

ALLIED MOTION TECHNOLOGIES INC  
Form 10-Q  
November 13, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**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, 2009**

**Commission File Number 0-04041**

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**ALLIED MOTION TECHNOLOGIES INC.**

Incorporated Under the Laws of the State of Colorado

**Colorado**  
(State or other jurisdiction of  
incorporation or organization)

**84-0518115**  
(I.R.S. Employer  
Identification No.)

**23 Inverness Way East, Suite 150**  
**Englewood, Colorado 80112**

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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  No

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  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Number of Shares of the only class of Common Stock outstanding: 7,554,042 as of November 13, 2009





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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, except per share data)

(Unaudited)

|   | September 30,<br>2009 | December 31,<br>2008 |
|---|-----------------------|----------------------|
| <b>Assets</b>   |                       |                      |
| Current Assets:   |                       |                      |
| Cash and cash equivalents   | \$ 2,750              | \$ 4,196             |
| Trade receivables, net of allowance for doubtful accounts of \$148 and \$152 at September 30, 2009 and December 31, 2008, respectively                        | 8,327                 | 10,008               |
| Inventories, net  | 8,726                 | 10,532               |
| Deferred income taxes   | 486                   | 674                  |
| Prepaid expenses and other  | 1,149                 | 1,265                |
| Total Current Assets  | 21,438                | 26,675               |
| Property, plant and equipment, net  | 6,870                 | 10,567               |
| Deferred income taxes   | 5,455                 |                      |
| Intangible assets   | 1,544                 | 3,307                |
| Goodwill  |                       | 12,231               |
| Total Assets  | \$ 35,307             | \$ 52,780            |
| <b>Liabilities and Stockholders Investment</b>  |                       |                      |
| Current Liabilities:  |                       |                      |
| Debt obligations  | 800                   | 800                  |
| Accounts payable  | 3,974                 | 5,043                |
| Accrued liabilities and other   | 2,695                 | 4,453                |
| Income taxes payable  | 152                   | 219                  |
| Total Current Liabilities   | 7,621                 | 10,515               |
| Debt obligations, net of current portion  |                       | 2,000                |
| Deferred income taxes   | 195                   | 906                  |
| Pension and post-retirement obligations   | 2,563                 | 2,503                |
| Total Liabilities   | 10,379                | 15,924               |
| 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; 7,553 and 7,304 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively | 18,440                | 18,019               |
| Retained earnings   | 5,640                 | 18,206               |
| Accumulated comprehensive income  | 848                   | 631                  |
| Total Stockholders Investment   | 24,928                | 36,856               |
| Total Liabilities and Stockholders Investment   | \$ 35,307             | \$ 52,780            |

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<br>September 30, |           | For the nine months ended<br>September 30, |           |
|--|---|-----------|--|-----------|
|  | 2009  | 2008      | 2009                                       | 2008      |
| Revenues                               | \$ 14,980                                   | \$ 21,538 | \$ 44,215                                  | \$ 68,399 |
| Cost of products sold                  | 11,225                                      | 16,034    | 35,324                                     | 50,329    |
| Gross margin                           | 3,755                                       | 5,504     | 8,891                                      | 18,070    |
| Operating costs and expenses:          |   |           |  |           |
| Selling                                | 765   | 1,134     | 2,445                                      | 3,288     |
| General and administrative             | 1,516                                       | 2,097     | 4,892                                      | 6,941     |
| Engineering and development            | 954   | 1,041     | 2,939                                      | 3,043     |
| Impairment charges                     |   |           | 15,986                                     |           |
| Fire related losses                    | 84  |           | 191  |           |
| Insurance recoveries                   | (135)                                       |           | (242)                                      |           |
| Amortization of intangible assets      | 167   | 264       | 680  | 797       |
| Total operating costs and expenses     | 3,351                                       | 4,536     | 26,891                                     | 14,069    |
| Operating income (loss)                | 404   | 968       | (18,000)                                   | 4,001     |
| Other income (expense), net:           |   |           |  |           |
| Interest expense                       | (27)  | (33)      | (62)                                       | (132)     |
| Writeoff of deferred finance costs     |   |           | (86)                                       |           |
| Other income (expense), net            | 35  | 115       | (71)                                       | 42        |
| Total other income (expense), net      | 8   | 82        | (219)                                      | (90)      |
| Income (Loss) before income taxes      | 412   | 1,050     | (18,219)                                   | 3,911     |
| (Provision) Benefit for income taxes   | (133)                                       | (346)     | 5,653                                      | (1,282)   |
| Net income (loss)                      | \$ 279                                      | \$ 704    | \$ (12,566)                                | \$ 2,629  |
| Basic net income (loss) per share:     |   |           |  |           |
| Net income (loss) per share            | \$ 0.04                                     | \$ 0.10   | \$ (1.67)                                  | \$ 0.36   |
| Basic weighted average common shares   | 7,581                                       | 7,305     | 7,505                                      | 7,253     |
| Diluted net income (loss) per share:   |   |           |  |           |
| Net income (loss) per share            | \$ 0.04                                     | \$ 0.09   | \$ (1.67)                                  | \$ 0.35   |
| Diluted weighted average common shares | 7,590                                       | 7,473     | 7,505                                      | 7,426     |

