ALLIED MOTION TECHNOLOGIES INC
Form 10-Q
November 10, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2010

Commission File Number

0-04041

ALLIED MOTION TECHNOLOGIES INC.

Incorporated Under the Laws of the State of Colorado

Colorado	**84-0518115**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)

23 Inverness Way East, Suite 150

Englewood, Colorado 80112

Telephone: (303) 799-8520

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

Number of Shares of the only class of Common Stock outstanding: 7,964,594 as of November 10, 2010.

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

INDEX

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, except per share data)

(Unaudited)

	September 30, 2010	December 31, 2009
Assets		
Current Assets:		
Cash and cash equivalents	$ 7,066	$ 4,470
Trade receivables, net of allowance for doubtful accounts of $247 and $225 at September 30, 2010 and December 31, 2009, respectively	11,250	7,743
Inventories, net	9,429	7,578
Deferred income taxes	498	476
Prepaid expenses and other	1,153	891
Total Current Assets	29,396	21,158
Property, plant and equipment, net	6,499	6,584
Deferred income taxes and other	5,200	5,649
Intangible assets, net	872	1,362
Total Assets	$ 41,967	$ 34,753
Liabilities and Stockholders Investment		
Current Liabilities:		
Debt obligations		600
Accounts payable	5,931	3,135
Accrued liabilities and other	4,988	3,298
Income taxes payable	650	104
Total Current Liabilities	11,569	7,137
Pension and post-retirement obligations	2,439	2,594
Total Liabilities	14,008	9,731
Commitments and Contingencies		
Stockholders Investment:		
Common stock, no par value, authorized 50,000 shares; 7,965 and 7,585 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	19,234	18,581
Preferred stock, par value $1.00 per share, authorized 5,000 shares; no shares issued or outstanding		
Retained earnings	8,359	5,757
Accumulated other comprehensive income	366	684
Total Stockholders Investment	27,959	25,022
Total Liabilities and Stockholders Investment	$ 41,967	$ 34,753

See accompanying notes to financial statements.

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, except per share data)

(Unaudited)

	For the three months ended September 30, 2010	2009	For the nine months ended September 30, 2010	2009
Revenues	$ 22,031	$ 14,980	$ 59,451	$ 44,215
Cost of products sold	15,474	11,225	42,943	35,324
Gross margin	6,557	3,755	16,508	8,891
Operating costs and expenses:				
Selling	991	765	2,944	2,445
General and administrative	2,606	1,516	7,026	4,892
Engineering and development	1,074	954	3,014	2,939
Amortization of intangible assets	121	167	446	680
Fire related losses		84		191
Insurance recoveries		(135)	(685)	(242)
Impairment charges				15,986
Total operating costs and expenses	4,792	3,351	12,745	26,891
Operating income (loss)	1,765	404	3,763	(18,000)
Other (income) expense, net:				
Interest expense		7	3	42
Writeoff of deferred finance costs				86
Other (income) expense, net	(37)	(15)	(177)	91
Total other (income) expense, net	(37)	(8)	(174)	219
Income (loss) before income taxes	1,802	412	3,937	(18,219)
(Provision) benefit for income taxes	(673)	(133)	(1,335)	5,653
Net income (loss)	$ 1,129	$ 279	$ 2,602	$ (12,566)
Basic net income (loss) per share:				
Net income (loss) per share	$ 0.14	$ 0.04	$ 0.33	$ (1.67)
Basic weighted average common shares	7,952	7,581	7,859	7,505
Diluted net income (loss) per share:				
Net income (loss) per share	$ 0.14	$ 0.04	$ 0.33	$ (1.67)
Diluted weighted average common shares	7,987	7,590	7,913	7,505

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	For the nine months ended September 30, 2010	2009
Cash Flows From Operating Activities:		
Net income (loss)	$ 2,602	$ (12,566)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,400	2,381
Deferred income taxes	489	(5,983)
Impairment charges		15,986
Provision for Excess and Obsolete Inventory	150	798
Other	327	314
Changes in assets and liabilities:		
Trade receivables	(3,417)	1,705
Inventories, net	(1,919)	1,080
Prepaid expenses and other	(148)	277
Accounts payable	2,642	(1,115)
Accrued liabilities and other	1,846	(1,942)
Net cash provided by operating activities	3,972	935
Cash Flows From Investing Activities:		
Purchase of property and equipment	(855)	(726)
Cash paid for acquisition, net of cash acquired	(76)	
Net cash used in investing activities	(931)	(726)
Cash Flows From Financing Activities:		
(Repayments) borrowings on lines-of-credit, net	(600)	800
Repayments on term loans		(2,800)
Stock transactions under employee benefit stock plans	268	230
Net cash used in financing activities	(332)	(1,770)
Effect of foreign exchange rate changes on cash	(113)	115
Net increase (decrease) in cash and cash equivalents	2,596	(1,446)
Cash and cash equivalents at beginning of period	4,470	4,196
Cash and cash equivalents at end of period	$ 7,066	$ 2,750

