ALLIED MOTION TECHNOLOGIES INC
Form 10-K
March 20, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

OR

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

For the transition period from

Commission file number: 0-04041

ALLIED MOTION TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

Colorado	**84-0518115**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
23 Inverness Way East, Suite 150 Englewood, Colorado	**80112**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer 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

The aggregate market value of voting stock held by non-affiliates of the Registrant, computed by reference to the average bid and asked prices of such stock as of the last business day of the Registrant s most recently completed second fiscal quarter was approximately $34,000,000.

Number of shares of the only class of Common Stock outstanding: **6,538,437 as of March 8, 2007**

DOCUMENTS INCORPORATED BY REFERENCE

Notice and Proxy for 2007 Annual Meeting of Shareholders

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All statements contained herein that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the word believe, anticipate, expect, project, intend, will continue, will likely result, should or words or phrases of similar meaning. Forward-looking statements involve known and unknown risks and uncertainties that may cause actual results of the Company to differ materially from the forward-looking statements. The risks and uncertainties include international, national and local general business and economic conditions in the Company s motion markets, introduction of new technologies, products and competitors, the ability to protect the Company s intellectual property, the ability of the Company to sustain, manage or forecast its growth and product acceptance, success of new corporation strategies and implementation of defined critical issues designed for growth and improvement in profits, the continued success of the Company s customers to allow the Company to realize revenues from its order backlog and to support the Company s expected delivery schedules, the continued viability of the Company s customers and their ability to adapt to changing technology and product demand, the ability of the Company to meet the technical specifications of its customers, the continued availability of parts and components, increased competition and changes in competitor responses to the Company s products and services, changes in government regulations, availability of financing, the ability of the Company s lenders and financial institutions to provide additional funds if needed for operations or for making future acquisitions or the ability of the Company to obtain alternate financing if present sources of financing are terminated, the ability to attract and retain qualified personnel who can design new applications and products for the motion industry, the ability of the Company to identify and consummate favorable acquisitions to support external growth and new technology, the ability of the Company to establish low cost region manufacturing and component sourcing capabilities, and the ability of the Company to control costs for the purpose of improving profitability. The Company s ability to compete in this market depends upon its capacity to anticipate the need for new products, and to continue to design and market those products to meet customers needs in a competitive world. Actual results, events and performance may differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements as a prediction of actual results. The Company has no obligation or intent to release publicly any revisions to any forward looking statements, whether as a result of new information, future events, or otherwise.

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

PART I

Item 1. Business.

Allied Motion Technologies Inc. (Allied Motion or the Company) was organized under the laws of Colorado in 1962 and operates primarily in the United States and Europe. Allied Motion utilizes its underlying core Electromagnetic Motion Technology/Know How to provide compact, high performance products as solutions to a variety of motion applications. The Company is engaged in the business of designing, manufacturing and selling motor, servo motion and optical encoder products.

Examples of the end products using Allied Motion s technology include HVAC and various actuation systems such as RV slide outs, truck tarp roll-out and lift devices for trucks, buses and off-road vehicles; anti-lock brake, fuel cell and LPG fuel pump applications for the specialty automotive market; wheel chairs, professional patient rehab equipment, MRI scanners, diagnostic equipment, portable medical dosage pumps and surgical hand tools in the healthcare and medical market; high definition printers;

tunable lasers and spectrum analyzers for the fiber optic industry; processing equipment for the semiconductor industry; commercial grade floor cleaners, polishers and material handling devices for factories and commercial buildings; arc-welders and cable pullers in the construction and repair and maintenance markets; and missile/munitions control systems for the military.

Allied Motion is organized into five subsidiaries: Emoteq Corporation (Emoteq Tulsa, OK), Computer Optical Products, Inc. (COPI Chatsworth, CA), Motor Products Corporation (Motor Products Owosso, MI), Stature Electric, Inc. (Stature Watertown, NY) and Precision Motor Technology B.V. (Premotec Dordrecht, The Netherlands).

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

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

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

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

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

Fiscal Year End Change

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

Period:	**Referred to as:**
Audited results from January 1, 2006 through December 31, 2006	Year 2006
Audited results from January 1, 2005 through December 31, 2005	Year 2005
Audited results from January 1, 2004 through December 31, 2004	Year 2004
Audited results from January 1, 2003 through December 31, 2003	Year 2003
Audited results from July 1, 2002 through December 31, 2002	Transition Period
Unaudited results from July 1, 2001 through December 31, 2001	Six Month Comparative Period
Audited results from July 1, 2001 through June 30, 2002	Fiscal Year 2002

Product Distribution

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

Competition

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

Financial Information about Operating Segments

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

Availability of Raw Materials

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

Patents, Trademarks, Licenses, Franchises and Concessions

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

Seasonality of the Business

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

Working Capital Items

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

Sales to Large Customers

During years 2006, 2005 and 2004, no single customer accounted for more than 10% of total revenues.