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<br>September 30, |          |
|---|--|----------|
|   | 2009                                       | 2008     |
| <b>Cash Flows From Operating Activities:</b>                                  |  |          |
| Net (loss) income   | \$ (12,566)                                | \$ 2,629 |
| Adjustments to reconcile net income to net cash used in operating activities: |  |          |
| Depreciation and amortization   | 2,381                                      | 2,648    |
| Deferred Income Taxes   | (5,983)                                    | 89       |
| Impairment Charges  | 15,986                                     |          |
| Provision for Excess and Obsolete Inventory                                   | 798  | 172      |
| Other   | 314  | 411      |
| Changes in assets and liabilities:  |  |          |
| Trade receivables   | 1,705                                      | (1,508)  |
| Inventories, net  | 1,080                                      | (409)    |
| Prepaid expenses and other  | 277  | (128)    |
| Accounts payable  | (1,115)                                    | 813      |
| Accrued liabilities and other   | (1,942)                                    | 67       |
| Net cash provided from operating activities                                   | 935  | 4,784    |
| <b>Cash Flows From Investing Activities:</b>                                  |  |          |
| Purchase of property and equipment  | (726)                                      | (1,121)  |
| Net cash used in investing activities   | (726)                                      | (1,121)  |
| <b>Cash Flows From Financing Activities:</b>                                  |  |          |
| Borrowings (Repayments) on lines-of-credit, net                               | 800  | (824)    |
| Repayments on term loans  | (2,800)                                    | (600)    |
| Repayment of capital lease obligations  |  | (22)     |
| Stock transactions under employee benefit stock plans                         | 230  | 806      |
| Net cash used in financing activities   | (1,770)                                    | (640)    |
| Effect of foreign exchange rate changes on cash                               | 115  | (59)     |
| Net (decrease) increase in cash and cash equivalents                          | (1,446)                                    | 2,964    |
| Cash and cash equivalents at beginning of period                              | 4,196                                      | 534      |
| Cash and cash equivalents at September 30                                     | \$ 2,750                                   | \$ 3,498 |

See accompanying notes to financial statements.

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ALLIED MOTION TECHNOLOGIES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**1. Basis of Preparation and Presentation**

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

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

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates prevailing during the month of 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, 2008 that was previously filed by the Company.

Recent Accounting Pronouncements

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On September 30, 2009, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards Codification™ (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission ( SEC ) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the

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manner in which new accounting guidance is referenced in the footnotes, the adoption of these changes had no impact on the Company's financial statements.

Effective June 30, 2009, the Company adopted changes issued by the FASB to accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued, otherwise known as subsequent events. Specifically, these changes set forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of these changes did not have a significant impact on the Company's financial statements.

In December 2008 the FASB issued guidance regarding Employers' Disclosures About Postretirement Benefit Plan Assets. This guidance requires disclosure of how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, significant concentrations of risk within plan assets, inputs and valuation techniques to measure fair value and the effect of significant unobservable inputs on changes in plan assets for the period. The guidance issued is effective for the fiscal year ending December 31, 2009. The Company is in the process of evaluating the impact this guidance will have on our consolidated financial statements.

## 2. Inventories

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

|                         | September 30,<br>2009 | December 31,<br>2008 |
|-------------------------|-----------------------|----------------------|
| Parts and raw materials | \$ 7,133              | \$ 8,209             |
| Work-in process         | 2,006                 | 1,957                |
| Finished goods          | 1,642                 | 1,910                |
|                         | 10,781                | 12,076               |
| Less reserves           | (2,055)               | (1,544)              |
| Inventories, net        | \$ 8,726              | \$ 10,532            |

During the quarter ended June 30, 2009, the Company recorded inventory adjustments of approximately \$600,000, primarily for excess and obsolete inventories.

## 3. Property, Plant and Equipment

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

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|                                      | September 30,<br>2009 | December 31,<br>2008 |
|--------------------------------------|-----------------------|----------------------|
| Land                                 | \$ 290                | \$ 332               |
| Building and improvements            | 3,205                 | 4,587                |
| Machinery, equipment, tools and dies | 12,102                | 16,263               |
| Furniture, fixtures and other        | 1,543                 | 2,114                |
|                                      | 17,140                | 23,296               |
| Less accumulated depreciation        | (10,270)              | (12,729)             |
| Property, Plant and Equipment, net   | \$ 6,870              | \$ 10,567            |

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As discussed in note 11, during the quarter ended June 30, 2009, the carrying values of certain assets of the company were written down \$2,660,000 based on the impairment analysis performed by the Company.

**4. Stock-Based Compensation**

The Company's stock incentive plans provide for awards of stock options, stock appreciation rights and restricted stock to employees and directors, as determined by the board of directors.

*Stock Options*

All stock options were fully vested by September 30, 2006, and the Company did not recognize any compensation expense relating to outstanding stock options during the quarter and nine months ended September 30, 2009 or 2008.