See accompanying notes to financial statements.

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

1. Basis of Preparation and Presentation

Allied Motion Technologies Inc. (the Company) is engaged in the business of designing, manufacturing and selling motion control products to a broad spectrum of customers throughout the world.

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

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

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

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

It is suggested that the accompanying condensed interim financial statements be read in conjunction with the Consolidated Financial Statements and related Notes to such statements included in the Annual Report on Form 10-K for the year ended December 31, 2009 that was previously filed by the Company.

2. Inventories

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

	September 30, 2010	December 31, 2009
Parts and raw materials	$ 7,773	$ 6,484
Work-in process	2,507	1,649
Finished goods	1,210	1,620
	11,490	9,753
Less reserves	(2,061)	(2,175)
Inventories, net	$ 9,429	$ 7,578

Table of Contents

3. Property, Plant and Equipment

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

	September 30, 2010	December 31, 2009
Land	$ 290	$ 290
Building and improvements	3,254	3,231
Machinery, equipment, tools and dies	12,230	11,806
Furniture, fixtures and other	1,805	1,543
	17,579	16,870
Less accumulated depreciation	(11,080)	(10,286)
Property, Plant and Equipment, net	$ 6,499	$ 6,584

4. Stock-Based Compensation

Stock Incentive Plans

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

Stock Options

The following is a summary of option activity, during the nine months ended September 30, 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at beginning of period	538,950	$ 4.44	1.2	
Forfeited	(7,000)	$ 5.66		
Exercised	(103,750)	$ 2.58		
Outstanding at end of Period	428,200	$ 4.87	0.6	$ 18,000
Exercisable at end of period	428,200	$ 4.87	0.6	$ 18,000

All stock options are fully vested, and the Company did not recognize any compensation expense relating to outstanding stock options during 2010 or 2009.

Stock Warrants

As of September 30, 2010, the Company had 300,000 warrants outstanding to purchase common stock that are exerciseable at an exercise price of $4.41. The warrants were issued May 10, 2004, in connection with an acquisition, and will expire May 10, 2011.

Restricted Stock

In the nine months ended September 30, 2010, 286,305 shares of unvested restricted stock were awarded with a weighted average value of $3.34. Of the restricted shares granted, 102,120 shares have performance based vesting conditions. The value at the date of award is amortized to compensation expense over the related service period, which is generally three years. Shares of restricted stock are forfeited if an employee leaves the Company before the vesting date. Shares that are forfeited become available for future awards.

Table of Contents

The following is a summary of restricted stock activity during the nine months ended September 30, 2010:

	Number of Shares
Outstanding at beginning of period	173,712
Granted	286,305
Forfeited	(866)
Vested	(84,353)
Outstanding at end of Period	374,798

During the quarters ended September 30, 2010 and 2009, compensation expense, net of forfeitures, of $230,000 and $82,000 was recorded, respectively. During the nine-months ended September 30, 2010 and 2009, compensation expense, net of forfeitures, of $444,000 and $251,000 was recorded, respectively.

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 by the sum of (1) the weighted average number of common shares outstanding and (2) if not anti-dilutive, the effect of stock awards determined utilizing the treasury stock method. The dilutive effect of outstanding awards for the quarters ended September 30, 2010 and 2009 was 35,000 and 9,000 shares, respectively. The dilutive effect of outstanding awards for the nine months ended September 30, 2010 and 2009 was 54,000 and 0 shares, respectively. Stock awards and warrants to purchase 710,000 and 803,000 shares of common stock were excluded from the calculation of diluted income per share for the quarters ended September 30, 2010 and 2009, respectively, since the results would have been anti-dilutive. Stock awards and warrants to purchase 711,000 and 803,000 shares of common stock were excluded from the calculation of diluted income per share for the nine months ended September 30, 2010 and 2009, respectively, since the results would have been anti-dilutive.

