
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

Form 10-Q

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

For the Quarter Ended
September 30, 2004
(Unaudited)

Commission File Number
0-4041

ALLIED MOTION TECHNOLOGIES INC.

(Incorporated Under the Laws of the State of Colorado)

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

84-0518115
(IRS Employer Identification Number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

Number of Shares of the only class of Common Stock outstanding: 6,054,293 as of November 1, 2004

ALLIED MOTION TECHNOLOGIES INC.
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ALLIED MOTION TECHNOLOGIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, except per share data)
(Unaudited)

	September 30, 2004	December 31, 2003
Assets		
Current Assets:		
Cash and cash equivalents	\$ 926	\$ 1,960
Trade receivables, net of allowance for doubtful accounts of \$103 and \$106 at September 30, 2004 and December 31, 2003, respectively	11,492	5,971
Inventories, net	8,506	3,867
Deferred income taxes	567	1,247
Prepaid expenses and other	700	592
Total Current Assets	22,191	13,637
Property, plant and equipment, net	13,886	6,423
Goodwill and intangible assets	19,399	7,437
Total Assets	\$ 55,476	\$ 27,497
Liabilities and Stockholders' Investment		
Current Liabilities:		
Current maturities of capital lease obligations	\$ 180	\$ 134
Current maturities of debt obligations	8,558	1,833
Accounts payable	5,477	2,230
Accrued liabilities and other	5,824	3,504
Total Current Liabilities	20,039	7,701
Long-term capital lease obligations, net of current portion	282	345
Debt obligations, net of current portion	7,427	—
Deferred income taxes	1,229	430
Pension and post-retirement obligations and other liabilities	3,064	2,962
Total Liabilities	32,041	11,438
Commitments and Contingencies		
Stockholders' Investment:		
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding	—	—
Common stock, no par value, authorized 50,000 shares; 6,055 and 5,021 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	14,073	8,383
Loan receivable from Employee Stock Ownership Plan	(155)	(200)
Retained earnings	9,444	7,797
Cumulative translation adjustments	73	79
Total Stockholders' Investment	23,435	16,059
Total Liabilities and Stockholders' Investment	\$ 55,476	\$ 27,497

See accompanying notes to financial statements.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
Revenues	\$ 18,042	\$ 9,838	\$ 44,394	\$ 28,750
Cost of products sold	13,479	7,546	32,720	21,702
Gross margin	4,563	2,292	11,674	7,048
Operating costs and expenses:				
Selling	671	514	1,827	1,512
General and administrative	1,687	996	4,324	3,232
Engineering and development	803	485	2,025	1,374
Amortization of intangible assets	182	79	392	236
Restructuring charges	—	—	—	140
Total operating costs and expenses	3,343	2,074	8,568	6,494
Operating income	1,220	218	3,106	554
Other income (expense), net:				
Interest expense	(229)	(57)	(411)	(182)
Other income (expense), net	(6)	(8)	(25)	2
Total other expense, net	(235)	(65)	(436)	(180)
Income before income taxes	985	153	2,670	374

Benefit (provision) for income taxes	(373)	250	(1,023)	182
Net income	\$ 612	\$ 403	\$ 1,647	\$ 556
Basic net income per share:				
Net income per share	\$ 0.10	\$ 0.08	\$ 0.30	\$ 0.11
Basic weighted average common shares	5,907	5,001	5,421	4,901
Diluted net income per share:				
Net income per share	\$ 0.09	\$ 0.08	\$ 0.27	\$ 0.11
Diluted weighted average common shares	6,681	5,122	6,024	4,963

See accompanying notes to financial statements.

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

	For the nine months ended September 30,	
	2004	2003
Cash Flows From Operating Activities:		
Net income	\$ 1,647	\$ 556
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,625	977
Provision (credit) for doubtful accounts	—	15
Provision for obsolete inventory	186	287
Deferred income taxes	902	8
Other	147	8
Changes in assets and liabilities, net of effects from acquisition:		
(Increase) decrease in -		
Trade receivables	(2,810)	(796)
Inventories	(1,394)	321
Prepaid expenses and other	435	(354)
Increase (decrease) in -		
Accounts payable	720	(523)
Accrued liabilities and other	(314)	47
Net cash provided by operating activities	1,144	546
Cash Flows From Investing Activities:		
Purchase of property and equipment	(653)	(547)
Cash paid for acquisition of Owosso Corporation, net of cash acquired of \$99	(13,563)	—
Cash paid for Premotec, net of cash acquired of \$82	(3,135)	—
Proceeds from sale of Power and Process Business	—	500
Net proceeds from sale of Calibrator Business	50	149
Net cash provided by (used in) investing activities	(17,301)	102
Cash Flows From Financing Activities:		
Borrowings on line-of-credit, net	5,605	—
Borrowings on term loans	10,193	—
Repayments on term loans	(1,682)	(1,175)
Repayments of capital lease obligations	(103)	—
Issuance of unregistered stock	1,000	—
Repayment on loan to Employee Stock Ownership Plan	45	—
Stock transactions under employee benefit stock plans	63	49
Net cash provided by (used in) financing activities	15,121	(1,126)
Effect of foreign exchange rate changes on cash	2	13
Net decrease in cash and cash equivalents	(1,034)	(465)
Cash and cash equivalents at beginning of period	1,960	1,955
Cash and cash equivalents at September 30	\$ 926	\$ 1,490
Supplemental disclosure of cash flow information:		
Net cash paid during the period for:		
Interest	\$ 331	\$ 182
Income taxes	\$ 32	\$ 140