The following is a summary of option activity, during the nine months ended September 30, 2009:

|                                    | Number<br>of Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (years) | Aggregate<br>Intrinsic<br>Value |
|------------------------------------|---------------------|--|---|---------------------------------|
| Outstanding at beginning of period | 588,950             | \$ 4.23                                  | 2.1   |                                 |
| Forfeited                          | (6,000)             | \$ 2.90                                  |   |                                 |
| Exercised                          |                     |  |   |                                 |
| Outstanding at end of Period       | 582,950             | \$ 4.25                                  | 1.4   | \$ 52,000                       |
| Exercisable at end of period       | 582,950             | \$ 4.25                                  | 1.4   | \$ 52,000                       |

There have been no options granted since October 2004.

*Restricted Stock*

During the nine months ended September 30, 2009, 95,550 shares of unvested restricted stock were awarded. The value at the date of grant is amortized to compensation expense over the related three year vesting period. Shares of restricted stock are forfeited if an employee leaves the Company before the vesting date. Shares that are forfeited become available for future grant under the Company's stock incentive plans. During the quarters ended September 30, 2009 and 2008, compensation expense, net of forfeitures, of \$82,000 and \$84,000 was recorded, respectively. During the nine-months ended September 30, 2009 and 2008, compensation expense, net of forfeitures, of \$251,000 and \$250,000 was recorded,

respectively.

The following is a summary of restricted stock activity during the nine months ended September 30, 2009:

|                                    | <b>Number of<br/>Shares</b> |
|------------------------------------|-----------------------------|
| Outstanding at beginning of period | 150,564                     |
| Granted                            | 95,550                      |
| Forfeited                          | (1,400)                     |
| Vested                             | (67,220)                    |
| Outstanding at end of Period       | 177,494                     |

Table of Contents**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, 2009 and 2008 was 9,000 and 168,000 shares, respectively. The dilutive effect of outstanding awards for the nine months ended September 30, 2009 and 2008 was 7,000 and 173,000 shares, respectively. Stock awards and warrants to purchase 803,000 and 139,000 shares of common stock were excluded from the calculation of diluted income per share for the three and nine months ended September 30, 2009 and 2008, respectively, since the results would have been anti-dilutive.

**6. Segment Information**

The FASB Codification 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 FASB Codification, the Company's chief operating decision maker has been identified as the Office of the President and Chief Executive Officer, 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 Segment Reporting can be found in the accompanying consolidated financial statements and within this note.

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

|  | As of and<br>for the three<br>months ended<br>September 30, |           | As of and<br>for the nine<br>months ended<br>September 30, |           |
|--|---|-----------|--|-----------|
|  | 2009  | 2008      | 2009   | 2008      |
| Revenues derived from foreign subsidiaries | \$ 4,775  | \$ 6,621  | \$ 13,897  | \$ 21,135 |
| Identifiable assets                        | \$ 9,600  | \$ 12,777 | \$ 9,600   | \$ 12,777 |

Sales to customers outside of the United States by all subsidiaries were \$6,612,000 and \$9,736,000 during the quarters ended September 30, 2009 and 2008, respectively, and \$18,995,000 and \$30,217,000 for the nine months ended September 30, 2009 and 2008, respectively.



During the quarters and nine months ended September 30, 2009 and 2008, no single customer accounted for more than 10% of total revenues.

Table of Contents**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<br>ended September 30, |         | For the nine months<br>ended September 30, |          |
|---|---|---------|--|----------|
|   | 2009  | 2008    | 2009                                       | 2008     |
| Net income (loss)                       | \$ 279                                      | \$ 704  | \$ (12,566)                                | \$ 2,629 |
| Foreign currency translation adjustment | 243   | (770)   | 217  | (223)    |
| Comprehensive income (loss)             | \$ 522                                      | \$ (66) | \$ (12,349)                                | \$ 2,406 |

**8. Goodwill**

The change in the carrying amount of goodwill for 2009 is as follows (in thousands):

|  | September 30,<br>2009 |
|--|-----------------------|
| Balance at beginning of period         | \$ 12,231             |
| Impairment Charge (Note 11)            | (12,222)              |
| Effect of foreign currency translation | (9)                   |
| Balance at end of period               | \$ 0                  |

The carrying value of goodwill was written off during the quarter ended June 30, 2009 based on the impairment analysis performed by the Company, as discussed in Note 11.

**9. Intangible Assets**

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

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|                               | September 30,<br>2009 | December 31,<br>2008 | Estimated<br>Life |
|-------------------------------|-----------------------|----------------------|-------------------|
| Amortizable intangible assets |                       |                      |                   |
| Customer lists                | 3,028                 | 4,541                | 8 years           |
| Trade name                    | 946                   | 1,340                | 10 years          |
| Design and technologies       | 1,231                 | 2,665                | 8 years           |
| Patents                       | 24                    | 24                   |                   |
| Accumulated amortization      | (3,685)               | (5,263)              |                   |
| Total intangible assets       | 1,544                 | 3,307                |                   |

Amortization expense for intangible assets was \$167,000 and \$264,000 for the quarters ended September 30, 2009 and 2008, respectively, and \$680,000 and \$797,000 for the nine months ended September 30, 2009 and 2008, respectively.