6. **Segment Information**

ASC Topic Segment Reporting 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 the Segment Reporting Topic of the ASC, the Company s chief operating decision maker has been identified as the Chief Executive Officer and President, which reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Existing guidance, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under Segment Reporting 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

Table of Contents

Segment Reporting can be found in the accompanying consolidated financial statements and within this note.

The Company s wholly owned foreign subsidiaries, Premotec (Dordrecht, The Netherlands), and Allied Motion Canada (Waterloo, Ontario, Canada), are included in the accompanying consolidated financial statements. Financial information related to the foreign subsidiaries is summarized below (in thousands):

	As of and for the three months ended September 30, 2010	2009	As of and for the nine months ended September 30, 2010	2009
Revenues derived from foreign subsidiaries	$ 6,931	$ 4,775	$ 19,471	$ 13,897
Identifiable assets	$ 14,365	$ 9,600	$ 14,365	$ 9,600

Sales to customers outside of the United States by all subsidiaries were $8,313,000 and $6,612,000 during the quarters ended September 30, 2010 and 2009, respectively, and $23,737,000 and $18,995,000 for the nine months ended September 30, 2010 and 2009, respectively.

During the quarters and nine months ended September 30, 2010 and 2009, no single customer accounted for more than 10% of total revenues.

7. Comprehensive Income (Loss)

Comprehensive income (loss) 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 (loss) is computed as follows (in thousands):

	For the three months ended September 30, 2010	2009	For the nine months ended September 30, 2010	2009
Net income (loss)	$ 1,129	$ 279	$ 2,602	$ (12,566)
Foreign currency translation adjustment	957	243	(318)	217
Comprehensive income (loss)	$ 2,086	$ 522	$ 2,284	$ (12,349)

Table of Contents

8. Intangible Assets

Intangible assets on the Company s consolidated balance sheets consist of the following (in thousands):

	September 30, 2010	December 31, 2009	Estimated Life
Amortizable intangible assets			
Customer lists	$ 2,954	$ 3,008	8 years
Trade name	946	946	10 years
Design and technologies	1,156	1,212	8 years
Patents	24	24	
Accumulated amortization	(4,208)	(3,828)	
Total intangible assets	$ 872	$ 1,362	

Amortization expense for intangible assets was $121,000 and $167,000 for the quarters ended September 30, 2010 and 2009, respectively, and $446,000 and $680,000 for the nine months ended September 30, 2010 and 2009, respectively.

9. Debt Obligations

Debt obligations consisted of the following (in thousands):

	September 30, 2010	December 31, 2009
Credit Agreement (at variable rates)		
Revolving line-of-credit	$	$ 600

The Company amended the Credit Agreement on July 30, 2010, to extend the maturity date through October 29, 2010. The Agreement provides revolving credit up to $8 million and 2 million.

The Company subsequently amended the Credit Agreement on October 26, 2010. See Note 12.

The Company also has 300,000 of available borrowings under a bank overdraft facility in Europe.

10. Fire Loss and Insurance Recoveries

In the first quarter of 2010, the Company received the final settlement for the business interruption losses caused by the fire at the COPI facility in October 2008, formerly located in Chatsworth, CA. Net insurance recoveries were $0 and $51,000 for the quarters ended September 30, 2010 and 2009, respectively, and $685,000 and $51,000, for the nine months ended September 30, 2010 and 2009, respectively. As a result of the settlement, no additional losses or recoveries are expected.

Table of Contents

11. Acquisition

On June 3, 2010, the Company completed the purchase of Agile Systems Inc. (Agile), a privately owned Canadian corporation. The Company purchased the shares of Agile and the purchase price was paid in cash at closing. On June 15, 2010, Agile was amalgamated into Allied Motion Canada, Inc., the acquiring company. Allied Motion Canada s operations, from the date of acquisition, and balance sheet are included in the Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2010 and the Condensed Consolidated Balance Sheet as of September 30, 2010, respectively.

12. Subsequent Event

On October 26, 2010, the Company entered into a Third Amendment to Credit Agreement to extend the maturity date through October 26, 2012. The Credit Agreement was due to expire on October 29, 2010. The Credit Agreement, as amended, provides revolving credit up to $4 million and 3 million. The Credit Agreement contains certain financial covenants related to maximum leverage, minimum fixed charge coverage and minimum tangible net worth of the company.