See accompanying notes to financial statements

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

1. Corporate Changes

On May 10, 2004, Allied Motion Technologies Inc. (the Company) completed the merger of Owosso Corporation and its sole operating subsidiary Stature Electric, Inc. located in Watertown, New York with a wholly owned subsidiary of the Company. Stature manufactures fractional and integral horsepower motors, gear motors, and motor part sets. Significant markets for Stature include medical/healthcare, non-automotive transportation, industrial automation, material handling, and manufacturing machinery. Stature's products are primarily sold to original equipment manufacturers throughout North America and in Europe. See Note 9 for further information about the acquisition of Owosso.

On August 23, 2004, the Company completed the acquisition of Premotec Beheer B.V. (Beheer) and its wholly owned, sole operating subsidiary, Precision Motor Technology B.V. (Premotec), located in Dordrecht, The Netherlands from Premotec Holding B.V., all limited liability companies incorporated in The Netherlands. Premotec has been manufacturing small precision electric motors for more than thirty years. The products are manufactured at its facility in The Netherlands and at a contract manufacturing facility in Eastern Europe and are sold to original equipment manufacturers (OEM) in Europe and the United States and through distributors to smaller OEM's in many countries of the European Economic Community. Premotec's products are used in a wide variety of industrial, professional and medical applications, such as fuel injection systems, high-density digital tape drives, bar code readers, laser scanning equipment, dialysis equipment, industrial ink jet printers, waste water treatment, cash dispensers, dosing systems for the pharmaceutical industry, textile manufacturing, document handling equipment, studio television cameras and optical disc drives for the computer industry. See Note 10 for further information about the acquisition of Premotec.

2. Basis of Preparation and Presentation

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

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. Nonmonetary assets and liabilities are translated at historical rates and monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date. The resulting translation adjustments are included in the cumulative translation adjustment component of stockholders' investment in the accompanying consolidated balance sheets. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and include all adjustments which are, in the opinion of management, necessary for a fair presentation. Certain information and footnote disclosures normally included in financial statements which are prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures herein are adequate to make the information presented not misleading. The financial data for the interim periods may not necessarily be indicative of results to be expected for the year.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions.

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Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

It is suggested that the accompanying condensed interim financial statements be read in conjunction with the Consolidated Financial Statements and related Notes to such statements included in the December 31, 2003 Annual Report and Form 10-K previously filed by the Company.

3. Inventories

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

	September 30, 2004	December 31, 2003
Parts and raw materials, net	\$ 5,653	\$ 2,205
Work-in process, net	1,546	1,006
Finished goods, net	1,307	656
	<u>\$ 8,506</u>	<u>\$ 3,867</u>

4. 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. 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", (SFAS No. 123), the Company's net income (loss) would have been adjusted to the following amounts (in thousands, except per share data):

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
Actual net income	\$ 612	\$ 403	\$ 1,647	\$ 556
Pro forma net income	\$ 321	\$ 256	\$ 1,079	\$ 121
Actual basic net income per share	\$ 0.10	\$ 0.08	\$ 0.30	\$ 0.11
Pro forma basic net income per share	\$ 0.05	\$ 0.05	\$ 0.20	\$ 0.02
Actual diluted net income per share	\$ 0.09	\$ 0.08	\$ 0.27	\$ 0.11
Pro forma diluted net income per share	\$ 0.05	\$ 0.05	\$ 0.18	\$ 0.02

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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 three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
Risk-free interest rate	2.9%	3.9%	2.9%	3.9%
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%	102.7%	108.6%

The weighted average fair value of options granted, using the Black-Scholes option-pricing model, during the quarters ended September 30, 2004 and 2003 was \$5.15 and \$1.84, respectively. The weighted average fair value of options granted, assuming the Black-Scholes option-pricing model, during the nine months ended September 30, 2004 and 2003 was \$3.85 and \$1.49, respectively. The total fair value of options granted was \$288,000 and \$9,200 in the quarters ended September 30, 2004 and 2003, respectively. The total fair value of options granted was \$984,000 and \$255,000 in the nine months ended September 30, 2004 and 2003, 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.

5. Earnings per Share

Basic income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted income per share is determined by dividing the net income or loss by the sum of (1) the weighted average number of common shares and warrants outstanding and (2) if not anti-dilutive, the effect of stock options and warrants determined utilizing the treasury stock method. Stock options to purchase 123,000 and 738,000 shares of common stock were excluded from the calculation of diluted loss per share for the quarters ended September 30, 2004 and 2003, respectively, since the results would have been anti-dilutive. Stock options to purchase 94,000 and 775,000 shares of common stock were excluded from the calculation of diluted loss per share for the nine months ended September 30, 2004 and 2003, respectively, since the results would have been anti-dilutive.

