 was used by investing activities in fiscal year 2001. During Year 2003 the Company made payments of \$300,000 related to the acquisition of Motor Products and received \$500,000 and \$149,000 from the sale of the Power and Process Business and the Calibrator Business, respectively. During the Twelve Month Comparative Period which includes the Transition Period, the Company made payments of \$12,184,000, including acquisition costs, related to the acquisition of Motor Products and received \$7,020,000 in payments, net of expenses paid, related to the sale of the Power and Process Business. The cash generated in the Six Month Comparative Period and fiscal year 2002 includes \$3,020,000 cash received from the sale of Si Fang. Purchases of property and equipment were \$1,113,000, \$865,000, \$423,000, \$461,000, \$903,000 and \$908,000 for Year 2003, the Twelve Month Comparative Period, the Transition Period, the Six Month Comparative Period and fiscal years 2002 and 2001, respectively. During the Year 2003, the Twelve Month Comparative Period and the Transition Period, restricted cash balances decreased by zero, \$445,000 and \$510,000, respectively while during the Six Month Comparative Period, and fiscal years 2002 and 2001, restricted cash balances increased by \$55,000, \$120,000 and \$95,000, respectively.

During year 2003 financing activities used \$1,447,000 in cash while \$4,162,000 in cash was provided in the Twelve Month Comparative Period. Financing activities provided \$4,104,000 in cash for the Transition Period but used cash of \$349,000, \$291,000 and \$769,000 in the Six Month Comparative Period and in fiscal years 2002 and 2001, respectively. In 2003, the Company made \$2,000,000 in repayments on the line-of-credit, received \$500,000 from new capital leases entered into during year 2003, made repayments of \$21,000 on its capital leases and received \$74,000 from stock transactions under employee benefit stock plans. Financing activities for the Twelve Month Comparative Period focused primarily on the activities during the Transition Period when the Company received proceeds from its line-of-credit and term loan agreements of \$4,000,000 and made payments of \$167,000 on its term loan. The Company also received net proceeds of \$329,000 related to the activities of the employee benefit stock plans in the Twelve Month Comparative Period. During the Transition Period, besides the line-of-credit activity and term loan payments discussed above, the Company received net proceeds of \$271,000 related to the activities of employee benefit stock plans. During fiscal year 2002,

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\$553,000 of cash was used to pay off the line of credit. This was offset by net proceeds from the activities of employee benefit stock plans of \$262,000. In fiscal year 2001, the Company made net repayments of \$993,000 to the line of credit, offset by \$224,000 of cash received from activities of employee benefit stock plans.

At December 31, 2003, the Company had \$1,833,000 of debt obligations, compared with \$4,133,000, zero, and \$553,000 at December 31, 2002 and fiscal years ended June 30, 2002 and 2001, respectively. The December 31, 2003 debt represents borrowings on the Company's current long-term financing agreement (Agreement) with Silicon Valley Bank (Silicon), which was amended during the Transition Period to increase the Maximum Credit Limit on the line-of-credit to \$4,000,000 and to add an additional \$1,750,000 term loan to the Agreement.

Under the amended Agreement, borrowing on the line-of-credit is restricted to the Maximum Credit Limit which is calculated as the lesser of \$4,000,000 or 80% of the Company's eligible receivables plus the lesser of 1) 25% of the Company's eligible inventory, or 2) 30% of the Company's eligible receivables, or 3) \$750,000. The Agreement was to mature on September 10, 2003 but was amended to extend the maturity date to June 30, 2004. The interest rate on the line-of-credit prior to the year 2003 amendment was equal to the prime rate plus 1.5%, but was lowered to the prime rate plus 1% (5% at December 31, 2003) with the new amendment. The interest rate may be adjusted on a quarterly basis, but not above prime rate plus 1%, if the Company achieves certain defined financial ratios. In addition to interest, the line bears a monthly unused line fee at 0.375% on the difference between the amount of the credit limit and the average daily principal balance of the line-of-credit outstanding during the month. The Company borrowed \$2,250,000 on July 30, 2002 under this line-of-credit to fund the purchase of Motor Products but made \$1,500,000 in repayments during Year 2003. As of December 31, 2003, the amount available under the line of credit was \$2,843,000.

Also under the amended Agreement, the Company obtained a term loan of \$1,750,000. The term loan requires forty-two monthly principal payments of \$41,667 plus interest through February 2, 2006. The loan matures the earlier of February 1, 2006 or the date the line-of-credit terminates which is June 30, 2004. Accordingly, amounts outstanding under the term loan have been classified as a current liability. The loan bears interest at 8.38%, but may be adjusted on a quarterly basis, but not above 8.38%, if the Company achieves certain defined financial ratios. The Company borrowed \$1,750,000 under this term loan on July 30, 2002 to fund the purchase of Motor Products.

Both loan facilities are secured by all of the assets of the Company. The Agreement prohibits the Company from paying dividends and requires that the Company maintain compliance with certain covenants related to tangible net worth and profitability. At December 31, 2003, the Company was in compliance with all covenants.

The Company's working capital, capital expenditure and debt service requirements, including payment of the litigation settlement, are expected to be funded from cash provided by operations, the Company's existing cash balance and amounts available under the line of credit facility. The Company believes the capital currently available to it is sufficient for its currently anticipated needs for the next twelve months, but if additional capital is needed in the future, the Company would pursue additional capital via debt or equity financing. A key component of the Company's liquidity relates to the availability of amounts under the line of credit with Silicon Valley Bank. Any lack of availability of this facility could have a material adverse impact on the Company's liquidity position.

In relation to the proposed acquisition of Owosso Corporation, the Company has received a commitment from PNC Business Credit and Silicon Valley Bank for up to \$18.1 million to complete the acquisition and for working capital needs. The commitment consists of up to \$10.5 million of borrowings under a revolving line of credit facility, \$3.0 million of borrowings under a new term loan agreement and a stand-by letter of credit of up to \$4.6 million to collateralize industrial revenue bonds.

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See Note 14 of the Consolidated Financial Statements for further information on this proposed acquisition.

Price Levels and the Impact of Inflation

Prices of the Company's products have not increased significantly as a result of inflation during the past several years, primarily due to competition. The effect of inflation on the Company's costs of production has been minimized through production efficiencies and lower costs of materials. 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.

Critical Accounting Policies

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

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

Inventory is valued at the lower of cost or market. The Company monitors and forecasts expected inventory needs based on sales forecasts. Inventory is written down or written off when it becomes obsolete or when it is deemed excess. These determinations involve the exercise of significant judgment by management. If actual market conditions are significantly different than those projected by management the recorded reserve may be adjusted, and such adjustments may have a significant impact on our results of operations. Demand for our products can fluctuate significantly, and in the past we have recorded substantial charges for inventory obsolescence.

The Company records deferred tax assets and liabilities for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts recorded in the consolidated financial statements, and for operating loss and tax credit carryforwards. Realization of the recorded deferred tax assets is dependent upon the Company generating sufficient taxable income in the appropriate tax jurisdiction in future years to obtain benefit from the reversal of net deductible temporary differences and from tax credit and operating loss carryforwards. A valuation allowance is provided to the extent that management deems it more likely than not that the net deferred tax assets

will not be realized. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed.

The Company reviews the carrying values of its long-lived assets, including goodwill and identifiable intangibles, whenever events or changes in circumstances indicate that such carrying values may not be fully recoverable. Under previous standards, the assets had to be carried at historical cost if the projected cash flows from their use would recover their carrying amounts on an undiscounted basis and without considering interest. However, if projected cash flows were less than their carrying value, even by one dollar, the long-lived assets had to be reduced to their estimated fair value. Considerable judgment was and is required to project such cash flows and, if required, estimate the fair value of the impaired long-lived asset. Effective July 1, 2002, the Company adopted SFAS No. 142. SFAS No. 142 provides a more restrictive fair value test to evaluate goodwill and long-lived asset impairment. Depending upon future assessments of fair value, there could be impairment recorded related to goodwill and other long-lived assets.

Contractual Commitments

For more information on the Company's contractual obligations on operating leases and contractual commitments, see Notes 4 and 8 to the consolidated financial statements. At December 31, 2003, the Company's commitments under these obligations were as follows (in thousands):

Year ended December 31,	Operating Leases	Capital Leases(1)	Line of Credit(2)	Term Loan(3)	Litigation Settlement	Total
2004	\$ 716	\$ 166	\$ 750	\$ 1,083	\$ 250	\$ 2,965
2005	576	167	—	—	—	743
2006	432	156	—	—	—	588
2007	402	57	—	—	—	459
2008	411	—	—	—	—	411
Thereafter	1,769	—	—	—	—	1,769
	<u>\$ 4,306</u>	<u>\$ 546</u>	<u>\$ 750</u>	<u>\$ 1,083</u>	<u>\$ 250</u>	<u>\$ 6,935</u>

(1) The capital lease commitments include amounts representing interest.

(2) The line of credit Agreement matures on June 30, 2004 but can be extended upon agreement by Silicon.

(3) The term loan matures the earlier of February 1, 2006 or the date the line-of-credit terminates which is currently June 2004. Assuming the Company's line of credit will be renewed annually, the required principal payments would be \$500,000 in 2004, \$500,000 in 2005 and \$83,000 in 2006. This allows for the term loan to be repaid over a forty-two month period.

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 in the areas of changes in United States interest rates and changes in foreign currency exchange rates as measured against the United States dollar. These exposures are directly related to its normal operating and funding activities. Historically, and as of December 31, 2003, the Company has not used derivative instruments or engaged in hedging activities.

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Interest Rate Risk

The interest payable on the Company's line-of-credit is variable based on the prime rate, and, therefore, affected by changes in market interest rates. The line-of-credit matures in June 2004. The Company manages interest rate risk by investing excess funds in cash equivalents bearing variable interest rates that are tied to various market indices. As a result, the Company does not believe that reasonably possible near-term changes in interest rates will result in a material effect on future earnings, fair values or cash flows of the Company. A change in the interest rate of 1% on the Company's variable rate debt would have the impact of changing interest expense by approximately \$7,500 annually.

Foreign Currency Risk

After July 29, 2002, upon the sale of the Power and Process Business, the Company had one wholly-owned subsidiary located in England, but during year 2003, this subsidiary was merged into its parent company located in the United States. Historically sales from this operation were typically denominated in British Pounds, thereby creating exposures to changes in exchange rates. The Company did not believe that reasonably possible near-term changes in exchange rates would result in a material effect on future earnings, fair values or cash flows of the Company, and therefore, chose not to enter into foreign currency hedging instruments.

Item 8. Financial Statements and Supplementary Data.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of ALLIED MOTION TECHNOLOGIES INC. (a Colorado corporation) AND SUBSIDIARIES as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' investment and comprehensive income, and cash flows for the year ended December 31, 2003, the six-month period ended December 31, 2002, and for each of the years in the two-year period ended June 30, 2002. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement Schedule II-Valuation and Qualifying Accounts for the year ended December 31, 2003, the six-month period ended December 31, 2002, and for each of the years in the two-year period ended June 30, 2002. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2003 and 2002, and the results of their operations and their cash flows for the year ended December 31, 2003, the six-month period ended December 31, 2002, and for each of the years in the two-year period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, Allied Motion Technologies Inc. and subsidiaries adopted the provisions of Statements of Financial Accounting Standards No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets," effective July 1, 2002.

KPMG LLP

Denver, Colorado
February 19, 2004

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ALLIED MOTION TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	December 31, 2003	December 31, 2002
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,960	\$ 1,955
Current assets of segment held for sale	—	684
Trade receivables, net of allowance for doubtful accounts of \$106 and \$148 at December 31, 2003 and 2002, respectively	5,971	5,481
Inventories, net	3,867	3,953
Deferred income taxes	1,247	777
Prepaid expenses and other	592	846
Total Current Assets	13,637	13,696
Property, plant and equipment, net	6,423	6,431
Deferred income taxes	—	480
Goodwill and intangible assets	7,437	7,741
Total Assets	\$ 27,497	\$ 28,348
Liabilities and Stockholders' Investment		
Current Liabilities:		
Current liabilities of segment held for sale	\$ —	\$ 535
Current maturities of capital lease obligations	134	—
Debt obligations	1,833	4,133
Accounts payable	2,230	2,375
Accrued liabilities and other	3,059	2,562
Income taxes payable	445	713
Total Current Liabilities	7,701	10,318
Litigation settlement, net of current portion	—	250
Long-term capital lease obligations, net of current portion	345	—
Deferred income taxes	430	—
Pension and post-retirement obligations	2,962	2,803
Total Liabilities	11,438	13,371
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; 5,021 and 4,837 shares issued at December 31, 2003 and 2002, respectively	8,383	8,100
Loan receivable from Employee Stock Ownership Plan	(200)	—
Retained earnings	7,797	6,849
Cumulative translation adjustments	79	28
Total Stockholders' Investment	16,059	14,977
Total Liabilities and Stockholders' Investment	\$ 27,497	\$ 28,348

See accompanying notes to consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	For the year ended December 31, 2003	For the six-month period ended December 31, 2002	For the fiscal years ended June 30,	
			2002	2001

Revenues	\$	39,434	\$	17,191	\$	15,723	\$	21,188
Cost of products sold		29,167		13,169		10,620		13,118
Gross margin		10,267		4,022		5,103		8,070
Operating costs and expenses:								
Selling		2,022		726		901		1,162
General and administrative		4,596		2,217		3,497		3,200
Engineering and development		1,853		754		846		962
Amortization and other		315		131		5		57
Restructuring charges		211		—		—		—
Total operating costs and expenses		8,997		3,828		5,249		5,381
Operating income (loss)		1,270		194		(146)		2,689
Other income (expense), net:								
Interest expense		(226)		(130)		—		(82)
Other (expense) income, net		(77)		21		70		15
Total other (expense) income, net		(303)		(109)		70		(67)
Income (loss) before income taxes from continuing operations		967		85		(76)		2,622
(Provision) benefit for income taxes		(19)		(40)		31		(598)
Income (loss) from continuing operations		948		45		(45)		2,024
Discontinued Operations								
Gain on the sale of Power and Process Business, net of tax		—		1,019		—		—
Operating loss from discontinued operations, net of tax		—		(736)		(221)		(28)
Income (loss) from discontinued operations		—		283		(221)		(28)
Net income (loss)	\$	948	\$	328	\$	(266)	\$	1,996
Basic net income (loss) per share:								
Income (loss) from continuing operations	\$	0.19	\$	0.01	\$	(0.01)	\$	0.45
Income (loss) from discontinued operations		—		0.06		(0.05)		(0.01)
Net income (loss) per share	\$	0.19	\$	0.07	\$	(0.06)	\$	0.44
Basic weighted average common shares		4,925		4,817		4,644		4,493
Diluted net income (loss) per share:								
Income (loss) from continuing operations	\$	0.19	\$	0.01	\$	(0.01)	\$	0.42
Income (loss) from discontinued operations		—		0.06		(0.05)		(0.01)
Net income (loss) per share	\$	0.19	\$	0.07	\$	(0.06)	\$	0.41
Diluted weighted average common shares		5,061		4,970		4,644		4,834

See accompanying notes to consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT
AND COMPREHENSIVE INCOME

(In thousands)

	Common Stock		Loans Receivable For Stock	Retained Earnings	Cumulative Translation Adjustments	Comprehensive Income
	Shares	Amount				
Balances, June 30, 2000	4,460	\$ 6,717	\$ (235)	\$ 4,791	\$ 34	
Stock transactions under employee benefit stock plans	61	149	75			
Tax benefit from disqualifying stock dispositions		178				
Shares issued to repurchase subsidiary stock	76	309				
Foreign currency translation adjustment					(186)	\$ (186)

Net income				1,996		1,996
Comprehensive income					\$	1,810
Balances, June 30, 2001	4,597	7,353	(160)	6,787	(152)	
Stock transactions under employee benefit stock plans	93	235	27			
Tax benefit from disqualifying stock dispositions		223				
Reclassification of loan to officer			133			
Foreign currency translation adjustment					324	\$ 324
Net loss				(266)		(266)
Comprehensive income					\$	58
Balances, June 30, 2002	4,690	7,811	—	6,521	172	
Stock transactions under employee benefit stock plans	131	225				
Issuance of restricted stock	16	42				
Stock compensation expense		22				
Foreign currency translation adjustment					134	\$ 134
Net income				328		328
Reclassification adjustment for amounts included in net income					(278)	(278)
Comprehensive income					\$	184
Balances, December 31, 2002	4,837	8,100	—	6,849	28	
Stock transactions under employee benefit stock plans	183	271	(200)			
Issuance of restricted stock	1	3				
Stock compensation expense		9				
Foreign currency translation adjustment					51	\$ 51
Net income				948		948
Comprehensive income					\$	991
Balances, December 31, 2003	5,021	\$ 8,383	\$ (200)	\$ 7,797	\$ 79	

See accompanying notes to consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the year ended December 31, 2003		For the six-month period ended December 31, 2002		For the fiscal years ended June 30,	
					2002	2001
Cash Flows From Operating Activities:						
Net income (loss)	\$	948	\$	328	\$ (266)	\$ 1,996
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization		1,359		555	754	831
Provision for doubtful accounts		47		64	84	150
Provision for obsolete inventory		135		128	674	79
Accrued litigation settlement and legal fees		—		—	1,300	—
Gain on sale of Power and Process Business		—		(1,699)	—	—
Equity income from investments in joint ventures, net of dividends		—		—	(159)	(977)
Gain on sale of investment in joint venture		—		—	(674)	—
Deferred income tax provision (benefit)		440		107	(1,135)	372
Other		100		23	247	176
Changes in assets and liabilities, net of effects from acquisition and dispositions:						
(Increase) decrease in -						
Trade receivables		(414)		1,036	(76)	12
Inventories, net		(74)		(215)	(747)	(530)
Prepaid expenses and other		(82)		(49)	(290)	(130)
(Decrease) increase in -						

Accounts payable	(201)	(23)	134	(340)
Accrued liabilities and other	(106)	(1,683)	706	(824)
Net cash provided by (used in) operating activities	2,152	(1,428)	552	815
Cash Flows From Investing Activities:				
Purchase of property and equipment	(1,113)	(423)	(903)	(908)
Payment for the purchase of Motor Products	(300)	(12,184)	—	—
Proceeds from sale of Power and Process Business	649	7,020	—	—
Changes in restricted cash	—	510	(120)	(95)
Proceeds from sale of joint venture investment	—	—	3,020	—
Net cash (used in) provided by investing activities	(764)	(5,077)	1,997	(1,003)
Cash Flows From Financing Activities:				
Borrowings on line-of-credit and term loan	—	4,000	—	124
Repayments on line-of-credit and term loan	(2,000)	(167)	(553)	(1,117)
Proceeds from capital leases	500	—	—	—
Repayments on capital leases	(21)	—	—	—
Stock transactions under employee benefit stock plans	74	271	262	224
Net cash (used in) provided by financing activities	(1,447)	4,104	(291)	(769)
Effect of foreign exchange rate changes on cash	64	78	109	(60)
Net increase (decrease) in cash and cash equivalents	5	(2,323)	2,367	(1,017)
Cash and cash equivalents at beginning of period	1,955	4,278	1,911	2,928
Cash and cash equivalents at end of period	\$ 1,960	\$ 1,955	\$ 4,278	\$ 1,911
Supplemental disclosure of cash flow information:				
Net cash paid (received) during the period for:				
Interest	\$ 226	\$ 128	\$ 6	\$ 94
Income taxes	(254)	—	90	179

See accompanying notes to consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Allied Motion Technologies, Inc. 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. Prior to October 2002, the Company was known as Hathaway Corporation. In connection with the sale of its Power and Process Business (see Note 12), the Hathaway name became the property of the buyers. At the October 2002 Annual Meeting of Stockholders, the stockholders approved an amendment to the Articles of Incorporation changing the Company's name to Allied Motion Technologies Inc.

On July 30, 2002, the Company purchased 100% of the stock of Motor Products—Owosso Corporation and Motor Products—Ohio Corporation (collectively "Motor Products") from Owosso Corporation, a publicly held corporation, for \$11,800,000. Motor Products, located in Owosso, Michigan has been a motor producer for more than fifty years and is a vertically integrated manufacturer of customized, highly engineered sub-fractional horsepower permanent magnet DC and brushless DC motors serving a wide range of original equipment applications. The motors are used in HVAC and actuation systems in a variety of markets including trucks, buses, RV's, off-road vehicles, health, fitness, medical and industrial equipment. The Company acquired Motor Products to further its Motion Strategy. See Note 2 for further information about the acquisition of Motor Products.