The carrying value of intangible assets was written down \$1,104,000 in the quarter ended June 30, 2009, based on the impairment analysis performed by the Company, as discussed in Note 11.

Table of Contents**10. Debt Obligations**

Debt obligations consisted of the following (in thousands):

|  | September 30,<br>2009 |     | December 31,<br>2008 |       |
|--|-----------------------|-----|----------------------|-------|
| <b>Credit Agreement (at variable rates)</b>              |                       |     |                      |       |
| Revolving line-of-credit, 2.76% as of September 30, 2009 | \$                    | 800 | \$                   | 2,800 |

The credit agreement contains certain financial covenants related to maximum leverage, minimum fixed charge coverage and minimum tangible net worth of the company. The Company violated the fixed charge coverage ratio as of June 30, 2009. As a result of the covenant violation the Company obtained a waiver from the bank and amended the Credit Agreement on August 3, 2009. The amended Credit Agreement, which matures on July 31, 2010, provides revolving credit up to \$8 million and 2 million. The Company wrote off all deferred finance costs of \$86,000 remaining on the balance sheet at the time of the violation. These costs are presented on a separate line in the Condensed Consolidated Statement of Operations. Under the amendment, the Company was required to pay the term loan in full. The amended Credit Agreement contains certain financial covenants related to achieving minimum EBITDA levels, maintaining minimum consolidated tangible net worth, and placing a ceiling on the amount of capital expenditures incurred by the Company. The Company was in compliance with all covenants at September 30, 2009.

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

**11. Impairment**

The following is a summary of Impairment charges recorded in the quarter ended June 30, 2009. The Impairment charges are reflected in the Condensed Consolidated Statement of Operations :

|                               |    |                 |
|-------------------------------|----|-----------------|
| Property, plant and equipment | \$ | (2,660)         |
| Intangible assets             |    | (1,104)         |
| Goodwill                      |    | (12,222)        |
| <b>Impairment charges</b>     | \$ | <b>(15,986)</b> |

***Property, plant and equipment and Intangible assets***

As required by the FASB Codification topic Intangibles Goodwill and Other , a long-lived asset group is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. During the previous quarter, the Company identified certain assets with deteriorating cash flows and projected cash flow losses. As a result of these conditions, the Company performed an

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impairment analysis. The analysis compared the fair value of these assets to their carrying value, which resulted in a \$2,660,000 Property, plant and equipment impairment charge and \$1,104,000 Intangible asset impairment charge during the quarter ended June 30, 2009.

The fair values of the Property, plant and equipment were primarily estimated based on a discounted cash flow model using business plans and projections as the basis for expected future cash flows. Fair values of certain assets in this group were determined by reviewing similar transactions in the marketplace. The fair values of the intangible assets were estimated using various income approaches based on the nature of the intangible asset.

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The Company's fair value estimate of intangible assets for the Company as of June 30, 2009 was based upon level three inputs as defined in Codification Topic Fair Value Measurements and Disclosures, as unobservable inputs in which there is little or no market data, which required the Company to develop its own assumptions, as described above.

***Goodwill***

In accordance with Intangibles Goodwill and other, goodwill is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value of the asset might be impaired. Due to a further downturn in our business during the second quarter resulting from the global economic downturn and the slower than originally expected recovery, the Company determined indicators of potential impairment were present; therefore, interim impairment tests of goodwill were performed. As a result of the analysis in the second quarter, the Company recorded \$12,222,000 of goodwill impairment, resulting in a zero carrying value of goodwill as of June 30, 2009.

The Company estimated the fair value of the goodwill as of June 30, 2009 based on a discounted cash flow model using business plans and projections as the basis for expected future cash flows. The fair value estimate was based upon level three inputs from Fair Value Measurements and Disclosures, as unobservable inputs in which there is little or no market data, which required the Company to develop its own assumptions.

**12. Subsequent Event**

Management evaluated all activity of the Company through November 13, 2009 (the issue date of the Financial Statements) and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements, except as follows:

On October 29, 2009, the Company announced that the COPI encoder operation will be relocated from Chatsworth, CA to the EMOTEQ facility in Tulsa, OK by the end 2009. Expected costs to be incurred as a result of this move are expected to be in the \$400,000 to \$600,000 range and should be substantially completed in 2009.

**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***

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*All statements contained herein that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the word believe, anticipate, expect, project, intend, will continue, will likely result, should or words or phrases of similar meaning. Forward-looking statements involve known and unknown risks and uncertainties that may cause actual results of the Company to differ materially from the forward-looking statements. The risks and*

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

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

**Overview**

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



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optic industry; processing equipment for the semiconductor industry, as well as cash dispensing machines (ATM's).

Allied Motion is organized into five companies or technology units (TUs): Emoteq Corporation, Computer Optical Products, Inc. (COPI), Motor Products Corporation, Stature Electric, Inc., and Precision Motor Technology B.V.

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.

On October 29, 2009, the Company announced that its COPI operation will be relocated from Chatsworth, CA to its EMOTEQ facility in Tulsa, OK by the end of 2009. 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 and profitability in the future.