13. Reclassifications

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

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

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

Table of Contents

to design and market those products to meet customers needs in a competitive world. Actual results, events and performance may differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements as a prediction of actual results. The Company has no obligation or intent to release publicly any revisions to any forward looking statements, whether as a result of new information, future events, or otherwise.

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

Overview

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

Allied Motion is organized into five companies, or technology units (TUs): Emoteq Corporation, Motor Products Corporation, Stature Electric, Inc., Precision Motor Technology B.V. (Premotec) and Allied Motion Canada, Inc. (formerly Agile Systems, Inc.).

The TUs offer a wide range of standard and customized 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 high quality custom motion control solutions to meet the needs of its customers. With the addition of Allied Motion Canada, which specializes in controls, the Company will continue to expand its product offerings, providing more integrated motion system solutions to its customers.

The Company has made considerable progress in implementing its corporate strategy, with the driving force of electro-magnetic, mechanical and electronic motion technology/know how . The Company s commitment to Allied s Systematic Tools, or AST for short, is driving continuous improvement in quality, delivery, cost and growth. AST utilizes a tool kit to effect desired changes through

10

Table of Contents

well defined processes such as Strategy Deployment, Target Marketing, Value Stream Mapping, Material Planning, Standard Work and Single Minute Exchange of Dies.

Outlook

Despite the challenges the Company faced in 2009 as a result of the economic downturn, the Company returned to profitability in the second half of 2009 and continued to improve profitability in the first nine months of 2010. Conditions have continued to improve and management continues its efforts to foster additional growth in revenues and profitability. Bookings in the third quarter were $19.2 million, which is a $3.5 million increase when compared to $15.7 million for the third quarter of 2009, but down from the order levels seen in the first two quarters of 2010 of $26.2 and $27.7 million respectively. Bookings for the nine months ended September 30, 2010 were $73.1 million, an increase of $27.3 million over the $45.8 million of bookings for the same period last year. Backlog at September 30, 2010 was $35.7 million, reflecting a 38% increase over the backlog at the same time last year and an increase of 70% from the backlog at the end of 2009. The increased backlog levels reflect the economic recovery experienced during the last 12 months in the Company s served markets and we believe that the increase provides a good indication that these markets are recognizing the value of the Company s motion solutions.

As announced in the fourth quarter of 2009, the Company relocated its COPI encoder business from Chatsworth, California to the Emoteq facilities in Tulsa, Oklahoma. The Company believes that the combined entity, supporting both the motor and encoder technologies in a cohesive systems approach within the same facility, will provide the best opportunity for long term sustainable growth in sales and profitability in the future.

On June 3, 2010, the Company acquired the shares of Agile Systems Inc. Agile is a leader in the design and development of advanced motion control technology including integrated power electronics, digital controls and network communications for motor control and power conversion. Agile, based in Waterloo, Ontario, Canada, has established customers in a wide range of industries. Agile is now known as Allied Motion Canada.

The Company has a strong balance sheet, and has improved liquidity when compared with the previous year. The Company s cash position, net of outstanding debt, increased by approximately $5.1 million over the last twelve months. The Company continues its position of maintaining resources in electro-magnetic, mechanical and electronic design capabilities, as its primary goal is to provide products that raise the bar with customers and provide important differentiating solutions against competition. Management will continue to make investments in the markets believed to provide the most opportunity for continued growth and profitability of the Company.

One of the Company s major challenges is to maintain and improve price competitiveness. The Company s customers are continually being challenged by their markets and competitors to be price competitive and they are requiring their suppliers to deliver the highest quality product at the lowest price possible. Currently, the Company is producing some of its motor sub-assemblies and finished products at sub-contract manufacturing facilities in China and Slovakia. The Company has increased efforts to identify opportunities where production in low cost regions can improve profitability while delivering the same high quality products.

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

The Company continues to pursue aggressive motor and drive development plans for new products that leverage the combined technology base of the Allied Motion companies. The Company

Table of Contents

focuses on new product designs that design-out cost, provide higher level, value-added performance solutions and that meet the needs of its served markets. Over the last few years, the Company announced several new motor designs targeted at various markets. It normally takes twelve months to get new products designed into new customer applications.