Fiscal Year End Change

The Board of Directors approved a change in the fiscal year end from June 30 to December 31 which was effective July 1, 2002; and therefore the Company reported a six month period ended December 31, 2002. The following table describes the periods presented in the Consolidated Financial Statements and related notes thereto:

Period:	Referred to as:
Audited results from January 1, 2003 through December 31, 2003	Year 2003
Audited results from July 1, 2002 through December 31, 2002	Transition Period
Unaudited results from July 1, 2001 through December 31, 2001	Six Month Comparative Period
Audited results from July 1, 2001 through June 30, 2002	Fiscal Year 2002
Audited results from July 1, 2000 through June 30, 2001	Fiscal Year 2001

The results of operations for the Six Month Comparative Period (unaudited) are as follows (in thousands, except per share data):

Revenues	\$ 7,868
Gross margin	2,388

Operating income	115
Income from continuing operations	60
Operating loss from discontinued operations	(223)
Net loss	(163)
Basic and diluted income per share from continuing operations	.01
Basic and diluted net loss per share	(.04)

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 in foreign currencies are translated using an average rate.

Restricted Cash

Restricted cash consists of certificates of deposit that serve as collateral for letters of credit issued on behalf of the Company.

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, 2003	December 31, 2002
Parts and raw materials, net	\$ 2,205	\$ 2,332
Work-in-process, net	1,006	940
Finished goods, net	656	681
	<u>\$ 3,867</u>	<u>\$ 3,953</u>

Reserves established for anticipated losses on excess or obsolete inventories were approximately \$881,000 and \$1,024,000 at December 31, 2003 and 2002, respectively.

Property, Plant and Equipment

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

	Useful lives	December 31, 2003	December 31, 2002
Land		\$ 150	\$ 150
Building and improvements	39 years	1,511	1,479
Machinery, equipment, tools and dies	2-8 years	7,800	6,932
Furniture, fixtures and other	3-10 years	1,484	1,643
		<u>10,945</u>	<u>10,204</u>
Less accumulated depreciation and amortization		(4,522)	(3,773)
		<u>\$ 6,423</u>	<u>\$ 6,431</u>

Depreciation and amortization 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 any resulting gain or loss, if any, is reflected in earnings.

Depreciation expense was approximately \$1,044,000, \$354,000, \$371,000 and \$310,000 in year 2003, the Transition Period and fiscal years 2002 and 2001, 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. On July 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangibles" (SFAS No. 142) and ceased amortization of its goodwill. In addition, the Company has determined that the classifications of its intangible assets previously acquired and the related useful lives established were not impacted by the provisions of SFAS No. 142. Goodwill is required to be tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. In accordance with SFAS No. 142, the Company performed its transitional goodwill impairment testing as of July 1, 2002 and determined that no impairments existed at that date. SFAS No. 142 requires a goodwill impairment test on an annual basis. The Company completed its annual analysis of the fair value of its goodwill at September 30, 2003 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

On July 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 did not address the accounting for a segment of a business accounted for as a discontinued operation, which resulted in two accounting models for long-lived assets to be disposed of. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale, and requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations.

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, even by one dollar, 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 year 2003, the Transition Period or in the fiscal years ended June 30, 2002 or 2001.

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 \$185,000 and \$212,000 as of December 31, 2003 and 2002, respectively.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Compensation and fringe benefits	\$ 1,245	\$ 1,309
Litigation and legal fees (Note 8)	300	425
Customer deposits	458	—
Other accrued expenses	1,056	828
	<u>\$ 3,059</u>	<u>\$ 2,562</u>

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 current exchange rates. Revenues and expenses are translated at average rates prevailing during the period. The resulting translation adjustments are recorded in the other comprehensive income component of stockholders' investment in the accompanying consolidated balance sheets. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Engineering and Development Expenses

Engineering and development expenses are expensed as incurred.

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 (loss) per share from continuing operations is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding. Diluted income or loss per share from continuing operations is determined by dividing the net income or loss by the sum of (1) the weighted

average number of common shares outstanding and (2) if not anti-dilutive, the effect of stock options determined utilizing the treasury stock method. Outstanding options totaling 136,000, 153,000, and 341,000 had a dilutive effect for year 2003, the Transition Period and fiscal years 2001,

respectively. Stock options to purchase 734,000, 971,000, 890,000, and 240,000 shares of common stock (without regard to the treasury stock method), were excluded from the calculation of diluted income (loss) per share for year 2003, the Transition Period and fiscal years 2002 and 2001, 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. Adjustments for comprehensive income for all years presented are limited to cumulative translation adjustments from the translation of the financial statements of the Company's foreign subsidiaries.

Stock-Based Compensation

The Company accounts for employee stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. All options granted under these plans have an exercise price equal to the market value of the underlying common stock on the date of grant and therefore no stock-based compensation cost is reflected in net income (loss), except as discussed in Note 6. Had compensation cost for these plans been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an Amendment of FASB Statement No. 123", the Company's net income (loss) would have been adjusted to the following amounts (in thousands, except per share data):

	For the year Ended December 31, 2003	For the Transition Period Ended December 31, 2002	For the Fiscal Years Ended June 30,	
			2002	2001
Actual net income (loss)	\$ 948	\$ 328	\$ (266)	\$ 1,996
Pro forma net (loss) income	\$ 375	\$ 71	\$ (1,005)	\$ 1,364
Actual basic net income (loss) per share	\$ 0.19	\$ 0.07	\$ (0.06)	\$ 0.44
Pro forma basic net income (loss) per share	\$ 0.08	\$ 0.01	\$ (0.21)	\$ 0.30
Actual diluted net income (loss) per share	\$ 0.19	\$ 0.07	\$ (0.06)	\$ 0.41
Pro forma diluted net income (loss) per share	\$ 0.07	\$ 0.01	\$ (0.21)	\$ 0.28

Cumulative compensation cost recognized is adjusted for forfeitures by a reduction of adjusted compensation expense in the period of forfeiture.

For SFAS No. 123 purposes, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	For the year Ended December 31, 2003	For the Transition Period Ended December 31, 2002	For the Fiscal Years Ended June 30,	
			2002	2001
Risk-free interest rate	2.9%	3.9%	3.9%	5.9%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Expected life	6 years	6 years	6 years	6 years
Expected volatility	102.7%	108.6%	120.7%	89.5%

The weighted average fair value of options granted, assuming the Black-Scholes option-pricing model, during year 2003, the Transition Period ended December 31, 2002 and fiscal years ended June 30, 2002 and 2001 was \$1.64, \$2.00, \$2.57, and \$4.19, respectively. The total fair value of options granted was \$324,000, \$461,000, \$1,069,000, and \$1,897,000 in year 2003, the Transition Period ended December 31, 2002 and fiscal years ended June 30, 2002 and 2001, respectively. These amounts are being amortized ratably over the vesting periods of the options for purposes of this disclosure.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different than those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Fair Values of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, 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 approximates its fair value because the underlying instrument is a variable rate note that reprices frequently. The carrying amount of the term loan approximates its fair value because the fixed interest rate is a current fair market interest rate.

Income Taxes

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 consolidated balance sheets, and for operating loss and tax credit carryforwards. 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 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. 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 become deductible. Management believes that it is more

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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.

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.

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.

Reclassifications

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

2. MOTOR PRODUCTS ACQUISITION

On July 30, 2002, the Company purchased 100% of the stock of Motor Products from Owosso Corporation, a publicly held corporation, for \$11,800,000. The Company incurred approximately \$712,000 in acquisition costs, which resulted in a total purchase price of \$12,512,000. The Company paid \$11,500,000 in cash at closing and \$300,000 was paid in January 2003 and was included in debt obligations in the accompanying December 31, 2002 balance sheet.

The Company acquired Motor Products to further its strategy of expanding its motion business. Motor Products was very well aligned with the Company due to the commitment to lean manufacturing processes and an extensive design and applications engineering knowledge base.

The acquisition was accounted for using the purchase method of accounting, and, accordingly, the purchase price was allocated to the assets purchased and the liabilities assumed based on their respective estimated fair values at the date of acquisition which in part was determined by a third-party appraisal. The net purchase price allocation was as follows (in thousands):

Trade receivables	\$ 2,927
Inventories	2,300
Other current assets	56
Property, plant and equipment	5,377
Amortizable intangible assets	2,670
Goodwill	4,861
Accrued liabilities and other current liabilities	(2,937)
Pension and post-retirement obligations	(2,742)
	—————
Net purchase price	\$ 12,512
	—————

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The acquired goodwill and intangible assets will be deductible for tax purposes. The amortizable intangible assets will be amortized as discussed in Note 3.

The accompanying consolidated financial statements include the operating results of Motor Products subsequent to July 30, 2002.

The following presents the Company's unaudited pro forma financial information from continuing operations for the six months ended December 31, 2002 and the fiscal year ended June 30, 2002. The pro forma statements of operations give effect to the acquisition of Motor Products as if it had occurred at July 1, 2001. The pro forma financial information is for informational purposes only and does not purport to present what the Company's results would actually have been had the acquisition actually occurred at the beginning of each fiscal period or to project the Company's results of operations for any future period (in thousands, except per share data).

	For the Transition Period ended December 31, 2002	For the Fiscal Year ended June 30, 2002
Revenues	\$ 19,303	\$ 37,746
Gross margin	4,230	7,973
Operating income (loss)	108	(163)
Loss from continuing operations	\$ (23)	\$ (243)
Diluted loss per share from continuing operations	\$.00	\$ (.05)

3. GOODWILL AND INTANGIBLE ASSETS

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

	December 31, 2003	December 31, 2002	Estimated Life
Goodwill	\$ 5,213	\$ 5,202	
Amortizable intangible assets			
Customer lists	1,930	1,930	8 years
Trade name	740	740	10 years
Accumulated amortization	(446)	(131)	
Total intangible assets	2,224	2,539	
Total goodwill and intangible assets	\$ 7,437	\$ 7,741	

The change in the carrying amount of goodwill for year 2003 is as follows (in thousands):

Balance as of December 31, 2002	\$ 5,202
Goodwill resulting from adjustments to purchase price allocation	11
Balance as of December 31, 2003	\$ 5,213

Amortization expense for intangible assets for the year 2003 and Transition Period was \$315,000 and \$131,000, respectively. Estimated amortization expense for intangible assets is \$315,000 for each of the years ended December 31, 2004 through 2008.

The impact of not amortizing goodwill, net of taxes, for Fiscal Years 2002 and 2001 would not have a material impact on previously reported results.

4. DEBT OBLIGATIONS

Debt obligations consisted of the following (in thousands):

	December 31, 2003	December 31, 2002
Line of credit	\$ 750	\$ 2,250
Term loan	1,083	1,583
Note payable related to acquisition of Motor Products	—	300
Total	1,833	4,133
Less current maturities	(1,833)	(4,133)
Long-term debt obligations	\$ —	\$ —

The Company has entered into a long-term financing agreement (Agreement) with Silicon Valley Bank (Silicon) which was to mature on May 7, 2003. On July 30, 2002, the Company and Silicon amended the Agreement increasing the credit limit on the line-of-credit to \$4,000,000.

Under the amended Agreement, borrowing on the line-of-credit is restricted to the Maximum Credit Limit which is calculated as the lesser of \$4,000,000 or 80% of the Company's eligible receivables plus the lesser of 1) 25% of the Company's eligible inventory, or 2) 30% of the Company's eligible receivables, or 3) \$750,000. The amended Agreement was to mature on September 10, 2003 but was further amended to extend the maturity date to June 30, 2004. The interest rate on the line-of-credit prior to the year 2003 amendment was equal to the prime rate plus 1.5%, but was lowered to the prime rate plus 1% (5% at December 31, 2003) with the new amendment. The interest rate may be adjusted on a quarterly basis, but not above prime rate plus 1%, if the Company achieves certain defined financial ratios. In addition to interest, the line bears a monthly unused line fee of 0.375% on the calculated difference between the amount of the credit limit and the average daily principal balance of the line-of-credit outstanding during the month. The Company borrowed \$2,250,000 on July 30, 2002 under

this line-of-credit to fund the purchase of Motor Products but made \$1,500,000 in repayments during year 2003. As of December 31, 2003, the amount available under the line of credit was \$2,843,000.

Also under the amended Agreement, the Company obtained a term loan of \$1,750,000. The term loan requires forty-two monthly principal payments of \$41,667 plus interest through February 1, 2006. The term loan matures the earlier of February 1, 2006 or the date the line-of-credit terminates which is June 30, 2004. Accordingly, all amounts outstanding under the term loan have been classified as a current liability. The loan bears interest at 8.38%, but may be adjusted on a quarterly basis, but not above 8.38%, if the Company achieves certain defined financial ratios. The Company borrowed \$1,750,000 under this term loan on July 30, 2002 in connection with the purchase of Motor Products.

The loans are secured by all of the assets of the Company. The Agreement prohibits the Company from paying dividends and requires that the Company maintain compliance with certain covenants related to tangible net worth and profitability. At December 31, 2003, the Company was in compliance with all covenants.

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5. INCOME TAXES

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

	For the year ended December 31, 2003	For the Transition Period ended December 31, 2002	For the fiscal years ended June 30,	
			2002	2001
Domestic	\$ 900	\$ (287)	\$ (601)	\$ 2,693
Foreign	67	372	525	(71)
(Loss) income before income taxes from continuing operations	\$ 967	\$ 85	\$ (76)	\$ 2,622

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

	For the year ended December 31, 2003	For the Transition Period ended December 31, 2002	For the fiscal years ended June 30,	
			2002	2001
Current benefit (provision):				
Domestic	\$ 441	\$ (103)	\$ (310)	\$ (204)
Foreign	(20)	(22)	(505)	—
Total current benefit (provision)	421	(125)	(815)	(204)
Deferred benefit (provision)—domestic	(440)	(107)	1,135	(372)
Benefit (provision) for income taxes	\$ (19)	\$ (232)	\$ 320	\$ (576)

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The benefit (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, 2003	For the Transition Period ended December 31, 2002	For the fiscal years ended June 30,	
			2002	2001
Tax benefit (provision) on income from continuing operations, computed at statutory rate	\$ (328)	\$ (29)	\$ 26	\$ (891)
State tax, net of federal benefit	(88)	(27)	20	(87)
Nondeductible expenses and goodwill amortization	(48)	(8)	(31)	(10)
Impact of foreign tax rates and credits	3	22	—	—
Adjustments to prior year accruals(1)	144	—	—	207
Prior year state tax refund(2)	298	—	—	—
Change in valuation allowance	—	—	—	186
Other	—	2	16	(3)
Benefit (provision) for income taxes from continuing operations	(19)	(40)	31	(598)
Benefit (provision) for income taxes from discontinued operations	—	(192)	289	22

Benefit (provision) for income taxes	\$	(19)	\$	(232)	\$	320	\$	(576)
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- (1) Adjustments relate to the successful resolution of certain prior year income tax related issues.
- (2) Refund relates to the realization of a prior year state income tax refund for Motor Products from periods prior to the acquisition.

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, 2003	December 31, 2002
Deferred tax assets:		
Allowances and other accrued liabilities	\$ 597	\$ 477
Tax credit carryforwards	500	572
Net operating loss carryforwards	1,035	665
Valuation allowance	(352)	(424)
Net deferred tax assets	1,780	1,290
Deferred tax liability:		
Property, plant and equipment	(868)	(5)
Intangibles	(95)	(28)
Net deferred tax liability	(963)	(33)
Net deferred tax assets	\$ 817	\$ 1,257

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The net deferred tax assets are classified as follows in the accompanying consolidated balance sheets (in thousands):

	December 31, 2003	December 31, 2002
Current deferred tax assets	\$ 1,247	\$ 777
Non-current deferred tax assets	—	480
Non-current deferred tax liabilities	(430)	—
Net deferred tax assets	\$ 817	\$ 1,257

The Company has domestic tax credit carryforwards of \$500,000 expiring in 2005 through 2008 and a domestic net operating loss carryforward of \$2,875,000 expiring in 2022 through 2023. Tax credit carryforwards of \$72,000 expired in 2003. As a result, a corresponding reduction in the valuation allowance was recorded.

Realization of the Company's net deferred tax asset 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 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, 2003. 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 the net deferred tax asset, net of valuation allowances as of December 31, 2003.

6. STOCK COMPENSATION

Allied Motion Stock Option Plan

At December 31, 2003, there were options outstanding to purchase 1,323,430 shares of common stock and options available for grant to purchase 119,540 shares under the Company's stock option plans. Under the terms of the plans, options may not be granted at less than 85% of fair market value. Generally, all options granted to date have been granted at fair market value as of the date of grant. Options generally become exercisable evenly over three years starting one year from the date of grant and expire seven years from the date of grant.

As of June 30, 2002, 112,360 options were granted in excess of the shares authorized under the stock option plans. The Company accounted for the over-issued stock options using variable plan accounting. Variable plan accounting requires the Company to recognize the difference between the fair market value of the stock and the exercise price of the excess options issued as compensation expense, to the extent that the fair market value exceeds the exercise price. A portion of the excess option grants were considered "fixed" on July 28, 2002 due to the forfeiture of 112,360 options related to the sale of the Company's Power and Process Business. The remainder were considered "fixed" on October 24, 2002 when the Company's stockholders approved an additional 400,000 available for grant. On those dates, compensation cost of \$39,000 was calculated based upon the then-current fair market values of the underlying common stock and will be recognized over the three-year vesting period of the options. Total compensation expense related to these stock options was \$9,000 and \$11,000 for 2003 and the Transition Period, respectively.

In conjunction with the sale of the Power and Process Business, all options held by employees of the business sold became immediately exercisable and expired on the closing date of the sale or thirty

days later. All unexercised options on the expiration dates were forfeited and became eligible for future grant by the Company. The Company recorded compensation expense of \$11,000 in the Transition Period related to the accelerated vesting of these options

Option activity during year 2003, the Transition Period ended December 31, 2002 and fiscal years ended June 30, 2000 and 2001 was as follows:

	Number of Shares	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price
Outstanding at June 30, 2000	661,503	\$ 2.37	410,800	\$ 2.49
Granted	452,700	5.43		
Forfeited	(32,936)	3.75		
Exercised	(28,630)	1.93		
Outstanding at June 30, 2001	1,052,637	3.66	460,857	2.36
Granted	415,960	2.93		
Forfeited	(18,600)	4.25		
Exercised	(15,000)	1.62		
Outstanding at June 30, 2002	1,434,997	3.46	680,814	3.07
Granted	230,000	2.39		
Forfeited	(346,674)	4.24		
Exercised	(125,993)	1.72		
Outstanding at December 31, 2002	1,192,330	3.21	685,535	3.41
Granted	197,000	1.98		
Forfeited	(65,900)	3.89		
Outstanding at December 31, 2003	1,323,430	3.00	836,242	3.35

Exercise prices for options outstanding and exercisable at December 31, 2003 are as follows:

	Range of Exercise Prices			Total
	\$1.13 – \$2.34	\$2.40 – \$2.90	\$3.20 – \$6.72	\$1.13 – \$6.72
Options Outstanding:				
Number of options	368,500	557,170	397,760	1,323,430
Weighted average exercise price	\$1.82	\$2.61	\$4.63	\$3.00
Weighted average remaining contractual life	4.0 years	4.9 years	6.2 years	5.0 years
Options Exercisable:				
Number of options	201,500	303,170	331,572	836,242
Weighted average exercise price	\$1.80	\$2.68	\$4.91	\$3.35

Emoteq Corporation Stock Option Plan

Prior to fiscal year 2001, the Company had granted options for shares of common stock of Emoteq Corporation (Emoteq, a wholly-owned subsidiary) to officers and key employees of Emoteq. The options were granted with exercise prices equal to the fair value of the underlying common stock on the date of grant, and consisted of time vesting options and performance vesting options. During fiscal year 2001 all of the outstanding (and also fully vested) stock options were exercised and 223,636 shares of Emoteq common stock, representing 12% ownership of Emoteq, were issued. Proceeds to the

Company from the exercises totaled \$498,000. Under the terms of the Emoteq stock option plan and the related stockholders' agreements, the stockholders had a liquidity put option that they could exercise only after owning the stock for at least six months. If the holder of the shares elected this put option, the Company would be required to purchase the shares of Emoteq at their then current fair market value. After holding the shares for at least six months, all such holders of Emoteq common stock exercised their put options and consequently, the Company purchased the shares for \$1,006,000, the fair value of the shares, for consideration consisting of Company common stock, notes payable and cash. The Company recorded \$352,000 of cost in excess of net assets acquired (goodwill) related to the purchase of these Emoteq shares. The Emoteq stock option plan and stockholders' agreements were terminated in August 2001.

Option activity for the Emoteq plan during the fiscal year ended June 30, 2001 was as follows:

Number of Shares	Weighted Average Exercise Price
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	Time Vested	Performance Vested	Time Vested	Performance Vested
Outstanding at June 30, 2000	168,118	55,518	\$ 2.46	\$ 1.51
Exercised	(168,118)	(55,518)	2.46	1.51
Outstanding at June 30, 2001	—	—	—	—

Prior to the exercise of the Emoteq stock options, the Company accounted for the performance vested options under variable plan accounting.