The Company has made considerable progress in implementing its new corporate strategy, with the driving force of Applied Motion Technology/Know How. The Company's commitment to Allied's Systematic Tools, or AST for short, is driving continuous improvement in quality, delivery, cost and growth. AST utilizes a tool kit to effect desired changes through well defined processes such as Strategy Deployment, Target Marketing, Value Stream Mapping, Material Planning, Standard Work and Single Minute Exchange of Dies.

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

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

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

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

**Impairment Charges**



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During the second quarter of 2009, the Company identified certain assets with deteriorating cash flows and projected cash flow losses. Also, due to a further downturn in our business during the second quarter resulting from the global economic downturn and the slower than originally expected recovery, the Company determined indicators of potential goodwill impairment were present. As a result of these

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conditions, the Company performed an impairment analysis of its long-lived assets and goodwill. Based on the results of the analysis, the Company recorded non-cash impairment charges totaling \$15,986,000 consisting of a charge of \$2,660,000 against Property plant and equipment, a charge of \$1,104,000 on intangible assets and a goodwill impairment charge of \$12,222,000, which resulted in a zero carrying value of goodwill as of June 30, 2009.

The impairment charges do not result in current or future cash expenditures and do not affect our ability to pursue new opportunities. In addition, the reductions in Property, plant and equipment and Intangible assets will reduce depreciation and amortization expense by approximately \$1,000,000 from the third quarter of 2009 through the second quarter of 2010, as compared to the same periods of the prior year.

**Operating Results**



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Quarter Ended September 30, 2009 compared to Quarter Ended September 30, 2008

| (in thousands)                     | For the three months ended |                    | Increase (decrease) |        |
|------------------------------------|----------------------------|--------------------|---------------------|--------|
|                                    | 2009                       | September 30, 2008 | \$                  | %      |
| Revenues                           | \$ 14,980                  | \$ 21,538          | \$ (6,558)          | (30)%  |
| Cost of products sold              | 11,225                     | 16,034             | (4,809)             | (30)%  |
| Gross margin                       | 3,755                      | 5,504              | (1,749)             | (32)%  |
| Gross margin percentage            | 25%                        | 26%                |                     |        |
| Operating costs and expenses:      |                            |                    |                     |        |
| Selling                            | 765                        | 1,134              | (369)               | (33)%  |
| General and administrative         | 1,516                      | 2,097              | (581)               | (28)%  |
| Engineering and development        | 954                        | 1,041              | (87)                | (8)%   |
| Fire related losses                | 84                         |                    | 84                  | 100%   |
| Insurance recoveries               | (135)                      |                    | (135)               | (100)% |
| Amortization of intangible assets  | 167                        | 264                | (97)                | (37)%  |
| Total operating costs and expenses | 3,351                      | 4,536              | (1,185)             | (26)%  |
| Operating income                   | 404                        | 968                | (564)               | (58)%  |
| Interest expense                   | 27                         | 33                 | (6)                 | (18)%  |
| Other (income) expense, net        | (35)                       | (115)              | (80)                | (70)%  |
| Income before income taxes         | 412                        | 1,050              | (638)               | (61)%  |
| Provision for income taxes         | (133)                      | (346)              | (213)               | (62)%  |
| Net income                         | \$ 279                     | \$ 704             | \$ (425)            | (60)%  |

**NET INCOME** The Company reported net income of \$279,000 or \$0.04 per diluted share for the third quarter of 2009, compared to \$704,000 or \$0.09 per diluted share for the third quarter of 2008.

**EBITDA** EBITDA was \$1,009,000 for the third quarter of 2009 compared to EBITDA of \$1,962,000 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 \$14,980,000 in the quarter ended September 30, 2009 compared to \$21,538,000 for the quarter ended September 30, 2008. The 30% decrease in revenues for the third quarter of 2009 reflects the effects of the worldwide economic recession, which adversely affected nearly all

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markets to which we sell our products, though some were adversely affected more than others. Our vehicle, industrial and electronics markets were most affected, accounting for 26% of the 30% decrease in revenues. Other markets, such as medical, distribution and aerospace and defense were least affected, accounting for the remaining decrease in revenues. We continue to utilize our low cost region operations to ensure we are globally competitive on a cost basis while maintaining the same high technical and commercial standards we have already established.

Sales to U.S. customers accounted for 56% of our sales in the third quarter of 2009 and 55% in the third quarter of 2008, with the balance of sales to customers primarily in Europe, Canada and Asia. The strengthening of the U.S. dollar against the Euro in the third quarter of 2009 compared to the third quarter of 2008 accounted for approximately 1% of the 30% sales decrease.

**ORDER BACKLOG** At September 30, 2009, order backlog was \$25,904,000 which is down 7% from the same time last year, up 10% from the backlog at December 31, 2008 and up 5% from the second quarter of 2009. Backlog is down from the same time last year due to the worldwide economic recession, which has had a broad impact on the markets to which we sell.

**GROSS MARGINS** Gross margin as a percentage of revenues was 25% and 26% for the quarters ended September 30, 2009 and 2008, respectively. This 1% drop in margin is due to the fixed manufacturing overhead costs being a higher percentage of a lower sales base despite the Company's success in reducing the fixed overhead by 19%.