Sales Backlog

The Company s backlog at December 31, 2006 consisted of sales orders totaling approximately $28,200,000 while backlog at December 31, 2005 was $25,200,000. In our commercial motors markets, the Company continues to serve customers requesting shipments on a pull system whereby the Company agrees to maintain available inventory that the customer pulls or takes delivery as they need the products. At the time the customer pulls the product, the Company records the sale. There can be no assurance that the Company s backlog will be converted into revenue.

Government Sales

Approximately $256,000 of the Company s backlog as of December 31, 2006 consisted of contracts directly with the United States Government compared to $325,000 in 2005. The Company s contracts with the government contain a provision generally found in government contracts that permits the government to terminate the contract at its option. When the termination is attributable to no fault of the Company, the government would, in general, have to pay the Company certain allowable costs up to the time of termination, but there is no compensation for loss of profits.

Engineering and Development Activities

The Company s expenditures on engineering and development for the years ended December 31, 2006, 2005 and 2004 were $3,823,000, $3,526,000 and $2,896,000, respectively. Of these expenditures, no material amounts were charged directly to customers.

Environmental Issues

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

Foreign Operations

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

Employees

At December 31, 2006 the Company had approximately 517 full-time employees.

Available Information

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

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

Item 1A. Risk Factors.

In addition to the other information contained or incorporated by reference in this document, readers should carefully consider the following risk factors. Any of these risks or the occurrence of any one or more of the uncertainties described below could have a material adverse effect on the Company s financial condition and the performance of its business. The Company refers to itself as we or our in the following risk factors.

Our operating results could fluctuate significantly.

Our quarterly and annual operating results are affected by a wide variety of factors that could materially adversely affect revenues and profitability, including:

- the timing of customer orders and the deferral or cancellation of orders previously received;
- the level of orders received which can be shipped in a quarter;
- fulfilling backlog on a timely basis;
- competitive pressures on selling prices;
- changes in the mix of products sold;
- the timing of investments in engineering and development;
- development of and response to new technologies; and
- delays in new product qualifications.

As a result of the foregoing and other factors, we have and may continue to experience material fluctuations in future operating results on a quarterly or annual basis which could materially and adversely affect our business, financial condition, operating results and stock price.

Our operating results depend in part on our ability to contain or reduce costs.

Our efforts to maintain and improve profitability depend in part on our ability to reduce the costs of materials, components, supplies and labor, including establishing production capabilities at our low cost region subcontractors. While the failure of any single cost containment effort by itself would most likely not significantly impact our results, we cannot give any assurances that we will be successful in implementing cost reductions and maintaining a competitive cost structure.

There is substantial price competition in our industry, and our success and profitability will depend on our ability to maintain a competitive cost and price structure.

There is substantial price competition in our industry, and our success and profitability will depend on our ability to maintain a competitive cost and price structure. We may have to reduce prices in the future to remain competitive. Also, our future profitability will depend in part upon our ability to continue to improve our manufacturing efficiencies and maintain a cost structure that will enable us to offer competitive prices. Our inability to maintain a competitive cost structure could have a material adverse effect on our business, financial condition and results of operations.

Our profits may decline if the price of raw materials continues to rise and we cannot recover the increases from our customers.

We use various raw materials, such as copper, steel and zinc, in our manufacturing operations. The prices of these raw materials have been subject to volatility. As a result of price increases, we have implemented price surcharges to our customers; however we may be unable to collect surcharges without suffering reductions in unit volume, revenue and operating income. There can be no assurance that we will be able to fully recover the price increases through surcharges in a timely manner.

We may explore additional acquisitions that complement, enhance or expand our business. We may not be able to complete these transactions, and, if completed, we may experience operational and financial risks in connection with our acquisitions that may materially adversely affect our business, financial condition and operating results.

Our future growth may be a function, in part, of acquisitions. We may have difficulty finding these opportunities, or if we do identify these opportunities, we may not be able to complete the transactions for reasons including a failure to secure financing.