7. LOANS RECEIVABLE FOR STOCK

The Leveraged Employee Stock Ownership Plan and Trust (the Plan) allows eligible Company employees to participate in ownership of the Company. The \$200,000 receivable at December 31, 2003 represents the full amount the Company loaned to the Plan during year 2003 so that the Plan could acquire from the Company 130,719 newly issued shares of the Company's common stock. The note bears an annual interest rate of 5.75% and is scheduled to mature May 31, 2018. The terms of the Plan 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 year 2003, the Transition Period and fiscal years 2002 and 2001) or ii) the annual interest payable on the note. Company contributions to the Plan were \$51,000, \$29,000, \$37,000 and \$133,000 in year 2003, the Transition Period and fiscal years 2002 and 2001, respectively.

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8. COMMITMENTS AND CONTINGENCIES

Operating Leases

At December 31, 2003, the Company maintains leases for certain facilities and equipment. Minimum future rental commitments under all non-cancelable operating leases are as follows (in thousands):

Year ending December 31,	Total
2004	\$ 716
2005	576
2006	432
2007	402
2008	411
Thereafter	1,769
	<u>\$ 4,306</u>

Rental expense was \$703,000, \$243,000, \$531,427 and \$557,427 in Year 2003, the Transition Period and fiscal years 2002 and 2001, 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 is included in the accompanying consolidated balance sheet as property, plant and equipment and was \$500,000 and zero at December 31, 2003 and 2002, respectively. Accumulated amortization of the leased equipment at December 31, 2003 and December 31, 2002 was \$18,000 and zero, respectively. Amortization of assets under capital leases is included in depreciation expense.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2003, are as follows (in thousands):

Year ending December 31,	
2004	\$ 166
2005	167
2006	156
2007	57
Total minimum lease payments	<u>546</u>
Less: amount representing interest	67
Present value of net minimum lease payments	<u>479</u>
Less: Current maturities of capital lease obligations	<u>134</u>
Long-term capital lease obligations	<u>\$ 345</u>

Severance Benefit Agreements

The Company has entered into annually renewable severance benefit agreements with certain key employees which, among other things, provide inducement to the employees to continue to work for

the Company during and after any period of threatened takeover. 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 maximum amount of salary that could be required to be paid under these contracts, if such events occur, totaled approximately \$1,848,000 as of December 31, 2003. In addition to the salary above, severance benefits include payment of 20% of annual salary for life, disability, accident and health insurance for 24 months and a pro-rata calculation of bonus for the current year.

Consulting Agreement

Effective September 1, 1998, the Company entered into a consulting agreement (Consulting Agreement) with the Chairman of the Board of Directors who is a major stockholder. Under the Consulting Agreement, he will be compensated for providing consulting services to the Company as requested by the Chief Executive Officer. During Year 2003, the Transition Period and fiscal years 2002 and 2001 there was no compensation paid to the Chairman of the Board under the Consulting Agreement.

Stock Repurchase Program

Under an employee stock repurchase program approved by the Board of Directors, the Company may repurchase its common stock from its employees at the current market value. The Company's Agreement with Silicon limits employee stock repurchases to \$125,000 per fiscal year. The number of shares repurchased under the program was 1,968 for Year 2003 and zero for the Transition Period and fiscal years 2002 and 2001.

Litigation

In 2001, the Company was named, with other parties, as a defendant in an environmental contamination lawsuit. During the Transition Period, the Company agreed to settle this lawsuit. Accordingly, as of June 30, 2002, an estimated charge for the settlement and related legal fees of \$1,429,000 (\$961,000, net of tax) was recorded. This charge is included in the results of discontinued operations. The lawsuit relates to property that was occupied by the Company's Power business over thirty-seven years ago. While the Company believes the suit was without merit, it agreed to the settlement to eliminate the future costs of defending itself and the uncertainty and risks associated with litigation. As of December 31, 2003, the amount of settlement, exclusive of legal costs, remaining to be paid was \$250,000 included in Accrued liabilities and other in the accompanying consolidated balance sheet.

The Company is also 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.

9. PENSION AND POSTRETIREMENT WELFARE PLANS

Pension Plan

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

In accordance with SFAS No. 132, Employers Disclosure About Pensions and Other Post-Retirement Benefits, 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, 2003 and December 31, 2002 (in thousands):

	December 31, 2003	December 31, 2002
Change in projected benefit obligation:		
Projected benefit obligation at beginning of period*	\$ 3,073	\$ 3,370
Service cost	85	41
Employee contributions	13	6
Interest cost	185	89
Actuarial loss (gain)	82	(359)
Benefits paid	(193)	(74)
Projected benefit obligation at end of period	\$ 3,245	\$ 3,073
Change in plan assets:		
Fair value of plan assets at beginning of period*	\$ 2,770	\$ 2,858
Actual return (loss) on plan assets	541	(20)
Employee contributions	13	6
Benefits and expenses paid	(193)	(74)
Fair value of plan assets at end of period	\$ 3,131	\$ 2,770

* Beginning of period for December 31, 2002 was July 30, 2002, the date of the Motor Products acquisition.

Excess of projected benefit obligation over fair value of plan assets	\$	114	\$	303
Unrecognized gain		441		223
Accrued pension cost	\$	555	\$	526

The accumulated benefit of obligation for the pension plan was \$3,165,000 at December 31, 2003 and \$2,969,000 at December 31, 2002.

Components of net periodic pension expense included in the consolidated statement of operations for the year 2003 and Transition Period are as follows:

	For the year ended December 31, 2003	For the Transition Period ended December 31, 2002
Service cost	\$ 85	\$ 41
Interest cost on projected benefit obligation	185	89
Expected return on assets	(241)	(115)
Net periodic pension expense	\$ 29	\$ 15

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

	December 31, 2003	December 31, 2002
Discount rate	6.00%	6.25%
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, 2003	For the Transition Period ended December 31, 2002
Discount rate	6.00%	6.25%
Expected long-term rate of return on plan assets	9.00%	10.00%
Rate of compensation increases	5.00%	5.00%

The Company does not expect to fund the pension plan in 2004.

The expected rate of return is based on the targeted asset allocation of 65% equity securities and 35% fixed income securities.

The pension plan assets allocation at December 31, 2003 and 2002 were as follows:

	December 31, 2003	December 31, 2002
Cash equivalents	1%	1%
Equity securities	65%	69%
Fixed income securities	34%	30%
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 benefits and life insurance benefits to current and former employees hired before January 1, 1994 who retire from Motor Products. No contributions from retirees are required and the plan is funded on a pay-as-you-go basis. The Company recognizes the expected cost of providing such post-retirement benefits during employees' active service periods.

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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, 2003 and December 31, 2002 (in thousands):

December 31,

December 31,

	2003	2002
Change in postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of period*	\$ 2,327	\$ 2,230
Service cost	61	21
Interest cost	122	59
Actuarial loss (gain)	(295)	50
Benefits paid	(79)	(33)
Accumulated postretirement benefit obligation at end of period	\$ 2,136	\$ 2,327
Accumulated postretirement benefit obligation	\$ 2,136	\$ 2,327
Unrecognized net gain (loss) attributable to assumption changes during the year	271	(50)
Accrued postretirement benefit cost	\$ 2,407	\$ 2,277

* Beginning of period for December 31, 2002 was July 30, 2002, the date of the Motor Products acquisition.

Net periodic postretirement benefit costs included in the Consolidated Statement of Operations for year 2003 and the Transition Period is as follows (in thousands):

	For the year ended December 31, 2003	For the Transition Period ended December 31, 2002
Service cost	\$ 61	\$ 21
Interest cost	122	59
Amortization of (Gain) loss	(5)	—
Total	\$ 178	\$ 80

For measurement purposes, an annual rate of increase in the per capita cost of covered health care benefits was assumed. The rate was assumed to decrease gradually to the ultimate rate by a said year, and remain at that level thereafter, per the following:

	December 31, 2003	December 31, 2002
Annual rate of increase per capita of covered health care benefits	9.50%	9.50%
Ultimate rate	4.00%	4.25%
Year ultimate rate is reached	2014	2013

The healthcare cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed healthcare cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2003 by \$438,000 and the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for year 2003 by \$45,600. Decreasing the assumed healthcare postretirement benefit obligation as of December 31, 2003 by 1% decreases the accumulated postretirement benefit obligation by \$333,500 and the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for year 2003 by \$34,000. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.00% and 6.25% as of December 31, 2003 and 2002, respectively. The weighted average discount rate used to determine the net periodic postretirement benefit cost was 6.00% for 2003 and 6.25% for 2002.

The Company expects to contribute approximately \$85,000 to the postretirement welfare plan during 2004. The accrued postretirement benefit cost has been reflected as a non-current liability due to the insignificance of estimates to be funded in 2004.

10. RESTRUCTURING CHARGES

Restructuring charges include the costs associated with the Company's strategy of reducing its facility requirements and implementing lean manufacturing initiatives. These charges consist of costs that are incremental to the Company's ongoing operations and, for Year 2003, include employee termination related charges.

The Company recorded restructuring charges of \$211,000 in Year 2003, primarily associated with workforce reductions which were paid in the first half of the year.

At December 31, 2003, there were no outstanding liabilities related to the restructuring charges included in accrued liabilities and other in the consolidated balance sheet.

11. 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 Chief Executive 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.

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The Company's wholly-owned foreign subsidiary in the United Kingdom was merged into the Emoteq subsidiary during Year 2003 and 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, 2003	For the Transition Period ended and as of December 31, 2002	For the fiscal years ended and as of June 30,	
			2002	2001
Revenues derived from foreign subsidiary	\$ 773	\$ 735	\$ 1,399	\$ 289
Identifiable assets	34	1,296	1,179	209

Sales to international customers were \$7,371,000, \$3,572,000, \$4,880,000, and \$6,451,000 in year 2003, the Transition Period and fiscal years 2002 and 2001, respectively.

During Year 2003, the Transition Period and Fiscal Year 2002, no single customer accounted for more than 10% of total revenues. During fiscal years 2001 one customer accounted for 20% of the Company's consolidated revenue from continuing operations.

12. DISCONTINUED OPERATIONS

On July 29, 2002, the Company sold substantially all the assets of its Power and Process Business to Qualitrol Power Products, LLC (Qualitrol Power) and its affiliate Danaher UK Industries, Limited (DUKI). Both Qualitrol Power and DUKI are direct or indirect subsidiaries of Danaher Corporation, a publicly traded corporation under the symbol DHR. The Power and Process Business was comprised of power instrumentation products, systems and automation products, and process instrumentation products. It also included investments in two Chinese joint ventures; a 25% interest in Kehui and a 40% interest in HPMS, which were also sold (See Note 13).

Proceeds from the sale of substantially all of the Power and Process Business were \$8,182,000 plus the assumption of certain related liabilities. Selling costs incurred were \$1,278,000. The after tax gain on the sale was \$1,019,000. The Company received net proceeds of \$7,020,000 in the Transition Period and \$500,000 in the year 2003.

The remaining assets of the Power and Process Segment related to the Company's Calibrator Business. On March 6, 2003, the Company completed the sale of its Calibrator Business to a subsidiary of Martel Electronics Corp. The proceeds consisted of \$200,000 received on March 6, 2003 plus \$50,000 due on March 6, 2004. The amount due is included in prepaid expenses and other current assets in the accompanying December 31, 2003 balance sheet. After consideration of selling costs of \$51,000 incurred in the first quarter of 2003, the net proceeds on the sale were \$199,000. Due to a writedown of the carrying value of the Calibrator Business to its estimated fair value at September 30, 2002, there was no gain or loss recorded on the finalization of the sale.

In accordance with SFAS No. 144, the consolidated financial statements of the Company have been recast to present these businesses as discontinued operations. Accordingly, the revenues, costs and expenses and assets and liabilities of these discontinued operations have been excluded from the respective captions in the accompanying Consolidated Statements of Operations and Balance Sheets and have been reported in the various statements under the captions, "Income (loss) from discontinued operations", "Current assets of segment held for sale" and "Current liabilities of segment held for sale" for all periods. In addition, certain of these Notes have been recast for all periods to reflect the discontinuance of these operations.

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Summary results for the discontinued operations are as follows (in thousands):

	For the Transition Period ended December 31, 2002	For the fiscal years ended June 30,	
		2002	2001
Revenues	\$ 1,342(a)	\$ 26,336	\$ 27,198
Income (loss) from discontinued operations:			
Gain on the sale of Power and Process, net of tax provision of \$680	\$ 1,019	\$ —	\$ —

Operating results:			
Loss from operations	(1,224)	(510)	(50)
Tax benefit	488	289	22
Operating loss from discontinued operations	(736)	(221)	(28)
Income (loss) from discontinued operations	\$ 283	\$ (221)	\$ (28)

(a) Includes one month Power and Process Business revenues and six months Calibrator Business revenues.

Amounts included in the December 31, 2002 Consolidated Balance Sheet for discontinued operations are as follows (in thousands):

Current assets of segment held for sale	
Trade receivables, net	\$ 165
Inventories, net	351
Property, plant and equipment	97
Prepaid expenses and other	71
Total	\$ 684
Current liabilities of segment held for sale	
Accounts payable	\$ 53
Accrued liabilities	450
Product warranty reserve	32
Total	\$ 535

13. INVESTMENTS IN JOINT VENTURES

The Company had three joint venture investments in China—a 20% interest in Hathaway Si Fang Protection and Control Company, Ltd. (Si Fang), a 25% interest in Zibo Kehui Electric Company Ltd. (Kehui) and a 40% interest in Hathaway Power Monitoring Systems Company, Ltd. (HPMS). The Company accounted for these investments using the equity method of accounting. On July 29, 2002, the Company sold its investments in Kehui and HPMS as part of the sale of its Power and Process Business. On July 5, 2001, the Company sold its investment in Si Fang for \$3,020,000 in cash. The Company recorded a pretax gain on this sale, net of selling costs, of \$674,000.

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The Company recorded the following in its consolidated statements of operations, all of which are now included in the results of discontinued operations (in thousands):

	For the fiscal years ended June 30,	
	2002	2001
Share of income under equity method of accounting	\$ 159	\$ 1,170
Gain on sale of investment in Si Fang	674	—

14. SUBSEQUENT EVENTS (UNAUDITED)

On February 10, 2004, the Company signed a merger agreement to acquire Owosso Corporation (OTCBB: OWOS) located in Watertown, New York. Owosso's sole operating subsidiary is Stature Electric, Inc. The merger consideration of \$14 million will consist of the issuance of approximately 532,200 shares of Allied Motion common stock representing approximately 9.6% of the outstanding shares of the Company after the merger, \$1 million of cash payable to Owosso's preferred shareholders, assumption of \$4.6 million of Owosso's debt and approximately \$6 million of cash to settle the remainder of Owosso's debt and liabilities at closing. Additional subordinated notes for up to \$500,000 may be issued by Allied Motion effective January 1, 2005 payable over five years if Stature achieves certain revenue levels in 2004. In addition, warrants to purchase 300,000 shares of Company common stock at \$4.41 per share will be issued to Owosso's preferred shareholders. The Company has received a commitment from PNC Business Credit and Silicon Valley Bank for up to \$18.1 million to complete the acquisition and for working capital needs. The closing of the acquisition is subject to approval by Owosso's shareholders, the effectiveness of a registration statement for the Company's securities and customary closing conditions.

15. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for each of the four quarters in year 2003, the two quarters in the Transition Period and the four quarters in fiscal year 2002 is as follows (in thousands, except per share data):

Year 2003	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 9,176	\$ 9,736	\$ 9,838	\$ 10,684
Gross margin	2,203	2,553	2,292	3,219

Income (loss) from continuing operations	(149)	302	403	392
Diluted (loss) income per share from continuing operations	(0.03)	0.06	0.08	0.07
		First Quarter	Second Quarter	
Transition Period				
Revenues		\$ 8,020	\$ 9,171	
Gross margin		1,896	2,126	
Income (loss) from continuing operations		(52)	97	
Income from discontinued operations		243	40	
Diluted (loss) income per share from continuing operations		(0.01)	0.02	

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	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal year 2002				
Revenues	\$ 3,646	\$ 4,222	\$ 4,051	\$ 3,804
Gross margin	996	1,392	1,290	1,425
Income (loss) from continuing operations	(73)	133	(57)	(48)
Income (loss) from discontinued operations	(165)	(57)	364	(363)
Diluted (loss) income per share from continuing operations	(0.01)	0.02	(0.01)	(0.01)

Included in the results of discontinued operations for the fourth quarter of fiscal year 2002 is a pretax charge for litigation settlement and related legal fees of \$1,429,000.

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

There were no disagreements with KPMG LLP on accounting and financial disclosure matters.

On July 17, 2002, the Company replaced Arthur Andersen LLP ("Arthur Andersen") as the principal accountant for the Company and its affiliates. For the previous two fiscal years, the reports of Arthur Andersen on the Company's consolidated financial statements did not contain an adverse opinion nor a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The decision to replace Arthur Andersen was approved by the Company's Board of Directors.

In connection with the audits of the Company's financial statements for each of the two fiscal years ending June 30, 2000 and June 30, 2001 and in the subsequent interim period preceding Arthur Andersen's replacement, there were no disagreements on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Arthur Andersen, would have caused Arthur Andersen to make references to the matter in its reports. For a complete discussion, refer to the Form 8-K filed by the Company on July 18, 2002.

On July 17, 2002, the Company engaged as its new principal accountant KPMG LLP ("KPMG") for the fiscal year ending June 30, 2002. The decision to retain KPMG LLP was approved by the Company's Board of Directors upon the recommendation of its Audit Committee. During the two fiscal years preceding and through the date of their appointment, the Company has not consulted with KPMG on matters of the type contemplated by Item 304 (a) (2) (i) and (ii) of Regulation S-K. All of the fiscal periods included in this Form 10-K have been audited by KPMG LLP because of the requirement to restate the financial statements for discontinued operations.

Item 9A. Controls and Procedures.

The Company's controls and procedures include those designed to ensure that material information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. As of December 31, 2003 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 and concluded that they are effective.

There has not been any significant changes in the Company's internal controls over financial reporting during the quarter ended December 31, 2003 that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART III

Item 10. Directors and Executive Officers of the Registrant.

Information required by this item is set forth in the sections entitled "Election of Directors", "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation.

Information required by this item is set forth in the section entitled "Executive Compensation" in the Company's Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information required by this item is set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Effective September 1, 1998, the Company entered into a Consulting Agreement with Eugene E. Prince, who resigned from the offices of President and Chief Executive Officer on August 13, 1998 and retired from employment with the Company effective August 31, 1998. Mr. Prince is the Chairman of the Board of Directors and a major stockholder of the Company. Under the Consulting Agreement, he will be compensated for providing consulting services to the Company as requested by the Chief Executive Officer. During year 2003, the Transition Period and fiscal years 2002 and 2001, Mr. Prince was not paid for providing any consulting services.

Item 14. Principal Accountant Fees and Services

Information required by this item is set forth in the section entitled "Principal Accountant Fees and Services", in the Company's Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

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

1. Financial Statements

- a) Consolidated Balance Sheets as of December 31, 2003 and December 31, 2002.
- b) Consolidated Statements of Operations for year 2003, the six month Transition Period ended December 31, 2002 and each of the fiscal years in the two-year period ended June 30, 2002.
- c) Consolidated Statements of Stockholders' Investment and Comprehensive Income for year 2003, the six month Transition Period ended December 31, 2002 and each of the fiscal years in the two-year period ended June 30, 2002.
- d) Consolidated Statements of Cash Flows for year 2003, the six month Transition Period ended December 31, 2002 and each of the fiscal years in the two-year period ended June 30, 2002.
- e) Notes to Consolidated Financial Statements.
- f) Report of Independent Auditors.

2. Financial Statement Schedules

- II. Valuation and Qualifying Accounts.

3. Exhibits

Exhibit No.	Subject	Page
2.1	Agreement and Plan of Merger, dated as of February 10, 2004, by and among Allied Motion Technologies Inc., AMOT Inc. and Owosso Corporation.	*
3.1	Restated Articles of Incorporation.	*
3.2	Amendment to Articles of Incorporation dated September 24, 1993.	*
3.3	By-laws of the Company adopted August 11, 1994.	*
10.1	Loan and Security Agreement dated May 7, 1998 between Hathaway Corporation	*

and certain subsidiaries of Hathaway Corporation and Silicon Valley Bank. Incorporated by reference to Exhibit 10.16 to the Company's Form 10-K for the fiscal year ended June 30, 1998.