**SELLING EXPENSES** Selling expenses in the third quarter were \$765,000 compared to \$1,134,000 for the third quarter last year. The 33% decrease is primarily due to lower commissions and sales incentives as a result of lower sales.

**GENERAL AND ADMINISTRATIVE EXPENSES** General and administrative expenses were \$1,516,000 in the quarter ended September 30, 2009 compared to \$2,097,000 in the quarter ended September 30, 2008. The 28% decrease is a result of reductions in discretionary expenditures and compensation expense, which includes incentive bonuses.

**ENGINEERING AND DEVELOPMENT EXPENSES** Engineering and development expenses were \$954,000 in the third quarter of 2009 and \$1,041,000 in the same quarter last year. We continue to maintain strong engineering capabilities to meet our customers' needs and to expand our product base for future opportunities.

**FIRE RELATED LOSSES & INSURANCE RECOVERIES** The Company is still in the process of settling the insurance claim from the fire that occurred at one of the operating facilities in October 2008 and recorded \$84,000 of fire related losses and \$135,000 of insurance recoveries in the third quarter of 2009.

**AMORTIZATION OF INTANGIBLE ASSETS** Amortization of intangible assets expense was \$167,000 in the quarter ended September 30, 2009 and \$264,000 in the same quarter last year. The 37% decrease is primarily a result of the impairment that was recognized on certain intangible assets of the Company in the second quarter of 2009.



**INTEREST EXPENSE** Interest expense for the quarter ended September 30, 2009 was \$27,000 compared to \$33,000 in the quarter ended June 30, 2008. The decrease in interest is primarily due to lower outstanding debt obligations.

**INCOME TAXES** Provision for income taxes was \$133,000 for the third quarter of 2009 compared to \$346,000 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 before income taxes was 32% and 33% in the quarters ended September 30, 2009 and 2008. The effective tax rate in the current year 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.

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*Nine Months Ended September 30, 2009 compared to Nine Months Ended September 30, 2008*

| (in thousands)                       | For the nine months ended<br>September 30, |           | Increase (decrease) |        |
|--------------------------------------|--|-----------|---------------------|--------|
|                                      | 2009                                       | 2008      | \$                  | %      |
| Revenues                             | \$ 44,215                                  | \$ 68,399 | \$ (24,184)         | (35)%  |
| Cost of products sold                | 35,324                                     | 50,329    | (15,005)            | (30)%  |
| Gross margin                         | 8,891                                      | 18,070    | (9,179)             | (51)%  |
| Gross margin percentage              | 20%  | 26%       |                     |        |
| Operating costs and expenses:        |  |           |                     |        |
| Selling                              | 2,445                                      | 3,288     | (843)               | (26)%  |
| General and administrative           | 4,892                                      | 6,941     | (2,049)             | (30)%  |
| Engineering and development          | 2,939                                      | 3,043     | (104)               | (3)%   |
| Impairment charges                   | 15,986                                     |           | 15,986              | 100%   |
| Fire related losses                  | 191  |           | 191                 | 100%   |
| Insurance recoveries                 | (242)                                      |           | (242)               | (100)% |
| Amortization of intangible assets    | 680  | 797       | (117)               | (15)%  |
| Total operating costs and expenses   | 26,891                                     | 14,069    | 12,822              | 91%    |
| Operating (loss) income              | (18,000)                                   | 4,001     | 22,001              | (550)% |
| Interest expense                     | 62   | 132       | (20)                | (53)%  |
| Writeoff of deferred finance costs   | 86   |           | 86                  | 100%   |
| Other expense (income), net          | 71   | (42)      | 33                  | 269%   |
| (Loss) Income before income taxes    | (18,219)                                   | 3,911     | (22,130)            | (566)% |
| Benefit (Provision) for income taxes | 5,653                                      | (1,282)   | 6,935               | 541%   |
| Net (loss) income                    | \$ (12,566)                                | \$ 2,629  | \$ (14,491)         | (753)% |

**NET (LOSS) INCOME** The Company reported a net loss of \$12,566,000 or \$1.67 loss per diluted share for the nine months ended September 30, 2009, compared to net income of \$2,629,000 or \$.35 per diluted share for the nine months ended September 30, 2008. The net loss for the nine months ended September 30, 2009 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 recorded in the quarter ended June 30, 2009.

**EBITDA, BEFORE IMPAIRMENT CHARGES** EBITDA, before impairment charges, was \$210,000 for the first nine months of 2009 compared to EBITDA of \$6,691,000 for the same period last year. EBITDA, net of 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, net of Impairment charges

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**REVENUES** Revenues were \$44,215,000 for the nine months ended September 30, 2009 compared to \$68,399,000 for the nine months ended September 30, 2008. The 35% decrease in revenues for the first nine months of 2009 reflects the effects of the worldwide economic recession, which adversely affected nearly all markets to which we sell our products, though some were adversely affected more than others. Our vehicle, industrial and electronics markets were most affected, accounting for 31% of the 35% decrease in revenues. Other markets, such as medical, distribution and aerospace and defense were least affected, accounting for the remaining decrease in revenues. We continue to utilize our low cost region operations to ensure we are globally competitive on a cost basis while maintaining the same high technical and commercial standards we have already established.