The Company continues its focus on a ONE TEAM sales force to more effectively leverage resources utilizing a company wide sales organization. With the ONE TEAM sales force selling all the Company s products, management s expectation is that this capability provides opportunities to increase sales from existing customers and secure new business opportunities.

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

Operating Results

Quarter Ended September 30, 2010 compared to Quarter Ended September 30, 2009

	For the three months ended September 30,		Increase (decrease)	
(in thousands)	**2010**	**2009**	**$**	**%**
Revenues	$ 22,031	$ 14,980	$ 7,051	47%
Cost of products sold	15,474	11,225	4,249	38%
Gross margin	6,557	3,755	2,802	75%
Gross margin percentage	30%	25%		5%
Operating costs and expenses:				
Selling	991	765	226	30%
General and administrative	2,606	1,516	1,090	72%
Engineering and development	1,074	954	120	13%
Amortization of intangible assets	121	167	(46)	(28)%
Fire related losses		84	(84)	(100)%
Insurance recoveries		(135)	135	100%
Total operating costs and expenses	4,792	3,351	1,441	43%
Operating income	1,765	404	1,361	337%
Interest expense		7	(7)	(100)%
Other income, net	(37)	(15)	(22)	(147)%
Income (loss) before income taxes	1,802	412	1,390	337%
(Provision) Benefit for income taxes	(673)	(133)	(540)	(406)%
Net income (loss)	$ 1,129	279	$ 850	305%

NET INCOME (LOSS) The Company reported net income of $1,129,000 for the third quarter of 2010, a 305% increase over net income of $279,000 for the third quarter of 2009. Diluted EPS for the third quarter of 2010 was $0.14 a share, a 250% increase over diluted EPS of $0.04 for the same quarter last year.

12

Table of Contents

EBITDA   EBITDA was $2,234,000 for the third quarter of 2010 compared to $989,000 for the same quarter last year. EBITDA is a non-GAAP measurement that consists of income before interest expense, provision for income taxes, depreciation and amortization. See information included in   Non - GAAP Measures   below for a reconciliation of net income to EBITDA.

REVENUES   Revenues were $22,031,000 in the quarter ended September 30, 2010 compared to $14,980,000 for the quarter ended September 30, 2009. The 47% increase in revenues for the quarter ended September 30, 2010 reflects increased sales into nearly all markets, with the vehicle and industrial markets accounting for the largest portion of increased sales over the quarter ended September 30, 2009, offset by a slight decrease in the distribution markets.

Sales to U.S. customers accounted for 62% of our sales in the third quarter of 2010 and 56% in the third quarter of 2009, with the balance of sales to customers primarily in Europe, Canada and Asia. Sales volumes for the quarter ended September 30, 2010 increased 51%, partially offset by the strengthening of the U.S dollar against the Euro, which decreased the Company   s sales by 4%.

ORDER BACKLOG   At September 30, 2010, order backlog was approximately $35,700,000 which is up 38% from the same time last year and up 70% from the backlog at December 31, 2009.

GROSS MARGINS   Gross margin as a percentage of revenues was 30% and 25% for the quarters ended September 30, 2010 and 2009, respectively. The 5% increase in gross margin is primarily a result of increased sales with improvements in fixed overhead costs as a percentage of sales and a reduction in material and variable manufacturing overhead costs as a percentage of sales.

SELLING EXPENSES   Selling expenses in the third quarter were $991,000 compared to $765,000 for the third quarter last year. The 30% increase is primarily due to the Company increasing its Sales team, as well as higher sales incentives and commissions as a result of increased sales.

GENERAL AND ADMINISTRATIVE EXPENSES   General and administrative expenses were $2,606,000 in the quarter ended September 30, 2010 compared to $1,516,000 in the quarter ended September 30, 2009. The 72% increase is primarily a result of increased compensation expense, which includes incentive bonuses and stock compensation expense, and increased business development expenses.

ENGINEERING AND DEVELOPMENT EXPENSES   Engineering and development expenses were $1,074,000 in the third quarter of 2010 and $954,000 in the same quarter last year. We have expanded engineering resources and capabilities to continue meeting our customers   needs and to expand our product base for future opportunities.

AMORTIZATION OF INTANGIBLE ASSETS   Amortization of intangible assets expense was $121,000 in the quarter ended September 30, 2010 and $167,000 in the same quarter last year. The 28% decrease is primarily the result of certain intangible assets that became fully amortized early in the third quarter of 2010.