6. 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 which is the manufacture and marketing of motion control products for original equipment manufacturers and end user applications. In accordance with SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," the

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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. Management believes 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.

During the quarters and nine months ended September 30, 2004 and 2003, no single customer accounted for more than 10% of total revenues or accounts receivable.

The following table summarizes the Company's revenues in different geographical locations based on product shipment destinations:

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
Revenues:				
United States	\$ 14,609	\$ 7,143	\$ 36,459	\$ 22,293
Foreign Countries	3,433	2,695	7,935	6,457
Total	\$ 18,042	\$ 9,838	\$ 44,394	\$ 28,750

7. Comprehensive Income

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

Comprehensive income is computed as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
Net income	\$ 612	\$ 403	\$ 1,647	\$ 556
Foreign currency translation adjustment	(6)	6	(6)	13
Comprehensive income	\$ 606	\$ 409	\$ 1,641	\$ 569

8. Discontinued Operations

On March 6, 2003, the Company completed the sale of its Calibrator Business to a subsidiary of Martel Electronics Corp. The proceeds from this sale of \$250,000 consisted of \$50,000 and \$200,000 received on March 6, 2004 and 2003, respectively. The Company did not recognize a gain or loss from the sale due to a writedown of the carrying value of the Calibrator Business to its estimated fair value at September 30, 2002.

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

	For the nine months ended September 30, 2003	
Revenues	\$	159(a)
Income from discontinued operations, net of taxes	\$	—

(a) Includes two months of Calibrator Business revenues.

9. Owosso Acquisition

On May 10, 2004, the Company completed the merger of Owosso Corporation, and its sole operating subsidiary Stature Electric, Inc. located in Watertown, New York, with a wholly owned subsidiary of the Company pursuant to the terms of the Agreement and Plan of Merger dated February 10, 2004. The consideration for the merger of \$17.1 million consisted of \$1 million of cash payable to Owosso's preferred shareholders, \$11.7 million of cash for Owosso's debt, liabilities and transaction costs, \$1.2 million in fees and expenses incurred by the Company, the issuance of 535,527 shares of the Company's common stock (valued at \$2,421,000) and the issuance of warrants to purchase 300,000 shares of Allied Motion common stock at \$4.41 per share (valued at \$725,000) which were issued to Owosso's preferred shareholders. Of the total cash purchase price consideration of \$13.9 million, \$13.6 million has been paid as of September 30, 2004, with the remaining \$300,000 included in accrued liabilities and other in the condensed consolidated balance sheet as of September 30, 2004. 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. Allied Motion financed the cash portion of the acquisition price with existing cash, borrowings of \$8.25 million under new term loan agreements and borrowings under its new revolving line-of-credit. The Company acquired Owosso to further the Company's strategy to expand its penetration into the motion control market.

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. Certain asset values are being determined by third-party appraisals which have not been finalized. As such, the purchase price allocation below is preliminary and subject to change. The preliminary net purchase price allocation was as follows (in thousands):

Cash	\$ 99
Trade receivables	2,058
Inventories	1,676
Prepaid expenses and other	328
Property, plant and equipment	6,954
Amortizable intangible assets	3,000
Goodwill	5,686
Accounts payable	(1,545)
Accrued liabilities and other current liabilities	(1,133)
Net purchase price	\$ 17,123

The amortization of acquired goodwill and intangible assets are deductible for tax purposes. The amortizable intangible assets are amortized as discussed in Note 11.

The accompanying condensed consolidated financial statements include the operating results of Stature Electric subsequent to May 10, 2004.

The following presents the Company's unaudited pro forma financial information for the three months ended September 30, 2003 and nine months ended September 30, 2004 and 2003 after certain pro forma adjustments giving effect to the acquisition of Owosso Corporation as if it had occurred at January 1, 2003. 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 the fiscal period or to project the Company's results of operations for any future period (in thousands, except per share data).

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	For the three months ended September 30,		For the nine months ended September 30,	
	2003	2004	2004	2003
Revenues	\$ 14,237	\$ 51,658	\$ 51,658	\$ 42,173
Gross margin	\$ 2,984	\$ 12,388	\$ 12,388	\$ 9,196
Operating income (loss)	\$ 137	\$ 2,025	\$ 2,025	\$ 97
Net income (loss)	\$ 255	\$ 633	\$ 633	\$ (58)
Diluted net income (loss) per share	\$.05	\$.09	\$.09	\$ (.01)