10.2 Schedule to Loan and Security Agreement dated May 7, 1998 between Hathaway Corporation and certain subsidiaries of Hathaway Corporation and Silicon Valley Bank. Incorporated by reference to Exhibit 10.17 to the Company's Form 10-K for the fiscal year ended June 30, 1998. *

10.3 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. *

10.4 Consulting Agreement between Hathaway Corporation and Eugene E. Prince dated September 1, 1998. *

10.5 Year 2000 Stock Incentive Plan. Incorporated by reference to Exhibit A to the Company's Proxy Statement dated September 21, 2000. *

10.6 Asset Purchase Agreement By and Among Qualitrol Power Products, LLC, Danaher UK Industries Limited, Hathaway Systems Corporation, Hathaway Industrial Automation, Inc., Hathaway Process Instrumentation Corporation, Hathaway Systems, Ltd. and Hathaway Corporation. Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement dated June 24, 2002. *

10.7 Stock Purchase Agreement among Motor Products—Owosso Corporation, Motor Products—Ohio Corporation, Owosso Corporation and Hathaway Motion Control Corporation. Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 2002. *

10.8 Amendment dated July 10, 2002 to Loan Documents for Silicon Valley Bank. Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 2002. *

10.9 Amendment dated July 30, 2002 to Loan Documents for Silicon Valley Bank. Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 2002. *

10.10 Amendment No. 1 to the Hathaway Corporation Year 2000 Stock Incentive Plan. Incorporated by reference to Exhibit B to the Company's Proxy Statement dated September 30, 2002. *

10.11 Employment Agreement between Allied Motion Technologies, Inc. and Richard D. Smith, effective August 1, 2003.

10.12 Change of Control Agreement between Allied Motion Technologies, Inc. and Richard D. Smith, effective July 24, 2003.

10.13 Employment Agreement between Allied Motion Technologies, Inc. and Richard S. Warzala, effective March 1, 2003.

10.14 Change of Control Agreement between Hathaway Corporation and Richard S. Warzala, effective May 1, 2002.

10.15 Amendment dated September 26, 2003 to Loan Documents for Silicon Valley Bank.

10.16 Amendment dated February 19, 2004 to Loan Documents for Silicon Valley Bank.

14.1 Code of Ethics for chief executive officer, president and senior financial officers adopted October 23, 2003.

21 List of Subsidiaries

23 Consent of KPMG LLP.

31.1 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.

31.2 Certification of the President and Chief Operating 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.

* These documents have been filed with the Securities and Exchange Commission and are incorporated herein by reference.

(b) Reports on Form 8-K.

On October 27, 2003, the Company filed Form 8-K to report the issuance of a press release dated October 27, 2003 to report the results of operations for the third quarter ended September 30, 2003.

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

Richard D. Smith
Chief Executive Officer and
Chief Financial Officer

Date: March 22, 2004

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
/s/ RICHARD D. SMITH Richard D. Smith	Chief Executive Officer, Chief Financial Officer and Director	March 22, 2004
/s/ EUGENE E. PRINCE Eugene E. Prince	Chairman of the Board of Directors	March 22, 2004
/s/ GEORGE J. PILMANIS George J. Pilmanis	Director	March 22, 2004
/s/ DELWIN D. HOCK George J. Pilmanis	Director	March 22, 2004
/s/ GRAYDON D. HUBBARD Delwin D. Hock	Director	March 22, 2004

ALLIED MOTION TECHNOLOGIES INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Balance at	Charged to	Deductions	Additions	Balance
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	Beginning of Period	Costs and Expenses	from Reserves	due to Acquisition	at End of Period
Year Ended December 31, 2003:					
Reserve for bad debts	\$ 148	\$ 47	\$ (89)	\$ —	\$ 106
Reserve for excess or obsolete inventories	\$ 1,024	\$ 135	\$ (278)	\$ —	\$ 881
Valuation allowance for deferred tax assets	\$ 424	\$ —	\$ (72)	\$ —	\$ 352
Transition Period Ended December 31, 2002:					
Reserve for bad debts	\$ 64	\$ 52	\$ (9)	\$ 41	\$ 148
Reserve for excess or obsolete inventories	\$ 697	\$ 92	\$ (224)	\$ 459	\$ 1,024
Valuation allowance for deferred tax assets	\$ 424	\$ —	\$ —	\$ —	\$ 424
Year Ended June 30, 2002:					
Reserve for bad debts	\$ 60	\$ 34	\$ (30)	\$ —	\$ 64
Reserve for excess or obsolete inventories	\$ 690	\$ 247	\$ (240)	\$ —	\$ 697
Valuation allowance for deferred tax assets	\$ 424	\$ —	\$ —	\$ —	\$ 424
Year Ended June 30, 2001:					
Reserve for bad debts	\$ 54	\$ 9	\$ (3)	\$ —	\$ 60
Reserve for excess or obsolete inventories	\$ 579	\$ 111	\$ —	\$ —	\$ 690
Valuation allowance for deferred tax assets	\$ 610	\$ (186)	\$ —	\$ —	\$ 424

EMPLOYMENT AGREEMENT

Richard D. Smith

THIS EMPLOYMENT AGREEMENT, dated and effective as of August 1, 2003 is between Allied Motion Technologies, Inc., a Colorado corporation (the "Company"), and Richard D. Smith ("Employee").

RECITALS:

The Employee has acknowledged skills and experience in the business conducted by the Company and the Company desires to obtain the benefit of the Employee's knowledge, skills and experience and assure itself of the ongoing right to Employee's services from and after the date hereof, and is willing to do so on the terms and conditions set forth in this Agreement. Employee is willing and able to render services to the Company, from and after the date hereof, on the terms and conditions set forth in this Agreement.

AGREEMENT:

NOW, THEREFORE, the Company and Employee agree as follows:

1. Employment.

1.1 Title and Duties of Employee. The Company hereby employs Employee as the Chief Executive Officer and Chief Financial Officer of the Company and Employee hereby accepts such employment with the Company.

(a) *Powers and Duties.* Employee shall have the powers and duties normally incident to the offices he holds as provided in the bylaws of the Company and such other duties as shall be determined from time to time by the Company's Board of Directors (the "Board") consistent with Employee's qualifications and the best interest of the Company. Employee shall report to the Board. Employee's powers and authorities shall be superior to those of any other officer or employee of the Company or any subsidiary thereof.

(b) *Contract Rights.* Failure of the Board to elect Employee as Chief Executive Officer or Chief Financial Officer, or action by the Board to remove Employee from such offices, shall be without prejudice to the contract rights in this Agreement.

(c) *Service on the Board.* So long as Employee is willing to serve on the Board and has not been terminated for cause, the Board shall nominate Employee for election to the Board. Failure to elect to, or removal from, the position of director or Chief Executive Officer or termination of this Agreement for any reason shall not constitute resignation from the Board or termination of Employee's service on the Board and termination of employment as Chief Executive Officer shall not include termination as a director.

1.2 Performance. Throughout the period of Employee's employment hereunder, Employee shall devote Employee's full business time, attention, knowledge and skills, faithfully, diligently, and to the best of Employee's ability, to the active performance of Employee's duties and responsibilities hereunder; *provided, however,* Employee may serve as a

director of other corporations and entities and may engage in other activities to the extent they do not inhibit the performance of Employee's duties hereunder, or conflict with the business of the Company. Employee shall disclose to the Company the name of any corporation or entity on which he serves as a director or in a similar capacity and describe other activities that are not personal in nature in which he engages. Employee shall do such traveling as reasonably may be required in connection with the performance of such duties and responsibilities. Employee shall not be required to relocate Employee's residence and Employee may conduct work out of his residence from time to time as he determines appropriate.

2. Term of Employment. Unless terminated as provided in Section 4 hereof, the term of this Agreement shall extend to July 31, 2008 (the "Initial Period"), and thereafter shall automatically continue on a year to year basis (each a "Subsequent Period") unless the Company or Employee shall give the other party notice at least 60 days prior to the termination of the Initial Period or any Subsequent Period of its or his election not to renew the term of employment, in which case this Agreement shall terminate at the end of the period in which the notice is given; *provided, however,* the Company's obligation to pay compensation pursuant to Section 3 or perform any other acts with respect to the last year for which this Agreement is effective shall continue and be enforceable notwithstanding the termination of this Agreement.

3. Compensation Benefits.

3.1 Base Salary. As compensation for services to be rendered by Employee hereunder, the Company shall pay to Employee an annual salary of not less than \$235,000 per year, payable in periodic installments (but in no event less frequently than monthly) in accordance with the standard payroll practices of the Company in effect from time to time. Employee's salary shall be reviewed annually for increase (but not decrease) on a merit basis. Such review shall be conducted at the first meeting of the Board after the end of a fiscal year but not later than February 28 of each year and the effective date of any such increase shall be March 1. The Employee's annual salary in effect from year to year is herein referred to as the "Base Salary".

3.2 Annual Bonus.

(a) *Performance Criteria.* The Company shall pay to Employee an Annual Bonus with respect to each fiscal year in amounts determined as provided by the Board based on achieving performance criteria established at the beginning of each fiscal year. Such

performance criteria will recognize the overall financial performance of the Company and the improvements made in financial results.

(b) *Time of Payment.* The first payment of the Annual Bonus to Employee pursuant to Section 3.2 (a) shall be with respect to the fiscal year ended December 31, 2003. An Annual Bonus provided herein shall be paid, subject to achieving the performance criteria, with respect to each fiscal year thereafter during the term of this Agreement. All Annual Bonuses payable under Section 3.2 (a) shall be paid in cash immediately following the first Board meeting held after the end of the applicable fiscal year at which the Annual Bonus calculation is approved by the Board.

3.3 Long-Term Incentive Payment Plan. On or before the first Board meeting held in a current fiscal year, the Board shall consider whether to grant options to purchase the Company's Common Stock ("Stock Options") to Employee, including the terms and the provisions of any Stock Options. Grants of Stock Options provided under this Section 3.3 are referred to herein as "Long-Term Incentive Payout". In making its determination the Board shall consider, among other things, the Employee's responsibilities and efforts and

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performance under this Agreement in relation to the business plan and forecast, the relationship between the benefits of Stock Options and improving shareholder value, the development of the Company's products and the performance of the Company's products in the marketplace, impact of the Company's products and product development on future prospects for the Company, and an increase in the trading price per share of the Company's Common Stock. The Board shall also consider customary business practices and Long-Term Incentive Payment Plan benefits granted to Employee in comparison to such benefits provided to other executives in positions similar to the Employee.

3.4 Expenses. The Company promptly shall reimburse Employee, upon presentation of appropriate receipts and vouchers, for any reasonable business expenses incurred by Employee in connection with the performance of his duties and responsibilities hereunder.

3.5 Vacation. Throughout the period of Employee's employment hereunder, Employee shall be entitled to take, from time to time, 5 weeks of vacation annually with pay at such times as shall be mutually convenient to Employee and the Company.

3.6 Benefits and Perquisites.

(a) *Participation.* The Company shall make available to Employee, throughout the period of employment hereunder, such benefits and perquisites as are generally provided by the Company to its employees. Without limiting the foregoing, Employee shall be eligible to participate in any bonus plan, stock option plan, stock purchase plan, pension plan and group life, health and accident insurance plans as the Company shall continue to provide or which may hereafter be adopted by the Company for the benefit of its employees generally. The Company shall provide and pay the premium on long term disability insurance for Employee. The Company shall not make any changes in such plans or arrangements which would adversely affect the Employee's rights or benefits thereunder, unless such changes occur pursuant to a program applicable to all employees of the Company and do not result in a proportionately greater reduction in the rights of, or benefits to, the Employee as compared with any other employee of the Company.

(b) *Office Space.* The Company shall provide office space and secretarial services at the Company's offices suitable to Employee's position.

(c) *Life Insurance.* The Company shall provide whole life insurance on the life of Employee with death benefits of \$500,000 with all premiums paid by the Company. Employee may designate the beneficiary or beneficiaries of such policy.

(d) *Automobile.* The Company shall provide a new automobile no less frequently than every 3 years for Employee's sole use and the Company shall pay all costs of operating and maintaining or repairing such automobile. At or before the time of replacement, Employee shall have the right to purchase, at its depreciated cost to the Company, the automobile previously provided.

(e) *Benefit Plans.* The Company will make non-qualified contributions for Employees's benefit under the Company's IRS §401(k) plan on the same basis as it makes contributions for other employees.

(f) *Retirement Plan Benefits.* The Company will provide to Employee retirement plan benefits under any plan on the same basis it provides benefits to other employees.

4. Termination. This Agreement may be terminated by the Company or Employee as provided in this Section 4.

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4.1 Cause

(a) *Definition.* This Agreement may be terminated at any time at the option of the Company for Cause (as such term is hereinafter defined), effective as provided in Section 4.9. As used herein, the term "Cause" shall mean and be limited to: (i) conviction of, the indictment for (or its procedural equivalent), or the entering of a guilty plea or plea of no contest with respect to, a felony; (ii) the willful violation of the terms of this Agreement; (iii) gross negligence by Employee in connection with the performance of Employee's duties, responsibilities, agreements and covenants hereof, which violation or negligence shall continue uncorrected for a period of 45 days after receipt by Employee of a written notice from the Company; (iv) the appropriation (or attempted appropriation) of a material business opportunity of the Company, including attempting to secure or securing any personal profit in connection with any transaction entered into on behalf of the Company; (v) the misappropriation (or attempted misappropriation) of any of the Company's funds or property; or (vi) the excessive use (following at least one written warning) of alcohol or any illegal use of drugs or narcotics. For purposes of this Section, no act or failure to act on the Employee's part shall be considered "willful" unless done, or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding the foregoing, Employee shall not be deemed to have been terminated for Cause without written notice pursuant to Section 13 and providing Employee an opportunity to be heard before the Board with the provisions relied upon for termination provided in reasonable detail.

(b) *Salary; Benefits; Bonuses.* Upon termination for Cause, the Company shall (i) continue the Base Salary through the Date of Termination, (ii) pay all fringe benefits through the end of the calendar month in which termination occurs, and (iii) pay any annual bonuses pursuant to Section 3.2 treating the effective Date of Termination as being the last day of the fiscal year in which termination under this Section 4 occurs.

4.2 Retirement. Termination of employment based on "Retirement" shall mean termination in accordance with any retirement arrangement established with Employee's consent, including settlement for the Annual Bonus pursuant to Section 3.2.

4.3 Death of Employee. This Agreement shall terminate upon the death of Employee; provided, however, the Company shall (i) continue Employee's Base Salary through the month in which death occurs and for the following three months and (ii) shall make payments as provided in Section 4.5 in place of (x) Annual Bonus payments provided in Section 3.2 and (y) the Long-Term Incentive Payout pursuant to Section 3.3.

4.4 Disability of Employee

(a) *Termination; Definition.* In the event Employee becomes mentally or physically disabled during the term of employment hereunder, this Agreement shall terminate as of the date such disability is established. As used in this Section, the term "Disabled" or "Disability" means suffering from any mental or physical condition, other than use of alcohol or illegal use of drugs or narcotics, which renders Employee unable to perform substantially all of Employee's duties and services under this Agreement in a satisfactory manner for 120 consecutive days, or 180 days during any 12-month period. If, by reason of Disability, Employee is absent from the full-time performance of his duties with the Company for the periods above provided, Notice of Termination may be given and if Employee has not returned to the full-time performance of his duties within 30 days thereafter, Employee's Disability shall be deemed "established" at the end of such 30-day period.

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(b) *Salary, Benefits.* During any period that Employee fails to perform his full duties with the Company because he is Disabled, Employee shall continue to receive Base Salary until this Agreement is terminated pursuant to Section 4.8 at the rate in effect at the commencement of any such period adjusted for any compensation payable to him under any Company paid disability plan during such period. In the event of termination for Disability the Company shall continue (i) Employee's Base Salary adjusted for any compensation payable to him under any Company paid disability plan during such period and (ii) the same coverage under medical, dental, long-term disability and life insurance for the greater of (x) the remaining term of this Agreement or (y) until long term disability insurance coverage becomes effective.

(c) *Bonuses.* In the event of termination upon established Disability the Company shall make payments as provided in Section 4.5 in place of (i) the Annual Bonus payment provided in Section 3.2 and (ii) the Long-Term Incentive Payout pursuant to Section 3.3.

4.5 Death and Disability of Employee. In the event of termination upon death the Company shall make payments to Employee's personal representative, and in the event of termination for Disability the Company shall make payments to Employee, as hereinafter provided. Such payments shall be made immediately following the first meeting of the Board held after the end of the fiscal year in which death or Disability occurred, but in no event later than February 28 of such year.

(a) *Annual Bonus.* With respect to the Annual Bonus payment provided in Section 3.2(a) the Company shall make a separate determination of the Annual Bonus based on the factors provided in Section 3.2(a) for the fiscal year in which death or Disability occurs

(b) *Long Term Incentive Plan.* With respect to the Long-Term Incentive Payout provided in Section 3.3 the Company shall make a separate determination of the Long-Term Incentive Payout based on the factors provided in Section 3.3 for the fiscal year in which death or Disability occurs.

4.6 Other than for Cause. If Employee's employment shall be terminated by the Company other than for Cause, Retirement, death or Disability, prior to a change in control of the Company or potential change in control of the Company as defined in the Severance Agreement referred to in Section 4.7, then Employee shall be entitled to the payments provided below:

(a) *Base Salary.* On the effective Date of Termination the Company shall pay Employee his full Base Salary through the end of the month in which termination occurs at the rate in effect at the time Notice of Termination is given, and for one full year thereafter with payments being made over the following 12 months and no less frequently than once per month.

(b) *Benefits.* The Company shall continue providing medical, dental, long-term disability and life insurance equal to the coverages existing at the time Notice of Termination is given for one full year.

(c) *Annual and Long Term Bonus.* On the effective Date of Termination the Company shall make payments to and issue to Employee with respect to, and in place of (i) the Annual Bonus payment provided in Section 3.2 an amount in cash equal to 0.9 multiplied by Base Salary for the year in which employment is terminated and (ii) the Long Term Incentive Payout provided in Section 3.3 for the fiscal year in which employment is terminated under this Section.

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4.7 Change in Control.

(a) *Severance Agreement Continued.* The letter agreement dated July 24, 2003, (Severance Agreement) between the Company and Employee providing certain benefits to Employee upon a change in control of the Company is continued and upon a change in control of the Company the Severance Agreement shall apply and have priority over this Agreement so that in the event of any conflict between this

Agreement and the Severance Agreement the Severance Agreement shall apply. Any payments made or benefits provided pursuant to the Severance Agreement are not to be duplicated by any requirements of this Agreement.

(b) *Definition.* As used in this Agreement the term "change in control of the Company" shall have the meaning expressed in the Severance Agreement.

4.8 Notice of Termination. Any purported termination of employment by the Company or by Employee, other than for death, may be communicated orally or in writing. If communicated orally, such communication shall be followed within 10 days by a written communication which, and if communicated by written communication the communication, shall indicate the specific termination provisions in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provisions so indicated and shall state an effective date of termination.

4.9 Date of Termination, Etc. "Date of Termination" shall mean: (i) if employment is terminated for Disability, the date as provided in Section 4.4(a), and (ii) if employment is terminated for Cause pursuant to Section 4.1 or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Section 4.1 shall be the end of a calendar month but not less than 15 days). Amounts paid under this Section are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4.10 Termination by Employee. Employee may terminate this Agreement by resigning as Chief Executive Officer upon at least 30 days prior written notice of the effective Date of Termination. In such event the Company shall continue Employee's Base Salary and all fringe benefits to the effective Date of Termination. Termination of this Agreement under this Section does not affect the Company's obligation to make all payments to Employee which were fixed and determined prior to the effective Date of Termination.

5. Confidential Information

5.1 Definition. Confidential Information means:

(a) Any and all (i) trade secrets concerning the business and affairs of the Company, product specifications, data, know-how, formula, compositions, processes, designs, sketches, photographs, graphs, drawings, samples, inventions and ideas, past, current, and planned research and development, current and planned manufacturing or distribution methods and processes, customer lists, current and anticipated customer requirements, price lists, market studies, business plans, computer software and programs (including object code and source code), computer software and database technologies, systems, structures, architectures (and related formula), improvements, devices, discoveries, concepts, ideas, methods and information, and any other information, however documented, that is a trade secret within the meaning of Colorado Revised Statutes § 7-74-101 *et seq.* and

(b) information concerning the business and affairs of the Company (which includes historical financial statements, financial projections and budgets, historical and projected

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sales, capital spending budgets and plans, the names and backgrounds of key personnel, personnel training and techniques and materials), however documented; and

(c) notes, analyses, compilations, studies, summaries and other material prepared by or for the Company containing or based, in whole or in part, on any information included in the foregoing.

5.2 Disclosure and Use. Employee shall not disclose, either during or subsequent to Employee's employment with the Company, any Confidential Information or proprietary data of the Company, whether or not developed by Employee, except (i) as may be required for Employee to perform Employee's employment duties with the Company; (ii) to the extent such information has been disclosed to Employee by a third party who is not subject to restriction on the dissemination of such information; (iii) as such information becomes generally available to the public other than as a result of a disclosure by Employee; (iv) information which must be disclosed as a result of a subpoena or other legal process, or (v) if Employee shall first secure the Company's prior written authorization. This covenant shall survive the termination of the Employee's employment with the Company, and shall remain in effect and be enforceable against Employee for so long as any such Confidential Information or proprietary data retains economic value, whether actual or potential, from not being generally known to other persons who can obtain economic value from its disclosure or use.