INCOME TAXES   Provision for income taxes was $673,000 for the third quarter of 2010 compared to $133,000 for the third quarter last year.

The effective rate used to record income taxes is based on projected results for the fiscal year. The effective income tax rate as a percentage of income (loss) before income taxes was 37% and 32% in the quarters ended September 30, 2010 and 2009, respectively. The effective tax rate is higher in 2010 than the statutory rate primarily due to permanent differences in foreign and domestic jurisdictions, partially offset by lower tax rates in foreign jurisdictions. The effective tax rate for the same period of 2009 is lower than the statutory rate primarily due to lower tax rates in a foreign jurisdiction, slightly offset by permanent differences that result from a goodwill writeoff in a foreign jurisdiction.

Table of Contents

Nine Months Ended September 30, 2010 compared to Nine Months Ended September 30, 2009

	For the nine months ended September 30,		Increase (decrease)	
(in thousands)	**2010**	**2009**	**$**	**%**
Revenues	$ 59,451	$ 44,215	$ 15,236	34%
Cost of products sold	42,943	35,324	7,619	22%
Gross margin	16,508	8,891	7,617	86%
Gross margin percentage	28%	20%		8%
Operating costs and expenses:				
Selling	2,944	2,445	499	20%
General and administrative	7,026	4,892	2,134	44%
Engineering and development	3,014	2,939	75	3%
Amortization of intangible assets	446	680	(234)	(34)%
Fire related losses		191	(191)	(100)%
Insurance recoveries	(685)	(242)	(443)	183%
Impairment charges		15,986	(15,986)	(100)%
Total operating costs and expenses	12,745	26,891	(14,146)	(53)%
Operating income	3,763	(18,000)	21,763	121%
Interest expense	3	42	(39)	(93)%
Writeoff of deferred finance costs		86	(86)	(100)%
Other (income) expense, net	(177)	91	(268)	(294)%
Income (loss) before income taxes	3,937	(18,219)	22,156	122%
(Provision) Benefit for income taxes	(1,335)	5,653	6,988	124%
Net income (loss)	$ 2,602	$ (12,566)	$ 15,168	121%

NET INCOME (LOSS) The Company reported net income of $2,602,000 or $0.33 per diluted share for the nine months ended September 30, 2010, compared to a net loss of $12,566,000 or $1.67 per diluted share for the nine months ended September 30, 2009. The net loss for last year includes a total of $15,986,000 ($11,105,000 after tax) of asset impairment charges and $600,000 ($417,000 after tax) of additional inventory reserves.

EBITDA BEFORE IMPAIRMENT CHARGES EBITDA before impairment charges, was $5,340,000 for the first nine months of 2010 compared to $190,000 for the same period last year. EBITDA before impairment charges is a non-GAAP measurement that consists of income before interest expense, provision for income taxes, depreciation and amortization and impairment charges. See information included in Non - GAAP Measures below for a reconciliation of net income to EBITDA before Impairment charges

REVENUES Revenues were $59,451,000 for the nine months ended September 30, 2010 compared to $44,215,000 for the nine months ended September 30, 2009. The 34% increase in revenues for the nine months ended September 30, 2010 reflects increased sales into nearly all markets, with the vehicle and

Table of Contents

industrial markets accounting for the largest portion of increased sales over the same period of last year, offset by a slight decrease in the aerospace and defense markets.

Sales to U.S. customers accounted for 60% of our sales in the first nine months of 2010 and 57% in the same period last year, with the balance of sales to customers primarily in Europe, Canada and Asia. Sales volumes for the nine months ended September 30, 2010, increased by 36%, partially offset by the strengthening of the U.S dollar against the Euro, which decreased the Company s sales by 2%.

GROSS MARGINS Gross margin as a percentage of revenues was 28% and 20% for the nine months ended September 30, 2010 and 2009, respectively. The 8% increase in gross margin is primarily a result of selling more higher margin products and achieving improvements in variable overhead costs as well as improvements in fixed overhead costs as a percentage of sales. In addition, inventory adjustments that occurred in 2009 reduced gross margins by 2% for the nine months ended September 30, 2009, while there was no impact on gross margin for inventory adjustments in the same period for 2010.

SELLING EXPENSES Selling expenses were $2,944,000 and $2,445,000 for the nine months ended September 30, 2010 and 2009 respectively. The 20% increase is primarily due to the Company increasing its Sales team, as well as higher sales incentives as a result of increased sales.