10. Premotec Acquisition

On August 23, 2004, the Company completed the acquisition of Premotec Beheer B.V. (Beheer) and its wholly owned, sole operating subsidiary, Precision Motor Technology B.V. (Premotec), located in Dordrecht, The Netherlands from Premotec Holding B.V., all limited liability companies incorporated in The Netherlands, pursuant to the Stock Purchase Agreement dated July 23, 2004. Neither the companies acquired nor the seller are related to the Company, and there is no material relationship between those companies and the Company, other than in respect of this acquisition. The purchase price was EUR 3.75 million plus expenses (approximately \$5 million total purchase price). The cash portion of the consideration of EUR 2.5 million (U.S. \$3.1 million) was funded by a term loan, a line of credit and an overdraft facility from a Netherlands bank and is discussed more thoroughly in Note 12 below. The remaining portion of the consideration of EUR 1.25 million (U.S. \$1.5 million) was funded by the issue of 263,231 shares of the Company's common stock to the seller, Premotec Holding B.V., under the terms of the Stock Purchase Agreement. The expenses are being funded from the Company's cash balances and amounts available under the lines of credit.

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. Certain asset values are being determined by third-party appraisals which have not been finalized. As such, the purchase price allocation below is preliminary and subject to change. The preliminary net purchase price allocation was as follows (in thousands):

Cash	\$ 82
Trade receivables	649
Inventories	1,759
Prepaid expenses and other	426
Property, plant and equipment	1,232
Amortizable intangible assets	985
Goodwill	2,695
Accounts payable	(1,142)
Accrued liabilities and other current liabilities	(1,045)
Long term capital lease obligations	(47)
Deferred income taxes	(594)
Net purchase price	\$ 5,000

The amortization of acquired goodwill and intangible assets are non-deductible for tax purposes. The amortizable intangible assets are amortized as discussed in Note 11.

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11. Goodwill and Intangible Assets

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

	September 30, 2004	December 31, 2003	Estimated Life
Goodwill	\$ 13,586	\$ 5,213	
Amortizable intangible assets			
Customer relationships	4,011	1,930	8 years
Trade names	1,410	740	10 years
Product designs and technology	1,230	—	8 years
Accumulated amortization	(838)	(446)	
Total intangible assets	5,813	2,224	
Total goodwill and intangible assets	\$ 19,399	\$ 7,437	

The value of intangible assets acquired in the Owosso and Premotec acquisitions are being determined by third-party appraisals which have not been finalized. As such, the goodwill and intangible asset values indicated above are subject to change.

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

Balance as of December 31, 2003	\$ 5,213
Goodwill resulting from acquisition of Owosso	5,686
Goodwill resulting from acquisition of Premotec	2,695
Effect of foreign currency translation	(8)
Balance as of September 30, 2004	<u>\$ 13,586</u>

The change in goodwill from December 31, 2003 is due to the acquisition of Owosso (see note 9) and Premotec (see note 10). Amortization expense for intangible assets was \$182,000 and \$79,000 for the quarters ended September 30, 2004 and 2003, respectively. Amortization expense for intangible assets was \$392,000 and \$236,000 for the nine months ended September 30, 2004 and 2003, respectively. The estimated amortization expense is \$200,000 for the three-month period ended December 31, 2004 and \$800,000 in each of the years 2005 through 2009. These estimates may change subject to the completion of the fair market value appraisals currently in process.

12. Debt Obligations

In relation to the acquisitions of Owosso Corporation and Premotec, the Company repaid its existing borrowings and obtained new term loans and entered into new revolving line-of-credit agreements. Debt obligations consisted of the following:

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	September 30, 2004 (In thousands)	December 31, 2003 (In thousands)
Term loan payable to bank in monthly installments of \$90,278 plus interest at 8.68%, due in May 2007, secured by machinery and equipment	\$ 2,889	\$ —
Term loan payable to bank in monthly installments of \$59,360 plus interest at the bank's prime rate plus 0.75% (5.5% as of September 30, 2004), plus balloon payment of \$2,863,000, due in May 2007, secured by buildings, machinery and equipment	4,763	—
Term loan payable to bank in monthly installments of \$41,667 plus interest at 8.38%, paid in May 2004	—	1,083
Term loan payable to bank in quarterly installments of € 80,000 (\$98,000 at September 30, 2004 exchange rate) plus interest at 4.79% until August, 2005, then at EURIBOR plus 2.5% with a minimum of 4.75%, due in July 2009, secured by Beheer shares	1,964	—
Bank overdraft facility	612	—
Domestic revolving line-of-credit (A)	4,929	750
Foreign revolving line-of-credit (B)	828	—
Total	<u>15,985</u>	<u>1,833</u>
Less current maturities	<u>(8,558)</u>	<u>(1,833)</u>
Long-term debt obligations	<u>\$ 7,427</u>	<u>\$ —</u>

(A) Under the domestic revolving line-of-credit agreement (Agreement), the Company has available the lesser of (a) \$10,500,000 or (b) the sum of 80% of eligible trade accounts receivable (excluding Premotec) and 50% of eligible inventory, as defined in the Agreement. The line-of-credit expires in May 2007, unless extended. Under the Agreement, the Company utilizes lock-box arrangements whereby remittances from customers reduce the outstanding debt, therefore the line-of-credit balance has been classified as a current liability. Borrowings under the line-of-credit bear interest at a rate equal to the banks' prime rates plus 1% (5.75% as of September 30, 2004). All borrowings are collateralized by substantially all assets of the Company. The Agreement prohibits the Company from paying dividends and requires that the Company maintain compliance with certain covenants related to tangible net worth and profitability. As of September 30, 2004, the Company was in compliance with such covenants.