5.3 Return of Materials. The Employee will not remove from the Company's premises (except to the extent such removal is for the purposes of the performance of Employee's duties at home or while traveling, or except as otherwise specifically authorized by the CEO), any Confidential Information Employee recognizes that, as between the Company and Employee, all the Confidential Information, whether or not developed by the Employee, are the exclusive property of the Company. Upon termination of employment by the Company, Employee shall promptly deliver to the Company all Confidential Information, and all other materials of a secret or confidential nature relating to the Company's business, which are in the possession or under the control of Employee and Employee shall not retain copies of any such Confidential Information.

6. Inventions and Discoveries. Employee hereby assigns to the Company all of the Employee's rights, title and interest in and to all inventions, techniques, discoveries, processes, designs or improvements (whether patentable or not), any industrial design (whether registrable or not), or uses Confidential Information as described in Section 5.1, or other intellectual property rights pertaining thereto, that relates in any way to, or is useful in any manner in, the business then being conducted or proposed to be conducted by the Company, and any such item created by the Employee, either solely or in conjunction with others, following termination of Employee's employment with the Company (hereinafter referred to collectively as the "Inventions"). Promptly upon the development or making of any Invention or improvement thereon, Employee shall disclose the same to the Company and shall execute and deliver to the Company such reasonable documents as the Company may request to confirm the assignment of Employee's rights therein and if requested by the Company, shall assist the Company in applying for and prosecuting any patents which may be available in respect thereof. Employee acknowledges that all of Employee's Company-related writing, works of authorship, specially commissioned works and other Employee Inventions are works made for hire, property of the Company, including all copyrights, patents, and other intellectual property rights pertaining thereto. If it is determined that any such works are not works made for hire, the

7. Restrictive Covenant.

(a) While the Employee is an employee of the Company and during a period in which the Company is making continuation payments of Base Salary pursuant to Section 4 hereof, Employee shall not, without the prior written consent of the Company, (i) engage directly or indirectly in any Competing Business in the geographical area where the Company does business (including, without limitation, the United States and any country in which the Company has a sales representative at the time of termination) whether as an employee, consultant or advisor, or owner as principal, shareholder or partner of any equity interest in excess of 5% of any business entity (which shall include any proprietorship, trust, joint venture, partnership or any type of corporation or association), or (ii) serve as an officer, director, trustee, partner or the like in any such business entity.

(b) The term "Competing Business" as used in this Section 7 includes any business conducted by the Company, which initially includes the design, production and marketing of motion control products and any other products manufactured or marketed by the Company at the date of termination of this Agreement.

8. Arbitration. Any controversy or claim arising out of or relating to this Agreement or the breach thereof shall be settled by arbitration in the City and County of Denver in accordance with the rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The Company shall pay all costs of arbitration. In the event that it shall be necessary or desirable for Employee to retain legal counsel and/or incur other costs and expenses in connection with interpretation of his rights under this Agreement, including any procedure in arbitration, Employee shall be entitled to recover from the Company reasonable attorneys' fees and costs and expenses incurred by him in connection with such interpretation or arbitration, regardless of the final outcome, unless the arbitrator shall determine that under the circumstances such payment would be unjust.

9. Mitigation. Employee shall not be required to mitigate the amount of any payment provided in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided in this Agreement be reduced by any compensation earned by Employee as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by Employee to the Company, or otherwise.

10. Announcements. No public announcement regarding termination of employment of the Employee or any change in status of the Employee of the Company shall be made without Employee's approval except the Company may announce Employee's termination if Company is otherwise required to do so pursuant to the rules of the Securities and Exchange Commission or to any other legal requirement. All matters with respect to termination of employment of Employee, retirement of Employee or other action taken pursuant to this Agreement shall be kept confidential and neither Company nor Employee will make unfavorable comments about the other in connection with this Agreement.

11. Severability. If any provision of this Agreement, including the Restrictive Covenant in Section 7, is held invalid or unenforceable, either in its entirety or by virtue of its scope or application to given circumstances, such provision shall thereupon be deemed modified only to the extent necessary to render same valid, or not applicable to given circumstances, or excised from this Agreement, as the situation may require, and this Agreement shall be construed and enforced as if such provision had been included herein as so modified in scope or application, or had not been included herein, as the case may be.

12. Non-Assignability. In light of the unique personal services to be performed by Employee hereunder, it is acknowledged and agreed that any purported or attempted assignment or transfer by

Employee of this Agreement or any of Employee's duties, responsibilities or obligations hereunder shall be void. This Agreement may not be assigned by the Company without the prior written consent of Employee.

13. Notices. Any notice, request, demand or other communication required or permitted under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or on the date of receipt when mailed by certified mail, return receipt requested, addressed as follows:

If to the Company:	Allied Motion Technologies, Inc. 23 Inverness Way East, Ste 150 Englewood, Colorado 80112 Attention: Chairman and Secretary
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If to the Employee:	Richard D. Smith 8422 Newland Drive Arvada, CO 80003
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or to such other address or addresses as may be specified from time to time by notice; *provided however*, that any notice of change of address shall not be effective until its receipt by the party to be charged therewith.

14. General

14.1 Amendments. Neither this Agreement nor any of the terms or conditions hereof may be waived, amended or modified except by means of a written instrument duly executed by the party to be charged therewith.

14.2 Captions and Headings. The captions and paragraph headings used in this Agreement are for convenience of reference only, and shall not affect the construction or interpretation of this Agreement or any of the provisions hereof.

14.3 Governing Law. This Agreement, and all matters or disputes relating to the validity, construction, performance or enforcement hereof, shall be governed, construed and controlled by and under the laws of the State of Colorado without regard to principles of conflicts of law.

14.4 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns.

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Employee to all rights for breach hereunder.

(b) If Employee should die while any amounts would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Employee's personal representatives or to his estate.

14.5 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original hereof, but all of which together shall constitute one and the same instrument.

14.6 Entire Agreement. Except as otherwise set forth or referred to in this Agreement, this Agreement constitutes the sole and entire agreement and understanding between the parties hereto as to the subject matter hereof, and supersedes all prior discussions, agreements and understandings of every kind and nature between them as to such subject matter.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the date first set forth above.

ALLIED MOTION TECHNOLOGIES, INC.

By: /s/ EUGENE E. PRINCE

Eugene E. Prince—Chairman

By: /s/ RICHARD D. SMITH

Richard D. Smith—Employee

QuickLinks

[EMPLOYMENT AGREEMENT Richard D. Smith](#)

Allied Motion Technologies, Inc.
23 Inverness Way East, Suite 150
Englewood, Colorado 80112

Richard D. Smith
8422 Newland Drive
Arvada, CO 80003

Dear Mr. Smith:

Allied Motion Technologies, Inc. (the "Company") has determined that it is essential to the best interests of the Company and its shareholders to foster the continuous employment of key management personnel including you as CEO of the Company. The board of directors of the Company (the "Board") recognizes that, as is the case with many publicly held corporations, the possibility of a change in control of the Company exists. Such possibility and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders. In addition, the Company seeks your unequivocal support in realizing the maximum value per share to shareholders in the event of a disposition of the Company. In the event of a change of control, we also seek your cooperation in a smooth transition of management. These objectives require employment arrangements that provide security to you in the face of uncertainty.

The Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of management, including yourself, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Company.

In order to induce you to remain in the employ of the Company, and in consideration of your agreements set forth in Section 2(ii), the Company agrees that you shall receive the severance benefits set forth in this letter agreement ("Agreement") in the event your employment with the Company is terminated subsequent to a change in control of the Company (as defined in Section 2 hereof) under the circumstances described below.

1. *Term of Agreement.* This Agreement shall commence on the date hereof and shall continue in effect through December 31, 2003; *provided, however,* that commencing on January 1, 2004 and each January 1 thereafter, the term of this Agreement shall automatically be extended for one additional year (meaning that as of each January 1 this Agreement shall then have a term of two years which shall reduce during the ensuing 12 months but shall again be extended on the next following January 1 to a term of two years) unless, not later than the September 30 immediately preceding each such January 1, the Company shall have given notice that it does not wish to extend this Agreement; *provided further,* if a change in control of the Company shall have occurred during the original or extended term of this Agreement, this Agreement shall continue in effect for a period of 24 months beyond the month in which such event occurred.

2.(i) *Change in Control of the Company.* No benefits shall be payable hereunder unless there shall have been a change in control of the Company, as set forth below. For purposes of this Agreement, a "change in control of the Company" shall be deemed to have occurred (A) if any "Person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as

amended (the "Exchange Act")), other than (1) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan, or (2) any Person who, on the date hereof, is a director or officer of the Company or whose shares of common stock of the Company are treated as beneficially owned (as defined in Rule 13d-3 under the Exchange Act) by any such director or officer, is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing more than 45% of the combined voting power of the Company's then outstanding securities; or (B) upon the first purchase of outstanding shares of the Company's outstanding common stock pursuant to a tender or exchange offer (other than a tender or exchange offer made by the Company, by an employee benefit plan established or maintained by the Company or by any of their respective affiliates); or (C) if during any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clauses (A) or (D) of this Subsection) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds ($\frac{2}{3}$) of the Company directors then still in office who either (1) were directors at the beginning of the period or (2) whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (D) if the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (E) the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets;

provided, however, a spinoff distribution to shareholders of the Company of all or part of the Company's equity interest in a subsidiary entity shall not constitute a change in control of the Company.

(ii) *Potential Change in Control of the Company.* For purposes of this Agreement, a "potential change in control of the Company" shall be deemed to have occurred if (A) the Company enters into an agreement, the consummation of which would result in the occurrence of a change in control of the Company; (B) any Person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a change in control of the Company; (C) any Person, other than (1) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, or (2) any Person or entity organized, appointed or established by the Company for or pursuant to

the terms of any such plan, or (3) any Person who, on the date hereof, is a director or officer of the Company or whose shares of common stock of the Company are treated as beneficially owned by any such director or officer, increases his beneficial ownership of such securities by 8% or more of the shares of the Company issued and outstanding on the date of such determination; or (D) the Board adopts a resolution to the effect that, for purposes of this Agreement, a potential change in control of the Company has occurred. You agree that, subject to the terms and conditions of this Agreement, in the event of a potential change in control of the Company, you will remain in the employ of the Company until the earliest of (1) a date which is twelve (12) months after the occurrence of such potential change in control of the Company, (2) the termination by you of your employment by reason of death or Disability or Retirement, as defined in Section 3(i), or (3) the occurrence of a change in control of the Company.

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3. *Termination Following Change in Control.* If any of the events described in Section 2(i) hereof constituting a change in control of the Company shall have occurred, you shall be entitled to the benefits provided in Section 4(iii) hereof upon the subsequent termination of your employment during the term of this Agreement unless such termination is (A) because of your death, Disability or Retirement, (B) by the Company for Cause, or (C) by you other than for Good Reason.

(i) *Disability; Retirement.* If, as a result of your incapacity due to physical or mental illness, you shall have been absent from the full-time performance of your duties with the Company for six (6) consecutive months, and within thirty (30) days after Notice of Termination is given you shall not have returned to the full-time performance of your duties, your employment may be terminated for "Disability". Termination of your employment based on "Retirement" shall mean your termination in accordance with any retirement arrangement established with your consent.

(ii) *Cause.* Termination by the Company of your employment for "Cause" shall mean termination upon (A) an act of dishonesty constituting a felony under the laws of your domicile and resulting or intending to result in your gain or personal enrichment at the expense of the Company, or (B) use of drugs or excessive and habitual use of alcohol either of which substantially affects your ability to perform your duties with the Company, or (C) continued unauthorized and significant absences from duty (other than any such absences resulting from your incapacity due to physical or mental illness or any such actual or anticipated absences after the issuance of a Notice of Termination by you for Good Reason as defined in Sections 3(iv) and 3(iii), respectively) after a written notice is delivered to you by the Company, which notice specifically identifies the cause referred to above which is identified as the basis for termination. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the Board with the approval of not less than three-fourths ($\frac{3}{4}$) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above and specifying the particulars thereof in detail.

(iii) *Good Reason.* You shall be entitled to terminate your employment for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without your express written consent, the occurrence after a change in control of the Company of any of the following circumstances unless, in the case of paragraphs (A), (B), (G), (H) or (I), such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination, as defined in Sections 3(v) and 3(iv), respectively, given in respect thereof;

(A) any change in your title or corporation office, the assignment to you of any duties inconsistent with your status as CEO of the Company, or a substantial adverse alteration in the nature or status of your responsibilities (including reporting responsibilities) from those in effect immediately prior to the change in control of the Company;

(B) the change of the principal business of the Company (for purposes of this Agreement, as it is composed immediately prior to the change in control of the Company) as evidenced by, but not limited to, any sale of assets of the Company producing more than 50% of the Company's revenue, or comprising more than 50% of the Company's total assets, in any of the three most recent fiscal years prior to such sale;

(C) a reduction, without your consent, in your annual base salary as in effect on the date hereof or as the same may be increased from time to time;

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(D) the relocation of your principal office to a location more than 50 miles from the location where such office is located immediately prior to the change in control of the Company except for required travel on Company business to an extent substantially consistent with your present business travel obligations;

(E) the failure, without your consent, to pay to you any portion of your current compensation or to pay to you any portion of an installment of deferred compensation under any deferred compensation program applicable to you, within seven (7) days of the date such compensation is due;

(F) the failure by the Company to continue in effect, except upon expiration in accordance with their terms, any compensation plan in which you participate immediately prior to the change in control of the Company which is material to your total compensation, including but not limited to the Company's Management Incentive Bonus Plan, Tax-Advantaged Investment Plan, Employee Stock Ownership Plan and Trust, and 1991 Incentive and Nonstatutory Stock Option Plan, or any plans adopted in substitution of existing plans prior to the change in control of the Company, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue your participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the change in control of the Company;

(G) the failure by the Company to continue to provide you with benefits substantially similar to those enjoyed by you under any of the Company's life insurance, medical, health and accident, or disability plans in which you were participating at the time of the change in control of the Company, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits

or deprive you of any material fringe benefit enjoyed by you at the time of the change in control of the Company, or the failure by the Company to provide you with the number of paid vacation days to which you are entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of the change in control of the Company;

(H) the events described as a breach in Section 6 (i) or (ii) hereof; or

(I) any purported termination of your employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Subsection (iv) below (and, if applicable, the requirements of Subsection (ii) above); for purposes of this Agreement, no such purported termination shall be effective.

Your right to terminate your employment pursuant to this Subsection (iii) shall not be affected by your incapacity due to physical or mental illness. Your continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.

(iv) *Notice of Termination.* Any purported termination of your employment by the Company or by you shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 7 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

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(v) *Date of Termination, Etc.* "Date of Termination" shall mean (A) if your employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that you shall not have returned to the full-time performance of your duties during such thirty (30) day period), and (B) if your employment is terminated pursuant to Subsection (ii) or (iii) above or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Subsection (ii) above shall be not less than thirty (30) days, and in the case of a termination pursuant to Subsection (iii) above shall be not less than fifteen (15) nor more than sixty (60) days, respectively, from the date such Notice of Termination is given); *provided* that if within fifteen (15) days after any Notice of Termination is given, or, if later, prior to the Date of Termination (as determined without regard to this proviso), the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally resolved, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); *provided further*, that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. Notwithstanding the pendency of any such dispute, you shall continue to perform your duties for the Company and the Company will continue to pay you your full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue you as a participant in all compensation, benefit and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Subsection. Amounts paid under this Subsection are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4. *Compensation Upon Termination or During Disability.* Following a change in control of the Company, as defined by Section 2(i), upon termination of your employment or during a period of Disability you shall be entitled to the following benefits:

(i) During any period that you fail to perform your full-time duties with the Company as a result of incapacity due to physical or mental illness, you shall continue to receive your base salary at the rate in effect at the commencement of any such period, together with all compensation payable to you under the Management Incentive Compensation Plan or other plan during such period, until this Agreement is terminated pursuant to Section 3(i) hereof. Thereafter, or in the event your employment shall be terminated by the Company or by you for Retirement, or by reason of your death, your benefits shall be determined pursuant to agreements between you and the Company and the Company's insurance and other compensation programs then in effect in accordance with the terms of such programs.

(ii) If your employment shall be terminated by the Company for Cause or by you other than for Good Reason, Disability, death or Retirement, the Company shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan of the Company at the time such payments are due, and the Company shall have no further obligations to you under this Agreement.

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(iii) If your employment by the Company shall be terminated (a) by the Company other than for Cause, Retirement or Disability or (b) by you for Good Reason, then you shall be entitled to the benefits provided below:

(A) the Company shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan of the Company, at the time such payments are due, except as otherwise provided below;

(B) in lieu of any further salary payments to you for periods subsequent to the Date of Termination, the Company shall pay as severance pay to you a lump sum payment (together with the payments provided in paragraph C, below, the "Severance Payments") equal to 2.5 times the sum of (x) your annual base salary in effect immediately prior to the occurrence of the circumstance giving rise to the Notice of Termination given in respect thereof and (y) the amount paid to you pursuant to the Management Incentive Compensation Plan for the fiscal year immediately prior to the Notice of Termination;

(C) notwithstanding any provision of any incentive compensation plan applicable to you, the Company shall pay to you a lump sum amount equal to the sum of (x) any incentive compensation which has been allocated or awarded to you for a fiscal year or other measuring period preceding the Date of Termination but has not yet been paid, and (y) an allocation under any annual or long-term incentive plan applicable to you

for the current fiscal year with all tests for income adjusted pro rata according to the number of calendar months, including the month in which the Date of Termination occurs, that have elapsed in the fiscal year of termination;

(D) the Company shall also pay to you all legal fees and expenses incurred by you as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") to any payment or benefit provided hereunder);

(E) in the event that you become entitled to payments (the "Severance Payments") provided under paragraphs (B), (C), and (D), above, and Subsection (iv), below, if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by section 4999 of the Code, the Company shall pay to you at the time specified in paragraph (F), below, an additional amount (the "Gross-Up Payment") such that the net amount retained by you, after deduction of any Excise Tax on the Severance Payments and any federal and state and local income tax and Excise Tax upon the payment provided for by this paragraph, shall be equal to the Severance Payments. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, (i) any other payments or benefits received or to be received by you in connection with a change in control of the Company or your termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a change in control or any person affiliated with the Company or such person) shall be treated as "parachute payments" within the meaning of section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Company's independent auditors and acceptable to you, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of section 280G(b)(4) of the Code in excess of the base amount within the

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meaning of section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax, (ii) the amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Severance Payments or (B) the amount of excess parachute payments within the meaning of section 280G(b)(1) (after applying clause (i), above), and (iii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with the principles of sections 280G(d) (3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, you shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of your residence on the Date of Termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of your employment, you shall repay to the Company at the time that the amount of such reduction in Excise Tax is finally determined the portion of the Gross-Up Payment attributable to such reduction (plus the portion of the Gross-Up Payment attributable to the Excise Tax and federal and state and local income tax imposed on the Gross-Up Payment being repaid by you if such repayment results in a reduction in Excise Tax and/or a federal and state and local income tax deduction) plus interest on the amount of such repayment at the rate provided in section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the termination of your employment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall make an additional gross-up payment in respect of such excess (plus any interest payable with respect to such excess) at the time that the amount of such excess is finally determined;

(F) the payments provided for in paragraphs (B), (C) and (E) above, shall be made not later than the fifth day following the Date of Termination, provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company, shall pay to you on such day an estimate, as determined in good faith by the Company, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to you payable on the fifth day after demand by the Company (together with interest at the rate provided in section 1274(b)(2)(B) of the Code).

(iv) If your employment shall be terminated (A) by the Company other than for Cause, Retirement or Disability or (B) by you for Good Reason, then for a 24-month period after such termination, the Company shall pay you on a monthly basis an amount equal to 20% of your monthly Base Salary being paid on your Date of Termination for you to directly acquire whatever benefits you choose for the 24 months immediately following the Date of Termination.

(v) You shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4 be reduced by any compensation earned by you as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by you to the Company, or otherwise.

5. *Termination Before Change in Control.* If your employment by the Company shall be terminated by the Company other than for Cause, Retirement or Disability, and a change in control of

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the Company occurs within 90 days thereafter, you shall be entitled to the benefits provided in Section 4(iii) hereof.