GENERAL AND ADMINISTRATIVE EXPENSES General and administrative expenses were $7,026,000 for the nine months ended September 30, 2010 compared to $4,892,000 for the nine months ended September 30, 2009. The 44% increase is primarily a result of increased compensation expense, which includes incentive bonuses and stock compensation expense, and increased business development expenses.

ENGINEERING AND DEVELOPMENT EXPENSES Engineering and development expenses were $3,014,000 for the nine months ended September 30, 2010 and $2,939,000 for the same period last year. In the third quarter of 2010, we expanded engineering resources and capabilities to continue meeting our customers needs and to expand our product base for future opportunities.

AMORTIZATION OF INTANGIBLE ASSETS Amortization of intangible assets was $446,000 for the nine months ended September 30, 2010 and $680,000 for the same period last year. The 34% decrease is primarily the result of the impairment that was recognized on certain intangible assets in the second quarter of 2009 and other intangible assets that became fully amortized in 2010.

NET INSURANCE RECOVERIES Net insurance recoveries were $685,000 for the nine months ended September 30, 2010, compared to $51,000 for the same period last year. The recoveries in 2010 represent the final settlement for the business interruption insurance claim which resulted from the fire at the Company s COPI facility in the fourth quarter of 2008.

INCOME TAXES Provision for income taxes was $1,335,000 for the nine months ended September 30, 2010, as opposed to a benefit for income taxes of $5,653,000 for the same period last year. The tax benefit in 2009 is primarily driven by the impairment charges that were recorded in the second quarter of 2009. In domestic jurisdictions, the impaired items are being deducted over the appropriate period for income tax purposes, which includes future periods, thus giving rise to a deferred tax asset on the balance sheet. The Company believes it is more likely than not that the deferred tax asset will be realized in current and future periods.

The effective rate used to record income taxes is based on projected results for the fiscal year. The effective income tax rate as a percentage of income before income taxes was 34% for the nine months ended September 30, 2010 and 31% for the same period of 2009. The effective tax rate is higher than the statutory rate for the first nine months of 2010 primarily due to permanent differences in foreign and domestic jurisdictions, partially offset by lower tax rates in foreign jurisdictions. The effective tax rate is

Table of Contents

lower than the statutory rate for the same period of 2009 primarily due to differences in state and foreign tax rates.

Non-GAAP Measures

EBITDA is provided for information purposes only and is not a measure of financial performance under generally accepted accounting principles. The Company s believes EBITDA is often a useful measure of a Company s operating performance and is a significant basis used by the Company s management to measure the operating performance of the Company s business because EBITDA excludes charges for depreciation, amortization and interest expense that have resulted from our debt financings, as well as our provision for income tax expense. EBITDA before impairment charges also excludes impairment charges of $15,986,000 that occurred in the quarter ended June 30, 2009. Accordingly, the Company believes that EBITDA before Impairment charges, provides helpful information about the operating performance of its business, apart from the expenses associated with its physical assets or capital structure. EBITDA is frequently used as one of the bases for comparing businesses in the Company s industry. EBITDA does not represent and should not be considered as an alternative to net income, operating income, net cash provided by operating activities or any other measure for determining operating performance or liquidity that is calculated in accordance with generally accepted accounting principles.

The Company s calculation of EBITDA and EBITDA before Impairment charges for the three and nine months ended September 30, 2010 and 2009 is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Net income (loss)	$ 1,129	$ 279	$ 2,602	$ (12,566)
Interest expense		7	3	42
Provision (Benefit) for income tax	673	133	1,335	(5,653)
Depreciation and amortization	432	570	1,400	2,381
Income before interest expense, provision for income taxes, depreciation and amortization (EBITDA)	2,234	989	5,340	(15,796)
Impairment charges				15,986
Income before interest expense, provision for income taxes, depreciation and amortization and Impairment charges (EBITDA before Impairment charges)	$ 2,234	$ 989	$ 5,340	$ 190

Liquidity and Capital Resources

The Company s liquidity position as measured by cash and cash equivalents increased $2,596,000 to a balance of $7,066,000 at September 30, 2010. This increase compares to a decrease of $1,446,000 for the same period last year. During the first nine months of 2010, operations provided $3,972,000 in cash compared to $935,000 provided for the same period last year. The increase in cash provided from operations of $3,037,000 is primarily due to higher net income, along with increases in

Table of Contents

working capital components as a result of improved economic conditions when compared to the same period of last year. In addition, payments related to employee incentive bonuses were approximately $1,200,000 lower in the first nine months of 2010 compared to the same period of 2009 as a result of the economic downturn in 2009 and its impact on the Company.