(B) Under the foreign line-of-credit agreement (Foreign Agreement), the Company has available the lesser of (a) EUR 1.25 million, or (b) 80% of eligible trade accounts receivable of Premotec as defined in the Foreign Agreement. The line-of-credit expires in August 2006, unless extended. Borrowings under the line-of-credit bear interest at a rate equal to the bank's base rate plus 1.75%, with a minimum of 4.75% (currently 4.75%). Under the Foreign Agreement, remittances from customers reduce the outstanding debt, therefore the balance has been classified as a current liability.

13. Restructuring Charges

Restructuring charges recorded in the nine months ended September 30, 2003 include the costs associated with the Company's strategy of reducing its facility requirements and implementing

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lean manufacturing initiatives. These charges consist of costs that are incremental to the Company's ongoing operations and are primarily associated with workforce reductions.

14. Pension and Postretirement Welfare Plans

Pension Plan

Motor Products, a wholly owned subsidiary of the Company, 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.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
Service cost	\$ 24	\$ 20	\$ 73	\$ 75
Interest cost on projected benefit obligations	47	45	142	167
Expected return on assets	(68)	(58)	(206)	(216)
Amortization of gain	(3)	—	(5)	—
Net periodic pension expense	\$ —	\$ 7	\$ 4	\$ 26

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

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. 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.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
Service cost	\$ 15	\$ 15	\$ 41	\$ 46
Interest cost	29	28	79	91
Amortization of gain	—	(2)	(1)	(4)
Net periodic postretirement costs	\$ 44	\$ 41	\$ 119	\$ 133

The Company contributed \$59,000 to the postretirement welfare plan during the nine months ended September 30, 2004. The Company expects to contribute a total of approximately \$80,000 to the postretirement welfare plan during 2004.

Item 2. Management's Discussion and Analysis of Operating Results and Financial Condition

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.

Business Overview

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

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'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 its custom high resolution sine-cosine optical encoders with customers' motor actuators is a particular strength of the company.

Motor Products Corporation in Owosso, Michigan supplies fractional horsepower DC motors to original equipment manufacturers in a myriad of industries. 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.

On May 10, 2004, the Company completed the merger of Owosso Corporation into a wholly owned subsidiary of the Company pursuant to the terms of the Agreement and Plan of Merger dated February 10, 2004. The sole operating subsidiary acquired is Stature Electric, located in Watertown New York. Stature Electric manufactures fractional and integral horsepower motors, gear motors, and motor part sets. 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.

The consideration for the merger of \$17.1 million consisted of the issuance of 535,527 shares of Allied Motion common stock (valued at \$2,421,000) representing 8% of the outstanding shares of the Company after the merger, \$1 million of cash payable to Owosso's preferred shareholders, \$11.7 million of cash to settle the remainder of Owosso's debt and liabilities at closing and \$1.2 million in fees and expenses incurred by the Company. 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 (valued at \$725,000) were issued to Owosso's preferred shareholders. The Company filed a registration statement on Form S-4 that became effective on March 29, 2004 related to the common stock and warrants issued in connection with the acquisition. Allied Motion borrowed \$8.25 million under new term loan agreements and received a commitment from PNC Business Credit and Silicon Valley Bank for up to \$10.5 million under a new revolving credit facility for the acquisition and for working capital needs.

On August 23, 2004, the Company completed the acquisition of Precision Motor Technology B.V. (Premotec) located in Dordrecht, The Netherlands. The purchase price was EUR 3.75 million plus expenses (approximately \$5 million total purchase price). The cash portion of the consideration of EUR 2.5 million (U.S. \$3.1 million) was funded by a term loan, a line of credit and an overdraft facility from a Netherlands bank. The remaining portion of the consideration of EUR 1.25 million (U.S. \$1.5 million) was funded by the issue of 263,231 shares of the Company's common stock to the seller, Premotec Holding B.V., under the terms of the Stock Purchase Agreement.

Premotec has been manufacturing small precision electric motors for more than thirty years which utilize four different motor technologies: Brushless DC, Coreless DC, Iron Core DC, and Permanent Magnet

Stepper and Synchronous motors, and also offers a range of reduction gearboxes tailored to a number of these motors. The products are manufactured at Premotec's facility in The Netherlands and at a contract manufacturing facility in Eastern Europe. Premotec's products are sold to OEM customers in Europe and the United States and through distributors to smaller OEM's in almost all countries of the European Economic Community. The products are used in a wide variety of industrial, professional and medical applications, such as fuel injection systems, bar code readers, laser scanning equipment, HVAC actuators, dialysis equipment, industrial ink jet printers, waste water treatment, cash dispensers, dosing systems for the pharmaceutical industry, textile manufacturing, document handling equipment and studio television cameras.