Sales to U.S. customers accounted for 57% of our sales in the first nine months of 2009 and 56% in the same period last year, with the balance of sales to customers primarily in Europe, Canada and Asia. The strengthening of the U.S. dollar against the Euro for the nine months ended September 30, 2009 compared to the same period of 2008 accounted for approximately 2% of the 35% sales decrease.

**GROSS MARGINS** Gross margin as a percentage of revenues was 20% and 26% for the nine months ended September 30, 2009 and 2008, respectively. The decrease in gross margin is primarily a result of declining sales that has impacted our ability to absorb manufacturing overhead costs that are part of our operations. In addition, declining inventory usage as a result of declining sales has caused an increase in inventory reserves in 2009. This increase in inventory reserves decreased gross margin by approximately 2% for the first nine months of 2009 and 0% for the same period last year. The Company has made a number of changes in efforts to mitigate the negative impact of declining sales on our gross margin.

**SELLING EXPENSES** Selling expenses were \$2,445,000 and \$3,288,000 for the nine months ended September 30, 2009 and 2008 respectively. The 26% decrease is primarily due to lower commissions and sales incentives as a result of lower sales.

**GENERAL AND ADMINISTRATIVE EXPENSES** General and administrative expenses were \$4,892,000 for the nine months ended September 30, 2009 compared to \$6,941,000 for the nine months ended September 30, 2008. The 30% decrease is a result of reductions in discretionary expenditures and compensation expense, which includes incentive bonuses.

**ENGINEERING AND DEVELOPMENT EXPENSES** Engineering and development expenses were \$2,939,000 for the nine months ended September 30, 2009 and \$3,043,000 for the same period last year. We continue to maintain strong engineering capabilities to meet our customers' needs and to expand our product base for future opportunities.

**FIRE RELATED LOSSES & INSURANCE RECOVERIES** The Company is still in the process of settling the insurance claim from the fire that occurred at one of the operating facilities in October 2008 and experienced \$191,000 of fire related losses and \$242,000 of insurance recoveries for the nine months ended September 30, 2009.

**AMORTIZATION OF INTANGIBLE ASSETS** Amortization of intangible assets expense was \$680,000 for the nine months ended September 30, 2009 and \$797,000 for the same period last year. The 15% decrease is primarily a result of the impairment that was recognized on certain intangible assets of the Company in the second quarter of 2009.

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**INTEREST EXPENSE** Interest expense for the nine months ended September 30, 2009 was \$62,000 compared to \$132,000 for the nine months ended September 30, 2008. The decrease in interest is primarily attributable to the decrease in outstanding debt obligations.

**WRITEOFF OF DEFERRED FINANCE COSTS** As a result of the amendment of the Company's Credit Agreement that occurred on August 3, 2009, the Company wrote off the deferred finance costs of \$86,000 in the second quarter of 2009. These costs remained to be amortized from the Credit Agreement entered into in May 2007.

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**INCOME TAXES** Benefit for income taxes was \$5,653,000 for the nine months ended September 30, 2009 as opposed to a provision for income taxes of \$1,282,000 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. 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 benefit will be realized in future periods when the Company returns to profitability, and as such, has not recorded an additional valuation allowance against the deferred tax asset.

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 31% and 33% for the nine months ended September 30, 2009 and 2008, respectively. The effective tax rate 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.

**Non-GAAP Measures**

EBITDA is provided for information purposes only and is not a measure of financial performance under generally accepted accounting principles. The Company believes EBITDA is often a useful measure of a Company's operating performance and is a significant basis used by the Company's management to measure the operating performance of the Company's business because EBITDA excludes charges for depreciation, amortization and interest expense that have resulted from our debt financings, as well as our provision for income tax expense. For 2009, EBITDA also excludes impairment charges of \$15,986,000. 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, before Impairment charges for the three and nine months ended September 30, 2009 and 2008 is as follows (in thousands):

|   | For the three months<br>ended September 30, |          | For the nine months<br>ended September 30, |          |
|---|---|----------|--|----------|
|   | 2009  | 2008     | 2009                                       | 2008     |
| Net income (loss)   | \$ 279                                      | \$ 704   | \$ (12,566)                                | \$ 2,629 |
| Interest expense  | 27  | 33       | 62   | 132      |
| Provision (Benefit) for income tax  | 133   | 346      | (5,653)                                    | 1,282    |
| Depreciation and amortization   | 570   | 879      | 2,381                                      | 2,648    |
| Impairment charges  |   |          | 15,986                                     |          |
| Income before interest expense, provision for income taxes, depreciation and amortization and Impairment charges (EBITDA before Impairment charges) | \$ 1,009                                    | \$ 1,962 | \$ 210                                     | \$ 6,691 |

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**Liquidity and Capital Resources**



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The Company's liquidity position as measured by cash and cash equivalents decreased \$1,446,000 for the nine months ended September 30, 2009 to a balance of \$2,750,000. This decrease compares to an increase of \$2,964,000 for the same period last year. Since September 30, 2008, the cash balance has decreased by \$748,000, and the bank debt was paid down \$2,200,000, which represents a \$1,452,000 improvement in our cash and debt positions for the last 12 months.