6. *Successors; Binding Agreement; Release of the Company.*

(i) In the event there is a disposition of the Company in a transaction as described in Section 2(i)(A), (B) (C) or (D), and the Company under new ownership or any successor to the Company in such transactions, and any business entity beneficially owning directly or indirectly 50% or more equity interest in the Company or any such successor, (A) does not assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no succession had taken place, or (B) alternatively, does not offer to provide you an agreement with benefits

substantially similar to this Agreement, then such failure to obtain the events described in clauses (A) or (B) above of this Section 6(i), prior to the effectiveness of such succession shall be a breach of this Agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled to hereunder if you terminate your Employment for Good Reason following a change in control of the Company, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. However, if you enter into an employment agreement with the Company or such successor as a part of the transaction or if the Company or any such successor, (1) does assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no succession had taken place, or (2) alternatively, does offer to provide you an agreement with benefits substantially similar to this Agreement, then the obligation hereunder of the Company shall be released from all obligations under this Agreement.

(ii) In the event there is a disposition in a transaction described in Section 2(iii)(D) and any transferee entity in such a transaction, and any business entity beneficially owning directly or indirectly 50% or more equity interest in such transferee entity (A) does not assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no succession had taken place, or (B) alternatively, does not offer to provide you an agreement with benefits substantially similar to this Agreement, then such failure to obtain the events described in clauses (A) or (B) above of this Section 6(ii), prior to the effectiveness of such succession shall be a breach of this Agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled to hereunder if you terminate your Employment for Good Reason following a change in control of the Company, except that for purposes of implementing the foregoing the date on which any such succession becomes effective shall be deemed the Date of Termination. However, if you enter into an employment agreement with the transferee entity as a part of the transaction or if such transferee entity (1) does assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no succession had taken place, or (2) alternatively, does offer to provide you an agreement with benefits substantially similar to this Agreement, then the obligation hereunder of the Company shall be released from all obligations under this Agreement.

(iii) This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

(iv) Your obligations hereunder shall inure to the benefit of and be enforceable by the Company and each of its successors and assigns by contract, operation of law or otherwise.

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7. *Notice.* For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered by overnight courier, transmitted electronically over the internet as long as confirmation of receipt is obtained from the recipient or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Chairman of the Board of Directors with a copy to the Secretary of the Company to Allied Motion Technologies, Inc., 23 Inverness Way East, Suite 150, Englewood, Colorado 80112, or to such other address as any such person may have furnished to the others in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

8. *Miscellaneous.* No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the state of incorporation of the Company. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Section 4 shall survive the expiration of the term of this Agreement.

9. *Counterparts.* This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

10. *Arbitration.* Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in the city where you reside or in an alternate location approved by you in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrators award in any court having jurisdiction; *provided, however*, that you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

11. *Severability.* In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent provided by law.

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

ALLIED MOTION TECHNOLOGIES, INC.

By: /s/ EUGENE E. PRINCE

Name: Eugene E. Prince
Title: Chairman of the Board

APPROVED July 24, 2003.

/s/ RICHARD D. SMITH

QuickLinks

[Exhibit 10.12](#)

EMPLOYMENT AGREEMENT

Richard S. Warzala

THIS EMPLOYMENT AGREEMENT, dated and effective as of March 1, 2003 is between Allied Motion Technologies, Inc., a Colorado corporation (the "Company"), and Richard S. Warzala ("Employee").

RECITALS:

The Employee has acknowledged skills and experience in the business conducted by the Company and the Company desires to obtain the benefit of the Employee's knowledge, skills and experience and assure itself of the ongoing right to Employee's services from and after the date hereof, and is willing to do so on the terms and conditions set forth in this Agreement. Employee is willing and able to render services to the Company, from and after the date hereof, on the terms and conditions set forth in this Agreement.

AGREEMENT:

NOW, THEREFORE, the Company and Employee agree as follows:

1. Employment.

1.1 Title and Duties of Employee. The Company hereby employs Employee as President and Chief Operating Officer of the Company and Employee hereby accepts such employment with the Company.

(a) *Powers and Duties.* Employee shall have the powers and duties normally incident to the offices he holds as provided in the bylaws of the Company and such other duties as shall be determined from time to time by the Chief Executive Officer and/or the Company's Board of Directors (the "Board") consistent with Employee's qualifications and the best interest of the Company. Employee shall report to the Chief Executive Officer (the "CEO"). Except for the CEO, Employee's powers and authorities shall be superior to those of any other officer or employee of the Company or any subsidiary thereof.

(b) *Contract Rights.* Failure of the Board to elect Employee as President and Chief Operating Officer, or action by the Board to remove Employee from such offices, shall be without prejudice to the contract rights in this Agreement.

1.2 Performance. Throughout the period of Employee's employment hereunder, Employee shall devote Employee's full business time, attention, knowledge and skills, faithfully, diligently, and to the best of Employee's ability, to the active performance of Employee's duties and responsibilities hereunder; *provided, however,* Employee may serve as a director of other corporations and entities and may engage in other activities to the extent they do not inhibit the performance of Employee's duties hereunder, or conflict with the business of the Company. Employee shall disclose to the Company the name of any corporation or entity on which he serves as a director or in a similar capacity and describe other activities that are not personal in nature in which he engages. Employee shall do such traveling as reasonably may be required in connection with the performance of such duties and responsibilities. Employee shall not be required to relocate Employee's residence and

Employee may conduct work out of his residence from time to time as he determines appropriate.

2. Term of Employment. Unless terminated as provided in Section 4 hereof, the term of this Agreement shall extend to February 28, 2008 (the "Initial Period"), and thereafter shall automatically continue on a year to year basis (each a "Subsequent Period") unless the Company or Employee shall give the other party notice at least 60 days prior to the termination of the Initial Period or any Subsequent Period of its or his election not to renew the term of employment, in which case this Agreement shall terminate at the end of the period in which the notice is given; *provided, however,* the Company's obligation to pay compensation pursuant to Section 3 or perform any other acts with respect to the last year for which this Agreement is effective shall continue and be enforceable notwithstanding the termination of this Agreement.

3. Compensation Benefits.

3.1 Base Salary. As compensation for services to be rendered by Employee hereunder, the Company shall pay to Employee an annual salary of not less than \$225,000 per year, payable in periodic installments (but in no event less frequently than monthly) in accordance with the standard payroll practices of the Company in effect from time to time. Employee's salary shall be reviewed annually for increase (but not decrease) on a merit basis. Such review shall be conducted at the first meeting of the Board after the end of a fiscal year but not later than February 28 of each year and the effective date of any such increase shall be March 1. The Employee's annual salary in effect from year to year is herein referred to as the "Base Salary".

3.2 Annual Bonus.

(a) *Performance Criteria.* The Company shall pay to Employee an Annual Bonus with respect to each fiscal year in amounts determined as provided by the Board based on achieving performance criteria established at the beginning of each fiscal year. Such performance criteria will recognize the overall financial performance of the Company and the improvements made in financial results.

(b) *Time of Payment.* The first payment of the Annual Bonus to Employee pursuant to Section 3.2 (a) shall be with respect to the fiscal year ended December 31, 2003. An Annual Bonus provided herein shall be paid, subject to achieving the performance criteria, with

respect to each fiscal year thereafter during the term of this Agreement. All Annual Bonuses payable under Section 3.2 (a) shall be paid in cash immediately following the first Board meeting held after the end of the applicable fiscal year at which the Annual Bonus calculation is approved by the Board.

3.3 Long-Term Incentive Payment Plan. On or before the first Board meeting held in a current fiscal year, the Board shall consider whether to grant options to purchase the Company's Common Stock ("Stock Options") to Employee, including the terms and the provisions of any Stock Options. Grants of Stock Options provided under this Section 3.3 are referred to herein as "Long-Term Incentive Payout". In making its determination the Board shall consider, among other things, the Employee's responsibilities and efforts and performance under this Agreement in relation to the business plan and forecast, the relationship between the benefits of Stock Options and improving shareholder value, the development of the Company's products and the performance of the Company's products in the marketplace, impact of the Company's products and product development on future prospects for the Company, and an increase in the trading price per share of the Company's Common Stock. The Board shall also consider customary business practices and Long-Term

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Incentive Payment Plan benefits granted to Employee in comparison to such benefits provided to other executives in positions similar to the Employee.

3.4 Expenses. The Company promptly shall reimburse Employee, upon presentation of appropriate receipts and vouchers, for any reasonable business expenses incurred by Employee in connection with the performance of his duties and responsibilities hereunder.

3.5 Vacation. Throughout the period of Employee's employment hereunder, Employee shall be entitled to take, from time to time, 4 weeks of vacation annually with pay at such times as shall be mutually convenient to Employee and the Company.

3.6 Benefits and Perquisites.

(a) *Participation.* The Company shall make available to Employee, throughout the period of employment hereunder, such benefits and perquisites as are generally provided by the Company to its employees. Without limiting the foregoing, Employee shall be eligible to participate in any bonus plan, stock option plan, stock purchase plan, pension plan and group life, health and accident insurance plans as the Company shall continue to provide or which may hereafter be adopted by the Company for the benefit of its employees generally. The Company shall provide and pay the premium on long term disability insurance for Employee. The Company shall not make any changes in such plans or arrangements which would adversely affect the Employee's rights or benefits thereunder, unless such changes occur pursuant to a program applicable to all employees of the Company and do not result in a proportionately greater reduction in the rights of, or benefits to, the Employee as compared with any other employee of the Company.

(b) *Office Space.* The Company shall provide office space and secretarial services at the Company's offices suitable to Employee's position.

(c) *Life Insurance.* The Company shall provide whole life insurance on the life of Employee with death benefits of \$500,000 with all premiums paid by the Company. Employee may designate the beneficiary or beneficiaries of such policy.

(d) *Automobile.* The Company shall provide a new automobile no less frequently than every 3 years for Employee's sole use and the Company shall pay all costs of operating and maintaining or repairing such automobile. At or before the time of replacement, Employee shall have the right to purchase, at its depreciated cost to the Company, the automobile previously provided.

(e) *Benefit Plans.* The Company will make non-qualified contributions for Employees's benefit under the Company's IRS §401(k) plan on the same basis as it makes contributions for other employees.

(f) *Retirement Plan Benefits.* The Company will provide to Employee retirement plan benefits under any plan on the same basis it provides benefits to other employees.

4. Termination. This Agreement may be terminated by the Company or Employee as provided in this Section 4.

4.1 Cause

(a) *Definition.* This Agreement may be terminated at any time at the option of the Company for Cause (as such term is hereinafter defined), effective as provided in Section 4.9. As used herein, the term "Cause" shall mean and be limited to: (i) conviction of, the indictment for (or its procedural equivalent), or the entering of a guilty plea or plea of no contest with respect to, a felony; (ii) the willful violation of the terms of this Agreement; (iii) gross negligence by Employee in connection with the performance of

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Employee's duties, responsibilities, agreements and covenants hereof, which violation or negligence shall continue uncorrected for a period of 45 days after receipt by Employee of a written notice from the Company; (iv) the appropriation (or attempted appropriation) of a material business opportunity of the Company, including attempting to secure or securing any personal profit in connection with any transaction entered into on behalf of the Company; (v) the misappropriation (or attempted misappropriation) of any of the Company's funds or property; or (vi) the excessive use (following at least one written warning) of alcohol or any illegal use of drugs or narcotics. For purposes of this Section, no act or failure to act on the Employee's part shall be considered "willful" unless done, or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding the foregoing, Employee shall not be deemed to have been terminated for Cause without written notice pursuant to Section 13 and providing Employee an opportunity to be heard before the Board with the provisions relied upon for termination provided in reasonable detail.

(b) *Salary; Benefits; Bonuses.* Upon termination for Cause, the Company shall (i) continue the Base Salary through the Date of Termination, (ii) pay all fringe benefits through the end of the calendar month in which termination occurs, and (iii) pay any annual bonuses pursuant to Section 3.2 treating the effective Date of Termination as being the last day of the fiscal year in which termination under this Section 4 occurs.

4.2 Retirement. Termination of employment based on "Retirement" shall mean termination in accordance with any retirement arrangement established with Employee's consent, including settlement for the Annual Bonus pursuant to Section 3.2.

4.3 Death of Employee. This Agreement shall terminate upon the death of Employee; provided, however, the Company shall (i) continue Employee's Base Salary through the month in which death occurs and for the following three months and (ii) shall make payments as provided in Section 4.5 in place of (x) Annual Bonus payments provided in Section 3.2 and (y) the Long-Term Incentive Payout pursuant to Section 3.3.

4.4 Disability of Employee

(a) *Termination; Definition.* In the event Employee becomes mentally or physically disabled during the term of employment hereunder, this Agreement shall terminate as of the date such disability is established. As used in this Section, the term "Disabled" or "Disability" means suffering from any mental or physical condition, other than use of alcohol or illegal use of drugs or narcotics, which renders Employee unable to perform substantially all of Employee's duties and services under this Agreement in a satisfactory manner for 120 consecutive days, or 180 days during any 12-month period. If, by reason of Disability, Employee is absent from the full-time performance of his duties with the Company for the periods above provided, Notice of Termination may be given and if Employee has not returned to the full-time performance of his duties within 30 days thereafter, Employee's Disability shall be deemed "established" at the end of such 30-day period.

(b) *Salary, Benefits.* During any period that Employee fails to perform his full duties with the Company because he is Disabled, Employee shall continue to receive Base Salary until this Agreement is terminated pursuant to Section 4.8 at the rate in effect at the commencement of any such period adjusted for any compensation payable to him under any Company paid disability plan during such period. In the event of termination for Disability the Company shall continue (i) Employee's Base Salary adjusted for any compensation payable to him under any Company paid disability plan during such period

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and (ii) the same coverage under medical, dental, long-term disability and life insurance for the greater of (x) the remaining term of this Agreement or (y) until long term disability insurance coverage becomes effective.

(c) *Bonuses.* In the event of termination upon established Disability the Company shall make payments as provided in Section 4.5 in place of (i) the Annual Bonus payment provided in Section 3.2 and (ii) the Long-Term Incentive Payout pursuant to Section 3.3.

4.5 Death and Disability of Employee. In the event of termination upon death the Company shall make payments to Employee's personal representative, and in the event of termination for Disability the Company shall make payments to Employee, as hereinafter provided. Such payments shall be made immediately following the first meeting of the Board held after the end of the fiscal year in which death or Disability occurred, but in no event later than February 28 of such year.

(a) *Annual Bonus.* With respect to the Annual Bonus payment provided in Section 3.2(a) the Company shall make a separate determination of the Annual Bonus based on the factors provided in Section 3.2(a) for the fiscal year in which death or Disability occurs

(b) *Long Term Incentive Plan.* With respect to the Long-Term Incentive Payout provided in Section 3.3 the Company shall make a separate determination of the Long-Term Incentive Payout based on the factors provided in Section 3.3 for the fiscal year in which death or Disability occurs.

4.6 Other than for Cause. If Employee's employment shall be terminated by the Company other than for Cause, Retirement, death or Disability, prior to a change in control of the Company or potential change in control of the Company as defined in the Severance Agreement referred to in Section 4.7, then Employee shall be entitled to the payments provided below:

(a) *Base Salary.* On the effective Date of Termination the Company shall pay Employee his full Base Salary through the end of the month in which termination occurs at the rate in effect at the time Notice of Termination is given, and for one full year thereafter with payments being made over the following 12 months and no less frequently than once per month.

(b) *Benefits.* The Company shall continue providing medical, dental, long-term disability and life insurance equal to the coverages existing at the time Notice of Termination is given for one full year.

(c) *Annual and Long Term Bonus.* On the effective Date of Termination the Company shall make payments to and issue to Employee with respect to, and in place of (i) the Annual Bonus payment provided in Section 3.2 an amount in cash equal to 0.9 multiplied by Base Salary for the year in which employment is terminated and (ii) the Long Term Incentive Payout provided in Section 3.3 for the fiscal year in which employment is terminated under this Section.

4.7 Change in Control.

(a) *Severance Agreement Continued.* The letter agreement dated May 1, 2002, (Severance Agreement) between the Company and Employee providing certain benefits to Employee upon a change in control of the Company is continued and upon a change in control of the Company the Severance Agreement shall apply and have priority over this Agreement so that in the event of any conflict between this Agreement and the Severance Agreement the Severance Agreement shall apply. Any payments made or

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benefits provided pursuant to the Severance Agreement are not to be duplicated by any requirements of this Agreement.

(b) *Definition.* As used in this Agreement the term "change in control of the Company" shall have the meaning expressed in the Severance Agreement.

4.8 Notice of Termination. Any purported termination of employment by the Company or by Employee, other than for death, may be communicated orally or in writing. If communicated orally, such communication shall be followed within 10 days by a written communication which, and if communicated by written communication the communication, shall indicate the specific termination provisions in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provisions so indicated and shall state an effective date of termination.

4.9 Date of Termination, Etc. "Date of Termination" shall mean: (i) if employment is terminated for Disability, the date as provided in Section 4.4(a), and (ii) if employment is terminated for Cause pursuant to Section 4.1 or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Section 4.1 shall be the end of a calendar month but not less than 15 days). Amounts paid under this Section are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4.10 Termination by Employee. Employee may terminate this Agreement by resigning as President and Chief Operating Officer upon at least 30 days prior written notice of the effective Date of Termination. In such event the Company shall continue Employee's Base Salary and all fringe benefits to the effective Date of Termination. Termination of this Agreement under this Section does not affect the Company's obligation to make all payments to Employee which were fixed and determined prior to the effective Date of Termination.

5. Confidential Information

5.1 Definition. Confidential Information means:

(a) Any and all (i) trade secrets concerning the business and affairs of the Company, product specifications, data, know-how, formula, compositions, processes, designs, sketches, photographs, graphs, drawings, samples, inventions and ideas, past, current, and planned research and development, current and planned manufacturing or distribution methods and processes, customer lists, current and anticipated customer requirements, price lists, market studies, business plans, computer software and programs (including object code and source code), computer software and database technologies, systems, structures, architectures (and related formula), improvements, devices, discoveries, concepts, ideas, methods and information, and any other information, however documented, that is a trade secret within the meaning of Colorado Revised Statutes § 7-74-101 *et seq.* and

(b) information concerning the business and affairs of the Company (which includes historical financial statements, financial projections and budgets, historical and projected sales, capital spending budgets and plans, the names and backgrounds of key personnel, personnel training and techniques and materials), however documented; and

(c) notes, analyses, compilations, studies, summaries and other material prepared by or for the Company containing or based, in whole or in part, on any information included in the foregoing.

5.2 Disclosure and Use. Employee shall not disclose, either during or subsequent to Employee's employment with the Company, any Confidential Information or proprietary data

of the Company, whether or not developed by Employee, except (i) as may be required for Employee to perform Employee's employment duties with the Company; (ii) to the extent such information has been disclosed to Employee by a third party who is not subject to restriction on the dissemination of such information; (iii) as such information becomes generally available to the public other than as a result of a disclosure by Employee; (iv) information which must be disclosed as a result of a subpoena or other legal process, or (v) if Employee shall first secure the Company's prior written authorization. This covenant shall survive the termination of the Employee's employment with the Company, and shall remain in effect and be enforceable against Employee for so long as any such Confidential Information or proprietary data retains economic value, whether actual or potential, from not being generally known to other persons who can obtain economic value from its disclosure or use.

5.3 Return of Materials. The Employee will not remove from the Company's premises (except to the extent such removal is for the purposes of the performance of Employee's duties at home or while traveling, or except as otherwise specifically authorized by the CEO), any Confidential Information Employee recognizes that, as between the Company and Employee, all the Confidential Information, whether or not developed by the Employee, are the exclusive property of the Company. Upon termination of employment by the Company, Employee shall promptly deliver to the Company all Confidential Information, and all other materials of a secret or confidential nature relating to the Company's business, which are in the possession or under the control of Employee and Employee shall not retain copies of any such Confidential Information.

6. Inventions and Discoveries. Employee hereby assigns to the Company all of the Employee's rights, title and interest in and to all inventions, techniques, discoveries, processes, designs or improvements (whether patentable or not), any industrial design (whether registrable or not), or uses Confidential Information as described in Section 5.1, or other intellectual property rights pertaining thereto, that relates in any way to, or is useful in any manner in, the business then being conducted or proposed to be conducted by the Company, and any such item created by the Employee, either solely or in conjunction with others, following termination of Employee's employment with the Company (hereinafter referred to collectively as the "Inventions"). Promptly upon the development or making of any Invention or improvement thereon, Employee shall disclose the same to the Company and shall execute and deliver to the Company such reasonable documents as the Company may request to confirm the assignment of Employee's rights therein and if requested by the Company, shall assist the Company in applying for and prosecuting any patents which may be available in respect thereof. Employee acknowledges that all of Employee's Company-related writing, works of authorship, specially commissioned works and other Employee Inventions are works made for hire, property of the Company, including all copyrights, patents, and other intellectual property rights pertaining thereto. If it is determined that any such works are not works made for hire, the Employee hereby assigns to the Company all of the Employee's right, title, and interest, including all rights of copyright, patent, and other intellectual property rights, to or in such Inventions.