Strategy Overview

Allied Motion's Strategic Plan is to leverage our superior expertise in the integration of electro-magnetic and other enabling technologies to address growth oriented motion applications with the most compact, differentiated products, systems, and/or solutions that provide added value for our customers. Our intent is to be the recognized leader of motion solutions in market segments where we will enhance our position through the implementation of Allied's Systematic Tools (AST) to drive continuous improvement in quality, cost, delivery and growth. We will concentrate in geographic markets where our technical support provides an additional competitive advantage.

Allied Motion continues to make progress in implementing our corporate strategy. To ensure the implementation of all of our critical issues that are necessary to accomplish our overall strategy, we utilize 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.

The Company is continuing its 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. 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.

The Company's sales team is focused on selected vertical target market segments to achieve a much better understanding of these markets, and through continuous emphasis on our applications expertise we will continue to provide improved support for our customers which we believe should contribute to the Company's growth in sales and profitability.

To achieve growth, the Company is utilizing 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 address 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. We believe these tools 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

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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.

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.

Operating Results

Quarter Ended September 30, 2004 compared to Quarter Ended September 30, 2003

NET INCOME The Company had net income of \$612,000 or \$0.09 per diluted share for the third quarter 2004 compared to net income of \$403,000 or \$.08 per diluted share for the same quarter last year. Included in net income for the quarter ended September 30, 2004 are results related to Stature Electric and Premotec from the dates of acquisition on May 10, 2004 and August 23, 2004, respectively.

REVENUES Revenues were \$18,042,000 for the quarter ended September 30, 2004 compared to \$9,838,000 for the quarter ended September 30, 2003. Included in revenues for the quarter ended September 30, 2004 are results related to Stature Electric and Premotec from the date of acquisition on May 10, 2004 and August 23, 2004, respectively. Of this 83% increase in revenues, 19% came from the Company's existing businesses and 64% came from Stature's and Premotec's incremental revenues. The increases in our existing businesses are due to the general economic improvement in the business sectors our customers operate in. The construction equipment, marine and truck markets as well as industrial tools, power transmission and pumps experienced the largest percentage increases. In addition, the Company has realigned its sales team to focus on selected vertical target market segments to achieve a much better understanding of these markets, which has contributed to the Company's growth in sales.

ORDER BACKLOG At September 30, 2004, order backlog was \$22,764,000, including Stature and Premotec. On a pro forma basis, including backlog for Stature and Premotec at the quarter ended September 30, 2003, backlog is up 6% over the same time last year.

GROSS MARGINS Gross margin as a percentage of revenues increased to 25% for the quarter ended September 30, 2004 from 23% for the same quarter last year. This improvement in margins reflect both the improvement the Company is realizing from improved manufacturing efficiencies through the implementation of its lean manufacturing process and from continued cost reduction efforts to reduce overhead costs and expenses.

SELLING EXPENSES Selling expenses in the third quarter were \$671,000 compared to \$514,000 for the third quarter last year. This increase is primarily due to the impact of acquiring Stature and Premotec and increased investment in sales and marketing strategic development efforts, target marketing and image development activities.

GENERAL AND ADMINISTRATIVE EXPENSES General and administrative expenses were \$1,687,000 in the quarter ended September 30, 2004 compared to \$996,000 in the quarter ended September 30, 2003. This increase is due primarily to a \$296,000 increase in incentive bonus expense and the impact of acquiring Stature and Premotec.

ENGINEERING AND DEVELOPMENT EXPENSES Engineering and development expenses were \$803,000 in the third quarter and \$485,000 in the same quarter last year. This increase was primarily due to the impact of acquiring Stature and Premotec and increases in product development efforts including additional personnel costs in design and applications engineers.

AMORTIZATION Amortization expense was \$182,000 in the quarter ended September 30, 2004 and \$79,000 in the same quarter last year. These costs relate to the amortizable intangible assets acquired in the Motor Products, Stature and Premotec acquisitions.

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INTEREST EXPENSE Interest expense for the third quarter ended September 30, 2004 was \$229,000 compared to \$57,000 in the quarter ended September 30, 2003. The increase in interest is directly attributed to the increased outstanding balance on the borrowings related to the financing of the acquisitions of

Stature and Premotec.

INCOME TAXES Provision for income taxes was \$373,000 for the third quarter this year compared to a benefit of \$250,000 in the third quarter last year. Last year's amount includes a \$298,000 benefit related to the realization of a prior year state income tax refund. The effective rate used to record income taxes is based on projected income for the fiscal year and differs from the statutory amounts primarily due to certain expenses that are not deductible for income tax purposes and the impact of differences in state tax rates.

Nine Months Ended September 30, 2004 compared to Nine Months Ended September 30, 2003

NET INCOME The Company had net income of \$1,647,000 or \$.27 per diluted share for the first nine months of 2004 compared to net income of \$556,000 or \$.11 per diluted share for the same nine months last year. Included in net income for the nine months ended September 30, 2004 are results related to Stature Electric and Premotec from the dates of acquisition on May 10, 2004 and August 23, 2004, respectively.