During the first nine months of 2009, operations provided \$935,000 in cash compared to \$4,784,000 provided for the nine months ended September 30, 2008. The decrease in cash provided from operations of \$3,849,000 is primarily due to lower net income offset by the noncash impairment charges and changes in deferred taxes, along with reductions in working capital components as a result of the current economic downturn.

Net cash used in investing activities was \$726,000 and \$1,121,000 for the nine months ended September 30, 2009 and 2008, respectively, which is all related to the purchase of property and equipment.

Net cash used in financing activities was \$1,770,000 for the nine months ended September 30, 2009 compared to \$640,000 for the same period last year. The increase in cash used is primarily due to debt paydowns for the first nine months of 2009 that exceeded debt paydowns for the first nine months of 2008, as well as a larger amount of stock transactions under employee benefit stock plans that occurred in the first nine months of 2008.

At September 30, 2009, the Company had \$800,000 of debt obligations representing borrowings on the bank line-of-credit.

As of June 30, 2009, the Company violated the fixed charge coverage ratio under the Credit Agreement. As a result of the covenant violation, the Company obtained a waiver from the bank and amended the credit agreement on August 3, 2009. The Amended Credit Agreement, which matures on July 31, 2010, provides revolving credit up to \$8 million and 2 million Borrowings under the revolver will primarily incur interest of LIBOR plus 2.5%. The unused portions of the revolver will be charged a commitment fee of .75% per annum.

Changes to the covenants were made as part of the amendment requiring the Company to maintain a minimum EBITDA, minimum tangible net worth and limitations on the amount of capital expenditures that can occur, and eliminated the minimum fixed charge coverage ratio and leverage ratio previously required.

The Company's working capital, capital expenditure, debt service requirements and charges related to the relocation of its COPI operation to its Emoteq facility are expected to be funded from cash on hand, 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, 2009. The amount available under the overdraft facility was 300,000 (\$438,000 at the September 30, 2009 exchange rate).

### Critical Accounting Policies



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On September 30, 2009, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards Codification<sup>TM</sup> (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in

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conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission ( SEC ) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced in the footnotes, the adoption of these changes had no impact on the Company's financial statements.

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, 2008. The policies are reviewed on a regular basis. The Company's critical accounting policies are subject to judgments and uncertainties which affect the application of such policies. The Company uses historical experience and all available information to make these judgments and estimates. As discussed below the Company's financial position or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. The Company's critical accounting policies include:

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

Inventory is valued at the lower of cost or market. The Company monitors and forecasts expected inventory needs based on sales forecasts. Inventory is written down or written off when it becomes obsolete or when it is deemed excess. These determinations involve the exercise of significant judgment by management. If actual market conditions are significantly different from those projected by management, the recorded reserve may be adjusted, and such adjustments may have a significant impact on the Company's results of operations. Demand for the Company's products can fluctuate significantly, and at times 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 reviews the carrying values of its long-lived assets, including goodwill and identifiable intangibles, in accordance with the FASB Codification topic Intangibles Goodwill and other . Intangibles Goodwill and other provides a fair value test to evaluate goodwill impairment and provides guidance on evaluating impairment of long-lived assets. As part of the review, the Company estimates future cash flows. Depending upon future assessments of fair value and estimated future cash flows, there could be impairment recorded related to goodwill and/or other long-lived assets.



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The Company is required to assess the carrying value of our goodwill annually or whenever circumstances indicate that a decline in value may have occurred. The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of the Company based on a discounted cash flow analysis and comparing that estimated fair value with the carrying value of the Company, which includes goodwill. Factors used in the impairment tests include, but are not limited to, recent operating results and projected results and cash flows. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of goodwill impairment by determining an implied fair value of goodwill. The determination of the implied fair value of goodwill requires management to allocate the estimated fair value to the assets and liabilities of the Company. Any unallocated fair value represents the implied fair value of goodwill, which is compared to its corresponding carrying value.

The Company is required to assess the carrying value of long-lived amortizing assets whenever events or changes in circumstance indicate the carrying amounts may not be recoverable. Impairment is determined by comparing the estimated undiscounted future operating cash flows for the asset group to the carrying amount of its assets. If impairment exists, the amount of impairment is measured as the excess of the carrying amount over the estimated discounted future operating cash flows of the asset (or fair value as determined by another acceptable method) and the expected proceeds upon sale of the asset.

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 could affect the Company's net earnings for the remainder of the year by approximately \$30,000 and net assets by approximately \$750,000. 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.

**Item 4T. Controls and Procedures**

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



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There have not been any changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2009 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II.        OTHER INFORMATION**

**Item 6. Exhibits**

(a)               Exhibits

10                Waiver and First Amendment to Credit Agreement dated as of August 3, 2009 among Allied Motion Technologies Inc., Precision Motor Technology B.V., JPMorgan Chase Bank, N.A. and J.P. Morgan Europe Limited (incorporated by reference to Exhibit 99.1 to the Company's Form 8-K filed August 7, 2009).

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.

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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 13, 2009

ALLIED MOTION TECHNOLOGIES INC.

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