7. Restrictive Covenant.

(a) While the Employee is an employee of the Company and during a period in which the Company is making continuation payments of Base Salary pursuant to Section 4 hereof, Employee shall not, without the prior written consent of the Company, (i) engage directly or indirectly in any Competing Business in the geographical area where the Company does business (including, without limitation, the United States and any country in which the Company has a sales representative at the time of termination) whether as an employee, consultant or advisor, or owner as principal, shareholder or partner of any equity interest in excess of 5% of any business entity (which shall include any proprietorship, trust, joint venture, partnership or any type of corporation or

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association), or (ii) serve as an officer, director, trustee, partner or the like in any such business entity.

(b) The term "Competing Business" as used in this Section 7 includes any business conducted by the Company, which initially includes the design, production and marketing of motion control products and any other products manufactured or marketed by the Company at the date of termination of this Agreement.

8. Arbitration. Any controversy or claim arising out of or relating to this Agreement or the breach thereof shall be settled by arbitration in the City and County of Denver in accordance with the rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The Company shall pay all costs of arbitration. In the event that it shall be necessary or desirable for Employee to retain legal counsel and/or incur other costs and expenses in connection with interpretation of his rights under this Agreement, including any procedure in arbitration, Employee shall be entitled to recover from the Company reasonable attorneys' fees and costs and expenses incurred by him in connection with such interpretation or arbitration, regardless of the final outcome, unless the arbitrator shall determine that under the circumstances such payment would be unjust.

9. Mitigation. Employee shall not be required to mitigate the amount of any payment provided in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided in this Agreement be reduced by any compensation earned by Employee as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by Employee to the Company, or otherwise.

10. Announcements. No public announcement regarding termination of employment of the Employee or any change in status of the Employee of the Company shall be made without Employee's approval except the Company may announce Employee's termination if Company is otherwise required to do so pursuant to the rules of the Securities and Exchange Commission or to any other legal requirement. All matters with respect to termination of employment of Employee, retirement of Employee or other action taken pursuant to this Agreement shall be kept confidential and neither Company nor Employee will make unfavorable comments about the other in connection with this Agreement.

11. Severability. If any provision of this Agreement, including the Restrictive Covenant in Section 7, is held invalid or unenforceable, either in its entirety or by virtue of its scope or application to given circumstances, such provision shall thereupon be deemed modified only to the extent necessary to render same valid, or not applicable to given circumstances, or excised from this Agreement, as the situation may require, and this Agreement shall be construed and enforced as if such provision had been included herein as so modified in scope or application, or had not been included herein, as the case may be.

12. Non-Assignability. In light of the unique personal services to be performed by Employee hereunder, it is acknowledged and agreed that any purported or attempted assignment or transfer by Employee of this Agreement or any of Employee's duties, responsibilities or obligations hereunder shall be void. This Agreement may not be assigned by the Company without the prior written consent of Employee.

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13. Notices. Any notice, request, demand or other communication required or permitted under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or on the date of receipt when mailed by certified mail, return receipt requested, addressed as follows:

If to the Company:	Allied Motion Technologies, Inc. 23 Inverness Way East, Ste 150 Englewood, Colorado 80112 Attention: CEO
If to the Employee:	Richard S. Warzala 102 Southwedge Drive Gettsville, New York 14068

or to such other address or addresses as may be specified from time to time by notice; *provided however*, that any notice of change of address shall not be effective until its receipt by the party to be charged therewith.

14. General

14.1 Amendments. Neither this Agreement nor any of the terms or conditions hereof may be waived, amended or modified except by means of a written instrument duly executed by the party to be charged therewith.

14.2 Captions and Headings. The captions and paragraph headings used in this Agreement are for convenience of reference only, and shall not affect the construction or interpretation of this Agreement or any of the provisions hereof.

14.3 Governing Law. This Agreement, and all matters or disputes relating to the validity, construction, performance or enforcement hereof, shall be governed, construed and controlled by and under the laws of the State of Colorado without regard to principles of conflicts of law.

14.4 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns.

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Employee to all rights for breach hereunder.

(b) If Employee should die while any amounts would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Employee's personal representatives or to his estate.

14.5 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original hereof, but all of which together shall constitute one and the same instrument.

14.6 Entire Agreement. Except as otherwise set forth or referred to in this Agreement, this Agreement constitutes the sole and entire agreement and understanding between the

parties hereto as to the subject matter hereof, and supersedes all prior discussions, agreements and understandings of every kind and nature between them as to such subject matter.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the date first set forth above.

ALLIED MOTION TECHNOLOGIES, INC.

By: /s/ RICHARD D. SMITH

Richard D. Smith—CEO

By: /s/ RICHARD S. WARZALA

Richard S. Warzala—Employee

QuickLinks

[EMPLOYMENT AGREEMENT Richard S. Warzala](#)

**Hathaway Corporation
8228 Park Meadows Dr.
Littleton, Colorado 80124**

Richard S. Warzala
102 Southwedge Drive
Getzville, NY 14068

Dear Mr. Warzala:

Hathaway Corporation (the "Company") has determined that it is essential to the best interests of the Company and its shareholders to foster the continuous employment of key management personnel including you as President of the Company. The board of directors of the Company (the "Board") recognizes that, as is the case with many publicly held corporations, the possibility of a change in control of the Company exists. Such possibility and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders. In addition, the Company seeks your unequivocal support in realizing the maximum value per share to shareholders in the event of a disposition of the Company. In the event of a change of control, we also seek your cooperation in a smooth transition of management. These objectives require employment arrangements that provide security to you in the face of uncertainty.

The Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of management, including yourself, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Company.

In order to induce you to remain in the employ of the Company, and in consideration of your agreements set forth in Section 2(ii), the Company agrees that you shall receive the severance benefits set forth in this letter agreement ("Agreement") in the event your employment with the Company is terminated subsequent to a change in control of the Company (as defined in Section 2 hereof) under the circumstances described below.

1. *Term of Agreement.* This Agreement shall commence on the date hereof and shall continue in effect through December 31, 2003; *provided, however,* that commencing on January 1, 2004 and each January 1 thereafter, the term of this Agreement shall automatically be extended for one additional year (meaning that as of each January 1 this Agreement shall then have a term of two years which shall reduce during the ensuing 12 months but shall again be extended on the next following January 1 to a term of two years) unless, not later than the September 30 immediately preceding each such January 1, the Company shall have given notice that it does not wish to extend this Agreement; *provided further,* if a change in control of the Company shall have occurred during the original or extended term of this Agreement, this Agreement shall continue in effect for a period of 24 months beyond the month in which such event occurred.

2.(i) *Change in Control of the Company.* No benefits shall be payable hereunder unless there shall have been a change in control of the Company, as set forth below. For purposes of this Agreement, a "change in control of the Company" shall be deemed to have occurred (A) if any "Person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than (1) a trustee or other fiduciary holding securities under an employee

benefit plan of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan, or (2) any Person who, on the date hereof, is a director or officer of the Company or whose shares of common stock of the Company are treated as beneficially owned (as defined in Rule 13d-3 under the Exchange Act) by any such director or officer, is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing more than 45% of the combined voting power of the Company's then outstanding securities; or (B) upon the first purchase of outstanding shares of the Company's outstanding common stock pursuant to a tender or exchange offer (other than a tender or exchange offer made by the Company, by an employee benefit plan established or maintained by the Company or by any of their respective affiliates); or (C) if during any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clauses (A) or (D) of this Subsection) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds ($\frac{2}{3}$) of the Company directors then still in office who either (1) were directors at the beginning of the period or (2) whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (D) if the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (E) the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets;

provided, however, a spinoff distribution to shareholders of the Company of all or part of the Company's equity interest in a subsidiary entity shall not constitute a change in control of the Company.

(ii) *Potential Change in Control of the Company.* For purposes of this Agreement, a "potential change in control of the Company" shall be deemed to have occurred if (A) the Company enters into an agreement, the consummation of which would result in the occurrence of a change in control of the Company; (B) any Person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a change in control of the Company; (C) any Person, other than (1) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, or (2) any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan, or (3) any Person who, on the date hereof, is a director or officer of the Company or whose shares of common stock of the Company are treated as beneficially owned by any such director or officer, increases his beneficial ownership of such securities by 8% or more of the shares of the Company

issued and outstanding on the date of such determination; or (D) the Board adopts a resolution to the effect that, for purposes of this Agreement, a potential change in control of the Company has occurred. You agree that, subject to the terms and conditions of this Agreement, in the event of a potential change in control of the Company, you will remain in the employ of the Company until the earliest of (1) a date which is twelve (12) months after the occurrence of such potential change in control of the Company, (2) the termination by you of your employment by reason of death or Disability or Retirement, as defined in Section 3(i), or (3) the occurrence of a change in control of the Company.

3. *Termination Following Change in Control.* If any of the events described in Section 2(i) hereof constituting a change in control of the Company shall have occurred, you shall be entitled to the benefits provided in Section 4(iii) hereof upon the subsequent termination of your employment during

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the term of this Agreement unless such termination is (A) because of your death, Disability or Retirement, (B) by the Company for Cause, or (C) by you other than for Good Reason.

(i) *Disability; Retirement.* If, as a result of your incapacity due to physical or mental illness, you shall have been absent from the full-time performance of your duties with the Company for six (6) consecutive months, and within thirty (30) days after Notice of Termination is given you shall not have returned to the full-time performance of your duties, your employment may be terminated for "Disability". Termination of your employment based on "Retirement" shall mean your termination in accordance with any retirement arrangement established with your consent.

(ii) *Cause.* Termination by the Company of your employment for "Cause" shall mean termination upon (A) an act of dishonesty constituting a felony under the laws of your domicile and resulting or intending to result in your gain or personal enrichment at the expense of the Company, or (B) use of drugs or excessive and habitual use of alcohol either of which substantially affects your ability to perform your duties with the Company, or (C) continued unauthorized and significant absences from duty (other than any such absences resulting from your incapacity due to physical or mental illness or any such actual or anticipated absences after the issuance of a Notice of Termination by you for Good Reason as defined in Sections 3(iv) and 3(iii), respectively) after a written notice is delivered to you by the Company, which notice specifically identifies the cause referred to above which is identified as the basis for termination. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the Board with the approval of not less than three-fourths ($\frac{3}{4}$) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above and specifying the particulars thereof in detail.

(iii) *Good Reason.* You shall be entitled to terminate your employment for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without your express written consent, the occurrence after a change in control of the Company of any of the following circumstances unless, in the case of paragraphs (A), (B), (G), (H) or (I), such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination, as defined in Sections 3(v) and 3(iv), respectively, given in respect thereof;

(A) any change in your title or corporation office, the assignment to you of any duties inconsistent with your status as President of the Company, or a substantial adverse alteration in the nature or status of your responsibilities (including reporting responsibilities) from those in effect immediately prior to the change in control of the Company;

(B) the change of the principal business of the Company (for purposes of this Agreement, as it is composed immediately prior to the change in control of the Company) as evidenced by, but not limited to, any sale of assets of the Company producing more than 50% of the Company's revenue, or comprising more than 50% of the Company's total assets, in any of the three most recent fiscal years prior to such sale;

(C) a reduction, without your consent, in your annual base salary as in effect on the date hereof or as the same may be increased from time to time;

(D) the relocation of your principal office to a location more than 50 miles from the location where such office is located immediately prior to the change in control of the Company except for required travel on Company business to an extent substantially consistent with your present business travel obligations;

(E) the failure, without your consent, to pay to you any portion of your current compensation or to pay to you any portion of an installment of deferred compensation under

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any deferred compensation program applicable to you, within seven (7) days of the date such compensation is due;

(F) the failure by the Company to continue in effect, except upon expiration in accordance with their terms, any compensation plan in which you participate immediately prior to the change in control of the Company which is material to your total compensation, including but not limited to the Company's Management Incentive Bonus Plan, Tax-Advantaged Investment Plan, Employee Stock Ownership Plan and Trust, and 1991 Incentive and Nonstatutory Stock Option Plan, or any plans adopted in substitution of existing plans prior to the change in control of the Company, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue your participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the change in control of the Company;

(G) the failure by the Company to continue to provide you with benefits substantially similar to those enjoyed by you under any of the Company's life insurance, medical, health and accident, or disability plans in which you were participating at the time of the change in control of the Company, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive you of any material fringe benefit enjoyed by you at the time of the change in control of the Company, or the failure by the Company to provide you with

the number of paid vacation days to which you are entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of the change in control of the Company;

(H) the events described as a breach in Section 6 (i) or (ii) hereof; or

(I) any purported termination of your employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Subsection (iv) below (and, if applicable, the requirements of Subsection (ii) above); for purposes of this Agreement, no such purported termination shall be effective.

Your right to terminate your employment pursuant to this Subsection (iii) shall not be affected by your incapacity due to physical or mental illness. Your continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.

(iv) *Notice of Termination.* Any purported termination of your employment by the Company or by you shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 7 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

(v) *Date of Termination, Etc.* "Date of Termination" shall mean (A) if your employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that you shall not have returned to the full-time performance of your duties during such thirty (30) day period), and (B) if your employment is terminated pursuant to Subsection (ii) or (iii) above or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Subsection (ii) above shall be not less than thirty (30) days, and in the case of a termination pursuant to Subsection (iii) above shall be not less than fifteen (15) nor more than sixty (60) days, respectively, from the date such Notice of Termination is given); *provided that* if within fifteen (15) days after any Notice of Termination is given, or, if later, prior to the Date of Termination (as determined without regard to this proviso), the party

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receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally resolved, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); *provided further*, that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. Notwithstanding the pendency of any such dispute, you shall continue to perform your duties for the Company and the Company will continue to pay you your full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue you as a participant in all compensation, benefit and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Subsection. Amounts paid under this Subsection are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4. *Compensation Upon Termination or During Disability.* Following a change in control of the Company, as defined by Section 2(i), upon termination of your employment or during a period of Disability you shall be entitled to the following benefits:

(i) During any period that you fail to perform your full-time duties with the Company as a result of incapacity due to physical or mental illness, you shall continue to receive your base salary at the rate in effect at the commencement of any such period, together with all compensation payable to you under the Management Incentive Compensation Plan or other plan during such period, until this Agreement is terminated pursuant to Section 3(i) hereof. Thereafter, or in the event your employment shall be terminated by the Company or by you for Retirement, or by reason of your death, your benefits shall be determined pursuant to agreements between you and the Company and the Company's insurance and other compensation programs then in effect in accordance with the terms of such programs.

(ii) If your employment shall be terminated by the Company for Cause or by you other than for Good Reason, Disability, death or Retirement, the Company shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan of the Company at the time such payments are due, and the Company shall have no further obligations to you under this Agreement.

(iii) If your employment by the Company shall be terminated (a) by the Company other than for Cause, Retirement or Disability or (b) by you for Good Reason, then you shall be entitled to the benefits provided below:

(A) the Company shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan of the Company, at the time such payments are due, except as otherwise provided below;

(B) in lieu of any further salary payments to you for periods subsequent to the Date of Termination, the Company shall pay as severance pay to you a lump sum payment (together with the payments provided in paragraph C, below, the "Severance Payments") equal to 2.5 times the sum of (x) your annual base salary in effect immediately prior to the occurrence of the circumstance giving rise to the Notice of Termination given in respect thereof and (y) the amount paid to you pursuant to the Management Incentive Compensation Plan for the fiscal year immediately prior to the Notice of Termination;

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(C) notwithstanding any provision of any incentive compensation plan applicable to you, the Company shall pay to you a lump sum amount equal to the sum of (x) any incentive compensation which has been allocated or awarded to you for a fiscal year or other measuring period

preceding the Date of Termination but has not yet been paid, and (y) an allocation under any annual or long-term incentive plan applicable to you for the current fiscal year with all tests for income adjusted pro rata according to the number of calendar months, including the month in which the Date of Termination occurs, that have elapsed in the fiscal year of termination;

(D) the Company shall also pay to you all legal fees and expenses incurred by you as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") to any payment or benefit provided hereunder);

(E) in the event that you become entitled to payments (the "Severance Payments") provided under paragraphs (B), (C), and (D), above, and Subsection (iv), below, if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by section 4999 of the Code, the Company shall pay to you at the time specified in paragraph (F), below, an additional amount (the "Gross-Up Payment") such that the net amount retained by you, after deduction of any Excise Tax on the Severance Payments and any federal and state and local income tax and Excise Tax upon the payment provided for by this paragraph, shall be equal to the Severance Payments. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, (i) any other payments or benefits received or to be received by you in connection with a change in control of the Company or your termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a change in control or any person affiliated with the Company or such person) shall be treated as "parachute payments" within the meaning of section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Company's independent auditors and acceptable to you, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of section 280G(b)(4) of the Code in excess of the base amount within the meaning of section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax, (ii) the amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Severance Payments or (B) the amount of excess parachute payments within the meaning of section 280G(b)(1) (after applying clause (i), above), and (iii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with the principles of sections 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, you shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of your residence on the Date of Termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of your employment, you shall repay to the Company at the time that the amount of such reduction in Excise Tax is finally determined the portion of the Gross-Up Payment attributable to such

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reduction (plus the portion of the Gross-Up Payment attributable to the Excise Tax and federal and state and local income tax imposed on the Gross-Up Payment being repaid by you if such repayment results in a reduction in Excise Tax and/or a federal and state and local income tax deduction) plus interest on the amount of such repayment at the rate provided in section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the termination of your employment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall make an additional gross-up payment in respect of such excess (plus any interest payable with respect to such excess) at the time that the amount of such excess is finally determined;

(F) the payments provided for in paragraphs (B), (C) and (E) above, shall be made not later than the fifth day following the Date of Termination, provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company, shall pay to you on such day an estimate, as determined in good faith by the Company, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to you payable on the fifth day after demand by the Company (together with interest at the rate provided in section 1274(b)(2)(B) of the Code).

(iv) If your employment shall be terminated (A) by the Company other than for Cause, Retirement or Disability or (B) by you for Good Reason, then for a 24-month period after such termination, the Company shall pay you on a monthly basis an amount equal to 20% of your monthly Base Salary being paid on your Date of Termination for you to directly acquire whatever benefits you choose for the 24 months immediately following the Date of Termination.

(v) You shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4 be reduced by any compensation earned by you as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by you to the Company, or otherwise.

5. *Termination Before Change in Control.* If your employment by the Company shall be terminated by the Company other than for Cause, Retirement or Disability, and a change in control of the Company occurs within 90 days thereafter, you shall be entitled to the benefits provided in Section 4(iii) hereof.

6. *Successors; Binding Agreement; Release of the Company.*

(i) In the event there is a disposition of the Company in a transaction as described in Section 2(i)(A), (B) (C) or (D), and the Company under new ownership or any successor to the Company in such transactions, and any business entity beneficially owning directly or indirectly 50% or more equity interest in the Company or any such successor, (A) does not assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no succession had taken place, or (B) alternatively, does not offer to provide you an agreement with benefits substantially similar to this Agreement, then such failure to obtain the events described in clauses (A) or (B) above of this Section 6(i), prior to the effectiveness of such succession shall be a breach of this Agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled to hereunder if you terminate your employment for Good Reason following a change in control of the Company, except that for purposes of implementing the foregoing, the date on

which any such succession becomes effective shall be deemed the Date of Termination. However, if you enter into an employment agreement with the Company or such successor as a part of the transaction or if the Company or any such successor, (1) does assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no succession had taken place, or (2) alternatively, does offer to provide you an agreement with benefits substantially similar to this Agreement, then the obligation hereunder of the Company shall be released from all obligations under this Agreement.

(ii) In the event there is a disposition in a transaction described in Section 2(iii)(D) and any transferee entity in such a transaction, and any business entity beneficially owning directly or indirectly 50% or more equity interest in such transferee entity (A) does not assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no succession had taken place, or (B) alternatively, does not offer to provide you an agreement with benefits substantially similar to this Agreement, then such failure to obtain the events described in clauses (A) or (B) above of this Section 6(ii), prior to the effectiveness of such succession shall be a breach of this Agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled to hereunder if you terminate your Employment for Good Reason following a change in control of the Company, except that for purposes of implementing the foregoing the date on which any such succession becomes effective shall be deemed the Date of Termination. However, if you enter into an employment agreement with the transferee entity as a part of the transaction or if such transferee entity (1) does assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no succession had taken place, or (2) alternatively, does offer to provide you an agreement with benefits substantially similar to this Agreement, then the obligation hereunder of the Company shall be released from all obligations under this Agreement.

(iii) This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

(iv) Your obligations hereunder shall inure to the benefit of and be enforceable by the Company and each of its successors and assigns by contract, operation of law or otherwise.