During the first nine months last year, the Company sold its Calibrator Business. In accordance with SFAS No. 144, the business is presented as a discontinued operation, however results of operations for the discontinued business were zero and no gain or loss from the sale was recorded due to a writedown of the carrying value of the business to its estimated fair value at September 30, 2002.

REVENUES Revenues were \$44,394,000 in the nine months ended September 30, 2004 compared to \$28,750,000 for the nine months ended September 30, 2003. Included in revenues for the nine months ended September 30, 2004 are results related to Stature Electric and Premotec from the dates of acquisition on May 10, 2004 and August 23, 2004, respectively. Of this 54% increase in revenues over last year, 24% came from the Company's existing businesses and the remaining 30% came from Stature's and Premotec's incremental revenues. The increases in our existing businesses are due to the general economic improvement in the business sectors our customers operate in. The construction equipment, marine and truck markets as well as industrial tools, power transmission and pumps experienced the largest percentage increases. In addition, the Company has realigned its sales team to focus on selected vertical target market segments to achieve a much better understanding of these markets, which has contributed to the Company's growth in sales.

GROSS MARGINS Gross margin as a percentage of revenues increased to 26% for the nine months ended September 30, 2004 from 25% for the same period last year. This improvement in margins reflect both the improvement the Company is realizing from improved manufacturing efficiencies through the implementation of its lean manufacturing process and from continued cost reduction efforts to reduce overhead costs and expenses.

SELLING EXPENSES Selling expenses in the first nine months were \$1,827,000 compared to \$1,512,000 for the first nine months last year. This increase is due to the impact of acquiring Stature and Premotec and increased investment in sales and marketing strategic development efforts, target marketing and image development activities.

GENERAL AND ADMINISTRATIVE EXPENSES General and administrative expenses were \$4,324,000 in the nine months ended September 30, 2004 compared to \$3,232,000 in the nine months ended September 30, 2003. This increase is primarily due to a \$718,000 increase in incentive bonus and the impact of acquiring Stature and Premotec partially offset by reduction in administrative costs resulting from the Company's cost reduction efforts.

ENGINEERING AND DEVELOPMENT EXPENSES Engineering and development expenses were \$2,025,000 in the nine months and \$1,374,000 in the same nine months last year. This increase was primarily due to the impact of acquiring Stature and increases in product development efforts including additional personnel costs in design and applications engineers.

AMORTIZATION Amortization expense was \$392,000 in the nine months ended September 30, 2004 and \$236,000 in the same nine months last year. These costs relate to the amortizable intangible assets acquired in the Motor Products, Stature and Premotec acquisitions.

RESTRUCTURING CHARGE Restructuring charges were zero and \$140,000 for the nine months ended September 30, 2004 and 2003, respectively. The restructuring expense in the first nine months last year relates to the consolidation of the Company's manufacturing facilities and is primarily severance costs arising from workforce reductions.

INTEREST EXPENSE Interest expense for the nine months ended September 30, 2004 was \$411,000 compared to \$182,000 in the nine months ended September 30, 2003. The increase in interest is directly attributed to the increased outstanding balance on the borrowings related to the financing of the acquisitions of Stature and Premotec.

INCOME TAXES Provision for income taxes was \$1,023,000 for the first nine months this year compared to a benefit of \$182,000 in the same nine months last year. Last year's amount includes a \$298,000 benefit related to the realization of a prior year state income tax refund. The effective rate used to record income taxes is based on projected income for the fiscal year and differs from the statutory amounts primarily due to certain expenses that are not deductible for income tax purposes and the impact of differences in state tax rates.

Liquidity and Capital Resources

The Company's cash and cash equivalents decreased \$1,034,000 during the nine months to \$926,000 at September 30, 2004. The decrease compares to a decrease of \$465,000 in the same period last year.

Net cash provided by operating activities was \$1,452,000 for the nine months ended September 30, 2004 compared to cash provided by operating activities of \$546,000 for the nine months ended September 30, 2003. The increase was due to an improvement in net income offset by larger uses of working capital primarily to finance receivables and inventory.

Net cash used in investing activities was \$17,609,000 compared to net cash provided of \$102,000 for the nine months ended September 30, 2004 and 2003, respectively. During the first nine months this year, the Company paid \$13,871,000 related to the acquisition of Owosso Corporation and \$3,135,000 related to the acquisition of Premotec. In the nine months ended September 30, 2004 and 2003, the Company received net proceeds from the sale of the Calibrator Business of \$50,000 and \$149,000, respectively. In the first nine months last year, the Company received \$500,000 from the sale of the Power and Process Business. Purchases of property and equipment were \$653,000 and \$547,000 in the nine months ended September 30, 2004 and 2003, respectively.