Net cash used in investing activities was $931,000 and $726,000 for the first nine months of 2010 and 2009, respectively, which is primarily related to the purchase of property and equipment. Cash paid for the acquisition of Agile Systems Inc., now known as Allied Motion Canada, net of cash acquired, was $76,000.

Net cash used in financing activities was $332,000 for the nine months ended September 30, 2010 compared to $1,770,000 used for the same period last year. The increase in cash used is primarily due to decreased paydowns of Company debt in the first nine months of 2010 compared to the same period of last year.

At September 30, 2010, the Company had zero debt obligations.

The Company amended the Credit Agreement on October 26, 2010. The amended Credit Agreement extends the agreement to October 26, 2012. The amended Credit Agreement provides revolving credit up to $4 million and 3 million. Borrowings under the revolver incur interest of LIBOR plus 2.0%. Overnight borrowings incur interest at PRIME plus 1.00%. The unused portion of the revolver is charged a commitment fee of .375% per annum. The amended Credit Agreement contains certain financial covenants related to maximum leverage, minimum fixed charge coverage and minimum tangible net worth of the company.

As of October 26, 2010, the amount available under the lines-of-credit was approximately $8.2 million.

The Company s working capital, capital expenditure and debt service requirements are expected to be funded from cash provided by operations and amounts available under the Company s credit facilities.

The Company has a bank overdraft facility payable to a foreign bank with no monthly repayments required. The facility had no outstanding balance as of September 30, 2010. The amount available under the overdraft facility was 300,000 ($408,000 at the September 30, 2010 exchange rate).

Critical Accounting Policies

The Company has prepared its financial statements in conformity with accounting principles generally accepted in the United States, and these statements necessarily include some amounts that are based on informed judgments and estimates of management. The Company s significant accounting policies are discussed in Note 1 in the Annual Report on Form 10-K for the year ended December 31, 2009. The policies are reviewed on a regular basis. The Company s critical accounting policies are subject to judgments and uncertainties which affect the application of such policies. The Company uses historical experience and all available information to make these judgments and estimates. As discussed below the Company s financial position or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. The Company s critical accounting policies include:

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance is based on historical experience and judgments based on current economic and customer specific factors. Significant judgments are made by management in connection with establishing the Company s customers ability to pay at the time of shipment. Despite this assessment, from time to time, the Company s customers are unable to meet their

Table of Contents

payment obligations. The Company continues to monitor customers credit worthiness, and use judgment in establishing the estimated amounts of customer receivables which may not be collected. A significant change in the liquidity or financial position of the Company s customers could have a material adverse impact on the collectibility of accounts receivable and future operating results.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Risk

Sales from Premotec are denominated in Euros, thereby creating exposures to changes in exchange rates. The changes in the Euro/U.S. exchange rate may positively or negatively affect the Company s sales, gross margins, net income and retained earnings. A 10% change in the Euro vs. the U.S dollar would have an immaterial impact on the Company s earnings for the remainder of the year. A 10% change in the Euro vs. the U.S. dollar would affect net assets by approximately $1,000,000. The Company does not believe that reasonably possible near-term changes in exchange rates will result in a material effect on future results or cash flows of the Company.

Table of Contents

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s chief executive officer and chief financial officer, of the effectiveness of the disclosure controls and procedures (as defined in Exchange Act Rule 13a-15). Based upon that evaluation, the chief executive officer and chief financial officer concluded that at the end of the Company s most recent fiscal quarter, the Company s disclosure controls and procedures are effective.

During the period covered by this report, the Company reviewed its internal controls, and there have been no changes in the Company s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits

10 Third Amendment to Credit Agreement dated as of October 26, 2010 among Allied Motion Technologies Inc., Allied Motion Technologies B.V., JPMorgan Chase Bank, N.A. and J.P. Morgan Europe Limited (incorporated by reference to Exhibit 10 to the Company s Form 8-K filed November 1, 2010)

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

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

DATE:	November 10, 2010	ALLIED MOTION TECHNOLOGIES INC.	
		By:	/s/ Richard D. Smith
		Richard D. Smith	
		Chief Financial Officer	