7. *Notice.* For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered by overnight courier, transmitted electronically over the internet as long as confirmation of receipt is obtained from the recipient or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the CEO with a copy to the Secretary of the Company to Hathaway Corporation, 8228 Park Meadows Drive, Littleton, Colorado 80124, or to such other address as any such person may have furnished to the others in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

8. *Miscellaneous.* No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or

conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the state of incorporation of the Company. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Section 4 shall survive the expiration of the term of this Agreement.

9. *Counterparts.* This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

10. *Arbitration.* Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in the city where you reside or in an alternate location approved by you in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrators award in any court having jurisdiction; *provided, however*, that you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

11. *Severability.* In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent provided by law.

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

HATHAWAY CORPORATION

By /s/ RICHARD D. SMITH

Name: Richard D. Smith
Title: CEO

/s/ RICHARD S. WARZALA

Richard S. Warzala

QuickLinks

[Exhibit 10.14](#)

Silicon Valley Bank

Amendment to Loan Documents

Borrower: **Allied Motion Technologies Inc. (fka Hathaway Corporation)**
Allied Motion Systems Corporation (fka Hathaway Systems Corporation)
Allied Motion Process Instrumentation Corporation (fka Hathaway Process Instrumentation Corporation)
Allied Motion Control Corporation (fka Hathaway Motion Control Corporation)
Allied Motion Industrial Automation, Inc. (fka Hathaway Industrial Automation, Inc.)
Computer Optical Products, Inc.
EMOTEQ Corporation
Motor Products-Ohio Corporation
Motor Products Corporation (fka Motor Products-Owosso Corporation)

Date: **September 26, 2003**

THIS AMENDMENT TO LOAN DOCUMENTS is entered into between SILICON VALLEY BANK ("Silicon") and the borrower named above (jointly and severally, "Borrower").

The Parties agree to amend the Loan and Security Agreement between them, dated May 7, 1998 (as amended from time to time, the "Loan Agreement"), as follows, effective as of September 10, 2003. (Capitalized terms used but not defined in this Amendment shall have the meanings set forth in the Loan Agreement.)

1. Modified Interest Rate. Section 2 of the Schedule to Loan and Security Agreement, entitled "2. INTEREST," is hereby amended to read as follows:

2. INTEREST.

Interest Rate (Section 1.2):

With respect to the Revolving Loans:

A rate equal to the "Prime Rate" in effect from time to time, plus **1.0%** per annum; provided that the interest rate in effect on any given day, including after taking into account the reduction, if any, described below, shall not be less than **5.0%** per annum. The foregoing interest rate shall be reduced by 0.25% per annum at such time as, and for so long as, Borrower has achieved a Quick Ratio (as defined below) for two consecutive fiscal quarters (the first of which may not be earlier than the fiscal quarter ending September 30, 2002) greater than or equal to 1.50 to 1. The foregoing rate reduction shall go into effect as of the date of the second consecutive quarter's financial statements showing that Borrower is entitled to such rate reduction. If the interest rate is so reduced, based on financial statements as of a certain date and thereafter Borrower's Quick Ratio is no longer at least 1.50 to 1, then the interest rate shall be increased by 0.25% per annum, which rate increase shall go into effect as of the date of the financial statements showing that Borrower is no longer entitled to the rate reduction. Such reduction(s) and increase(s) may be made throughout the term of this Agreement.

With respect to the Term Loan:

A rate equal to the U.S. Treasury note yield to maturity for a term of 36 months as quoted in The Wall Street Journal on the day the Term Loan is advanced, plus **5.50%** per

annum. The foregoing interest rate shall be reduced by 0.50% per annum at such time as, and for so long as, Borrower has achieved a Quick Ratio (as defined below) for two consecutive fiscal quarters (the first of which may not be earlier than the fiscal quarter ending September 30, 2002) greater than or equal to 1.20 to 1 but less than 1.50 to 1, and shall be reduced by an additional 0.25% per annum at such time as, and for so long as, Borrower has achieved a Quick Ratio for two consecutive fiscal quarters (the first of which may not be earlier than the fiscal quarter ending September 30, 2002) of greater than or equal to 1.50 to 1. The foregoing rate reduction(s) shall go into effect as of the date of the second consecutive quarter's financial statements showing that Borrower is entitled to such rate reduction(s). If the interest rate is so reduced, based on financial statements as of a certain date and thereafter Borrower's Quick Ratio is no longer at least 1.50 to 1, then the interest rate shall be increased by 0.25% per annum, and if the Borrower's Quick Ratio is no longer at least 1.20 to 1, then the interest rate shall be increased by an additional 0.50% per annum, which rate increase(s) shall go into effect as of the date of the financial statements showing that Borrower is no longer entitled to the rate reduction(s). Such reduction(s) and increase(s) may be made throughout the term of this Agreement.

With respect to all Loans:

Notwithstanding the foregoing, in no event shall an interest rate reduction go into effect if, at the date it is to go into effect, an Event of Default has occurred.

As used above, "Quick Ratio" shall mean the ratio of Borrower's accounts receivable, cash and cash equivalents, in each case held at Silicon, to Borrower's current liabilities (including, with respect to any long-term indebtedness, only that portion of such long-term

indebtedness that is equal to twelve months' worth of regularly scheduled payments of principal on such long-term indebtedness) determined in accordance with GAAP.

With respect to all Loans, interest shall be calculated on the basis of a 360-day year for the actual number of days elapsed. "Prime Rate" means the rate announced from time to time by Silicon as its "prime rate;" it is a base rate upon which other rates charged by Silicon are based, and it is not necessarily the best rate available at Silicon. The interest rate applicable to the Obligations shall change on each date there is a change in the Prime Rate.

Minimum Monthly Interest (Section 1.2): Not Applicable.

2. Modified Collateral Monitoring Fee. The Collateral Monitoring Fee set forth in Section 3 of the Schedule to Loan and Security Agreement is hereby amended to read as follows:

Collateral Monitoring Fee: \$1,000, per calendar month, payable in arrears (prorated for any partial calendar month at the beginning and at termination of this Agreement).

3. Modified Maturity Date. Section 4 of the Schedule to Loan and Security Agreement is hereby amended to read as follows:

4. MATURITY DATE (Section 6.1):

February 28, 2004, subject to early termination as provided in Section 6.2 above.

Notwithstanding the foregoing, with respect to the Term Loan: The outstanding principal balance of the Term Loan shall be repaid by Borrower to Silicon in forty-two (42) equal monthly payments of principal, commencing on September 1, 2002 and continuing on the first day of each subsequent month until the earlier of the following dates: (i) the date

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the Term Loan has been indefeasibly paid in full, (ii) the date the Revolving Loans are terminated, or (iii) the date this Agreement terminates by its terms or is terminated by either party in accordance with its terms. On the earlier to occur of the foregoing dates, the entire unpaid principal balance of the Term Loan, plus all accrued and unpaid interest thereon, shall be due and payable. Interest on the Term Loan shall be payable monthly as provided for in Section 1.2 of this Agreement.

4. Fee. In consideration for Silicon entering into this Amendment, Borrower shall concurrently pay Silicon a fee in the amount of \$6,250, which shall be non-refundable and in addition to all interest and other fees payable to Silicon under the Loan Documents. Silicon is authorized to charge said fee to Borrower's loan account.

5. Representations True. Borrower represents and warrants to Silicon that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct.

6. General Provisions. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Silicon and Borrower, and the other written documents and agreements between Silicon and Borrower set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, representations, agreements and understandings between the parties with respect to the subject hereof. Except as herein expressly amended, all of the terms and provisions of the Loan Agreement, and all other documents and agreements between Silicon and Borrower shall continue in full force and effect and the same are hereby ratified and confirmed.

Borrower:

ALLIED MOTION TECHNOLOGIES INC. (fka Hathaway Corporation)

By /s/ RICHARD D. SMITH

President or Vice President

By /s/ SUSAN M. CHIARMONTE

Secretary or Ass't Secretary

Silicon:

SILICON VALLEY BANK

By /s/ S. RENEE HUDNALL

Title Vice President

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Borrower:

ALLIED MOTION SYSTEMS CORPORATION (fka Hathaway Systems Corporation)

Borrower:

ALLIED MOTION PROCESS INSTRUMENTATION CORPORATION (fka Hathaway Process Instrumentation Corporation)

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Borrower:

ALLIED MOTION CONTROL CORPORATION (fka Hathaway Motion Control Corporation)

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Borrower:

COMPUTER OPTICAL PRODUCTS, INC.

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Borrower:

MOTOR PRODUCTS—OHIO CORPORATION

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Borrower:

ALLIED MOTION INDUSTRIAL AUTOMATION, INC. (fka Hathaway Industrial Automation, Inc.)

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Borrower:

EMOTEQ CORPORATION

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Borrower:

MOTOR PRODUCTS CORPORATION (fka Motor Products-Owosso Corporation)

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

GUARANTOR'S CONSENT

The undersigned acknowledges that his consent to the foregoing Agreement is not required, but the undersigned nevertheless does hereby consent to the foregoing Agreement and to the documents and agreements referred to therein and to all future modifications and amendments thereto, and any termination thereof, and to any and all other present and future documents and agreements between or among the foregoing parties. Nothing herein shall in any way limit any of the terms or provisions of the Continuing Guaranty of the undersigned, all of which are hereby ratified and affirmed.

Guarantor:

ALLIED MOTION TECHNOLOGIES INC. (fka Hathaway Corporation)

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Guarantor:

ALLIED MOTION PROCESS INSTRUMENTATION

Guarantor:

ALLIED MOTION SYSTEMS CORPORATION (fka Hathaway Systems Corporation)

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Guarantor:

ALLIED MOTION CONTROL CORPORATION (fka Hathaway Motion Control Corporation)

**CORPORATION (fka Hathaway Process
Instrumentation Corporation)**

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Guarantor:

**ALLIED MOTION INDUSTRIAL AUTOMATION,
INC. (fka Hathaway Industrial Automation, Inc.)**

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Guarantor:

COMPUTER OPTICAL PRODUCTS, INC.

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Guarantor:

EMOTEQ CORPORATION

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Guarantor:

**MOTOR PRODUCTS CORPORATION (fka Motor
Products-Owosso Corporation)**

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Guarantor:

MOTOR PRODUCTS—OHIO CORPORATION

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

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Silicon Valley Bank

Amendment to Loan Documents

Borrower: **Allied Motion Technologies Inc. (fka Hathaway Corporation)**
Allied Motion Systems Corporation (fka Hathaway Systems Corporation)
Allied Motion Process Instrumentation Corporation (fka Hathaway Process Instrumentation Corporation)
Allied Motion Control Corporation (fka Hathaway Motion Control Corporation)
Allied Motion Industrial Automation, Inc. (fka Hathaway Industrial Automation, Inc.)
Computer Optical Products, Inc.
EMOTEQ Corporation
Motor Products-Ohio Corporation
Motor Products Corporation (fka Motor Products-Owosso Corporation)

Date: **February 19, 2004**

THIS AMENDMENT TO LOAN DOCUMENTS is entered into between SILICON VALLEY BANK ("Silicon") and the borrower named above (jointly and severally, "Borrower").

The Parties agree to amend the Loan and Security Agreement between them, dated May 7, 1998 (as amended from time to time, the "Loan Agreement"), as follows, effective as of the date hereof. (Capitalized terms used but not defined in this Amendment shall have the meanings set forth in the Loan Agreement.)

1. Modified Maturity Date. Section 4 of the Schedule to Loan and Security Agreement is hereby amended to read as follows:

4. MATURITY DATE (Section 6.1):

June 30, 2004, subject to early termination as provided in Section 6.2 above.

Notwithstanding the foregoing, with respect to the Term Loan: The outstanding principal balance of the Term Loan shall be repaid by Borrower to Silicon in forty-two (42) equal monthly payments of principal, commencing on September 1, 2002 and continuing on the first day of each subsequent month until the earlier of the following dates: (i) the date the Term Loan has been indefeasibly paid in full, (ii) the date the Revolving Loans are terminated, or (iii) the date this Agreement terminates by its terms or is terminated by either party in accordance with its terms. On the earlier to occur of the foregoing dates, the entire unpaid principal balance of the Term Loan, plus all accrued and unpaid interest thereon, shall be due and payable. Interest on the Term Loan shall be payable monthly as provided for in Section 1.2 of this Agreement.

2. Representations True. Borrower represents and warrants to Silicon that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct.

3. General Provisions. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Silicon and Borrower, and the other written documents and agreements between Silicon and Borrower set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, representations, agreements and understandings between the parties with respect to the subject hereof. Except as herein expressly amended, all of the terms and provisions of the Loan Agreement, and all other documents and agreements between Silicon and Borrower shall continue in full force and effect and the same are hereby ratified and confirmed.

Borrower:
ALLIED MOTION TECHNOLOGIES INC. (fka Hathaway Corporation)

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Silicon:
SILICON VALLEY BANK

By /s/ S. RENEE HUDNALL
Title Vice President

Borrower:
ALLIED MOTION SYSTEMS CORPORATION (fka Hathaway Systems Corporation)

By /s/ RICHARD D. SMITH

Borrower:
ALLIED MOTION PROCESS INSTRUMENTATION CORPORATION (fka Hathaway Process Instrumentation Corporation)

By /s/ RICHARD D. SMITH

President or Vice President

By /s/ SUSAN M. CHIARMONTE

Secretary or Ass't Secretary

Borrower:

ALLIED MOTION CONTROL CORPORATION (fka Hathaway Motion Control Corporation)

By /s/ RICHARD D. SMITH

President or Vice President

By /s/ SUSAN M. CHIARMONTE

Secretary or Ass't Secretary

Borrower:

COMPUTER OPTICAL PRODUCTS, INC.

By /s/ RICHARD D. SMITH

President or Vice President

By /s/ SUSAN M. CHIARMONTE

Secretary or Ass't Secretary

President or Vice President

By /s/ SUSAN M. CHIARMONTE

Secretary or Ass't Secretary

Borrower:

ALLIED MOTION INDUSTRIAL AUTOMATION, INC. (fka Hathaway Industrial Automation, Inc.)

By /s/ RICHARD D. SMITH

President or Vice President

By /s/ SUSAN M. CHIARMONTE

Secretary or Ass't Secretary

Borrower:

EMOTEQ CORPORATION

By /s/ RICHARD D. SMITH

President or Vice President

By /s/ SUSAN M. CHIARMONTE

Secretary or Ass't Secretary

Borrower:

MOTOR PRODUCTS—OHIO CORPORATION

By /s/ RICHARD D. SMITH

President or Vice President

By /s/ SUSAN M. CHIARMONTE

Secretary or Ass't Secretary

Borrower:

MOTOR PRODUCTS CORPORATION (fka Motor Products-Owosso Corporation)

By /s/ RICHARD D. SMITH

President or Vice President

By /s/ SUSAN M. CHIARMONTE

Secretary or Ass't Secretary

GUARANTOR'S CONSENT

The undersigned acknowledges that his consent to the foregoing Agreement is not required, but the undersigned nevertheless does hereby consent to the foregoing Agreement and to the documents and agreements referred to therein and to all future modifications and amendments thereto, and any termination thereof, and to any and all other present and future documents and agreements between or among the foregoing parties. Nothing herein shall in any way limit any of the terms or provisions of the Continuing Guaranty of the undersigned, all of which are hereby ratified and affirmed.

Guarantor:

ALLIED MOTION TECHNOLOGIES INC. (fka Hathaway Corporation)

By /s/ RICHARD D. SMITH

President or Vice President

By /s/ SUSAN M. CHIARMONTE

Secretary or Ass't Secretary

Guarantor:

ALLIED MOTION SYSTEMS CORPORATION (fka Hathaway Systems Corporation)

By /s/ RICHARD D. SMITH

President or Vice President

By /s/ SUSAN M. CHIARMONTE

Secretary or Ass't Secretary

Guarantor:

ALLIED MOTION PROCESS INSTRUMENTATION

Guarantor:

ALLIED MOTION CONTROL CORPORATION (fka Hathaway Motion Control Corporation)

**CORPORATION (fka Hathaway Process
Instrumentation Corporation)**

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Guarantor:

**ALLIED MOTION INDUSTRIAL AUTOMATION,
INC. (fka Hathaway Industrial Automation, Inc.)**

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Guarantor:

COMPUTER OPTICAL PRODUCTS, INC.

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Guarantor:

EMOTEQ CORPORATION

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Guarantor:

MOTOR PRODUCTS—OHIO CORPORATION

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

Guarantor:

**MOTOR PRODUCTS CORPORATION (fka Motor
Products-Owosso Corporation)**

By /s/ RICHARD D. SMITH
President or Vice President

By /s/ SUSAN M. CHIARMONTE
Secretary or Ass't Secretary

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ALLIED MOTION TECHNOLOGIES, INC.

**CODE OF ETHICS FOR CHIEF EXECUTIVE OFFICER, PRESIDENT
AND SENIOR FINANCIAL OFFICERS**

The Board of Directors of Allied Motion Technologies, Inc. has developed and adopted this Code of Ethics which requires its Chief Executive Officer (CEO), President and all senior financial officers including the Company's general managers and controllers to make full, fair, accurate, timely, and understandable public disclosures; to conduct themselves honestly and ethically; to avoid material conflicts of interest between personal and professional relationships; and to comply with applicable governmental rules and regulations. In addition:

1. The CEO, President and all senior financial officers are responsible for full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the Company with the Securities and Exchange Commission and in other public communications made by the Company. Accordingly, it is the responsibility of the CEO, President and each senior financial officer promptly to bring to the attention of the Audit Committee any material information of which he or she may become aware that affects the disclosures made or required to be made by the Company to the Securities and Exchange Commission and other regulators and in other public communications made by the Company.

2. The CEO, President and each senior financial officer shall promptly bring to the attention of the Audit Committee any information he or she may have concerning (a) significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.

3. The CEO, President and each senior financial officer shall promptly bring to the attention of the Audit Committee any information he or she may have concerning any material violation of the Company's Code of Ethics, including any actual or apparent conflicts of interest between personal and professional relationships, involving any management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.

4. The CEO, President and each senior financial officer shall promptly bring to the attention of the Audit Committee any information he or she may have concerning evidence of a material violation of the securities or other laws, rules or regulations applicable to the Company and the operation of its business, by the Company or any agent thereof.

5. The Board of Directors shall determine, or designate appropriate persons to determine, appropriate actions to be taken in the event of material violations of this Code of Ethics by the CEO, President and senior financial officers. Such actions shall be reasonably designed to deter wrongdoing and to promote accountability for adherence to this Code of Ethics and shall include written notices to the individual involved that the Board has determined that there has been a material violation, censure by the Board, demotion or re-assignment of the individual involved, suspension with or without pay or benefits (as determined by the Board) and termination of the individual's employment. In determining what action is appropriate in a particular case, the Board of Directors or such designee shall take into account all relevant information, including the nature and severity of the violation, whether the violation was a single occurrence or repeated occurrences, whether the violation appears to have been intentional or inadvertent, whether the individual in question had been advised prior to the violation as to the proper course of action and whether or not the individual in question had committed other violations in the past.

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[CODE OF ETHICS FOR CHIEF EXECUTIVE OFFICER, PRESIDENT AND SENIOR FINANCIAL OFFICERS](#)

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Exhibit 21

**ALLIED MOTION TECHNOLOGIES, INC.
LIST OF SUBSIDIARIES**

Emoteq Corporation, a Colorado corporation
Tulsa, Oklahoma

Computer Optical Products, Inc., a Colorado corporation
Chatsworth, California

Motor Products Corporation, a Delaware corporation
Owosso, Michigan

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[ALLIED MOTION TECHNOLOGIES, INC. LIST OF SUBSIDIARIES](#)

INDEPENDENT AUDITORS' CONSENT

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

We consent to the incorporation by reference in the registration statements (Nos. 33-37473, 33-44997, 333-21337, and 333-55344) on Form S-8 of Allied Motion Technologies Inc. of our report dated February 19, 2004, with respect to the consolidated balance sheets of Allied Motion Technologies Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' investment and comprehensive income and cash flows for the year ended December 31, 2003, the six-month period ended December 31, 2002, and for each of the fiscal years in the two-year period ended June 30, 2002, and the related financial statement schedule, which report appears in the December 31, 2003 annual report on Form 10-K of Allied Motion Technologies Inc.

As discussed in note 1 to the consolidated financial statements, Allied Motion Technologies Inc. and subsidiaries adopted the provisions of Statements of Financial Accounting Standards No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets", effective July 1, 2002.

KPMG LLP

Denver, Colorado
March 22, 2004

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[Exhibit 23](#)

[INDEPENDENT AUDITORS' CONSENT](#)

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. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Omitted;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 22, 2004

/s/ RICHARD D. SMITH

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

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[CERTIFICATION](#)

CERTIFICATION

I, Richard S. Warzala, 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. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Omitted;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 22, 2004

/s/ RICHARD S. WARZALA

Richard S. Warzala
*President and
Chief Operating Officer*

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[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, 2003 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 22, 2004

/s/ RICHARD D. SMITH

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

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