Net cash provided by financing activities was \$15,121,000 for the nine months ended September 30, 2004 compared to net cash used of \$1,126,000 for the nine months ended September 30, 2003. In the nine months ended September 30 2004, the Company had net borrowings on lines-of-credit of \$5,605,000 compared to zero in the same period last year. The Company borrowed \$10,193,000 under new term loan agreements during the nine months ended September 30, 2004 compared to zero borrowings in the first nine months of last year. The Company repaid \$1,682,000 and \$1,175,000 on term loans during the nine months ended September 30, 2004 and 2003, respectively. In June 2004, Allied Motion issued 198,177 shares of common stock under the terms of a Stock Purchase Agreement. The purchasers of these shares were certain trusts and pension plans, the beneficiaries of which are Michel Robert and members of his immediate family. The aggregate purchase price for the shares was \$1.0 million representing the fair market value of the stock at the time the Company received the purchase price.

The Company's working capital, capital expenditure and debt service requirements are expected to be funded from cash provided by operations, the Company's existing cash balance and amounts available under its line-of-credit facilities. As of September 30, 2004, the Company had an additional \$4,552,000 available to borrow on its line-of-credit facilities. 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 its line-of-credit facilities. Any lack of availability of these facilities could have a material adverse impact on the Company's liquidity position. The Company's line-of-credit facilities requires that the Company maintain compliance with certain covenants related to tangible net worth and profitability. As of September 30, 2004, the Company was in compliance with such covenants.

See Note 12 of the Condensed Consolidated Financial Statements for further information on the Company's debt obligations.

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 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 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 uses 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 changing sales forecasts. Inventory is written down or written off when it becomes obsolete, generally because of engineering changes to a product or discontinuance of a product line, or when it is deemed excess. These determinations involve the exercise of significant judgment by management, and as demonstrated in recent periods demand for the Company's products is volatile and changes in expectations regarding the level of future sales can result in substantial charges against earnings for obsolete and excess inventory.

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 whenever events or changes in circumstances indicate that such carrying values may not be fully recoverable. Under current standards, the assets must be carried at historical cost if the projected cash flows from their use will recover their carrying amounts on an undiscounted basis and without considering interest. However, if projected cash flows are less than their carrying value, the long-lived assets must be reduced to their estimated fair value. Considerable judgment is required to project such cash flows and, if required, estimate the fair value of the impaired long-lived asset. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows. There can be no assurance that future long-lived asset impairments will not occur.

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. Nonmonetary assets and liabilities are translated at historical rates and monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date. The resulting translation adjustments are included in the cumulative translation adjustment component of stockholders' investment in the accompanying consolidated balance sheets. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

The interest payable on the Company's domestic and foreign line-of-credit and its foreign term loan are variable based on the prime rate and Euribor, and, therefore, are effected by changes in market interest rates. The Company does not believe that reasonably possible near-term changes in interest rates will result in a material effect on future earnings, fair values or cash flows of the Company. A change in the interest rate of 1% on the Company's variable rate debt would have the impact of changing interest expense by approximately \$131,000 annually.

Foreign Currency Risk

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

Item 4. Controls and Procedures

The Company's controls and procedures include those designed to ensure that material information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. As of September 30, 2004 the Company's chief executive officer, chief financial officer and president evaluated the effectiveness of the Company's disclosure controls and procedures designed to ensure that information is recorded, processed, summarized and reported in a timely manner as required by Exchange Act reports such as this Form 10-Q and concluded that they are effective.

There has not been any significant changes in the Company's internal controls over financial reporting during the quarter or nine months ended September 30, 2004 that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 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 203 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 203 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.

(b) Reports on Form 8-K

On July 22, 2004, the Company filed Form 8-K to report the issuance of a press release dated July 22, 2004 to report the results of operations for the second quarter ended June 30, 2004.

On August 26, 2004, the Company filed Form 8-K to report the completion of the acquisition of Premotec.

On September 16, 2004, the Company filed Form 8-K to present the condensed consolidated financial statements of Owosso Corporation for its second fiscal quarter ended May 2, 2004, in relation to the merger of Owosso Corporation with a wholly owned subsidiary of the Company on May 10, 2004.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: November 15, 2004

ALLIED MOTION TECHNOLOGIES INC.

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

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ALLIED MOTION TECHNOLOGIES INC.

CERTIFICATION

I, Richard D. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allied Motion Technologies, Inc. (the “registrant”);
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a – 14 and 15d – 14) for the registrant and I have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and
 - c) presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; 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; and
6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 15, 2004

/s/ Richard D. Smith

Richard D. Smith
Chief Executive Officer and
Chief Financial Officer

ALLIED MOTION TECHNOLOGIES INC.

CERTIFICATION

I, Richard S. Warzala, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allied Motion Technologies, Inc. (the “registrant”);
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a – 14 and 15d – 14) for the registrant and I have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and
 - c) presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; 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; and
6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 15, 2004

/s/ Richard S. Warzala
Richard S. Warzala
President and
Chief Operating Officer

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

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

- (1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2004 fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 15, 2004

/s/ Richard D. Smith

Richard D. Smith
Chief Executive Officer and
Chief Financial Officer