To the extent that we are able to complete the transactions, we will face the operational and financial risks commonly encountered with this type of a strategy. These risks include the challenge of integrating acquired businesses while managing the ongoing operations of each business, the challenge of combining the business cultures of each company, and the need to retain key personnel of our existing business and the acquired business. The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the acquired business and our existing business. Members of our senior management may be required to devote considerable amounts of time to the integration process, which will decrease the time they will have to manage our businesses, service existing customers, attract new customers and develop new products. If our senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could be adversely affected.

We have existing debt and refinancing risks that could affect our cost of operations.

We have both fixed and variable rate indebtedness and may incur indebtedness in the future, including borrowings under our existing or new credit facilities, to finance possible acquisitions and for general corporate purposes. As a result, we are and expect to be subject to risks normally associated with debt financing including:

- that interest rates may rise;
- that our cash flow will be insufficient to make required payments of principal and interest;
- that any default on our debt could result in acceleration of those obligations;
- that we may be unable to refinance or repay the debt as it becomes due; and
- that any refinancing will not be on terms as favorable as those of the existing debt.

The following factors could affect our ability to obtain additional financing on favorable terms, or at all:

- our results of operations;
- our ratio of debt to equity;
- our financial condition;
- our business prospects;
- changes in interest rates;

- general economic conditions and conditions in our industry; and
- the perception in the capital markets of our business.

In addition, certain covenants relating to our existing indebtedness impose certain limitations on additional indebtedness. If we are unable to obtain sufficient capital in the future, we may have to curtail our capital expenditures and other expenses. Any such actions could have a material adverse effect on our business, financial condition, results of operations and liquidity.

We may not be able to obtain the capital we need to maintain or grow our business.

Our ability to execute our long-term strategy may depend to a significant degree on our ability to obtain new long-term debt and equity capital. We have no commitments for additional borrowings, other than our existing credit facilities, or for sales of equity. We may be unable to obtain future additional financing on terms acceptable to us, or at all. If we fail to comply with certain covenants relating to our indebtedness, we may need to refinance our indebtedness to repay it. We also may need to refinance our indebtedness at maturity. We may not be able to obtain additional capital on favorable terms to refinance our indebtedness.

The market price of our common stock has been and is likely to continue to be volatile, which may make it difficult for shareholders to resell common stock when they want to and at prices they find attractive.

Our common stock has been and is likely to be highly volatile and there has been limited trading volume in the stock. The volatility could affect our stock irrespective of, or disproportionately to, the operating performance of our Company. The fluctuations and limited trading volume may materially adversely affect the market price of our stock and the ability to sell the stock. Most of our outstanding shares are available for resale in the public market without restriction. The sale of a large number of shares could adversely affect the share price.

We are dependent on our key personnel.

We are dependent upon the continued contributions of our senior corporate management, particularly Richard Smith, chief executive officer and chief financial officer, Richard Warzala, president and chief operating officer, and certain other key employees of Allied Motion for our future success. If Mr. Smith, Mr. Warzala or other key employees no longer serve in their positions at Allied Motion, our business, as well as the market price of our common stock, could be substantially adversely affected. We cannot assure you that we will be able to retain the services of Mr. Smith or Mr. Warzala or any other members of our senior management or key employees.

Our future success depends in part on the continued service of our engineering and technical personnel and our ability to identify, hire and retain personnel.

There is continued competition for qualified personnel in our markets. We may not be able to continue to attract and retain engineers or other qualified personnel necessary for the development and growth of our business or to replace personnel who may leave our employ in the future. The failure to retain and recruit key technical personnel could cause additional expense, potentially reduce the efficiency of our operations and could harm our business.

We could incur substantial costs under environmental laws.

Our operations are subject to laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants into the air or water, the management and disposal of hazardous substances or wastes and the cleanup of contaminated sites. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions and third-party claims for property damage and personal injury as a result of violations of or liabilities under environmental laws or non-compliance with environmental permits.

We have pension plan and post-retirement obligations covering some of our domestic employees which could reduce cash flow and negatively impact financial condition.

Our pension plan has a projected benefit obligation in excess of the fair value of plan assets. Our pension plan assets consist primarily of equity and fixed income securities. If the performance of investments in the plan does not meet the Company s assumptions, the excess obligation may increase and the Company may have to record additional costs and/or contribute additional funds to the pension plan. An increase in pension expenses and contributions could decrease the Company s cash available to pay its outstanding obligations and its net income.

Our post-retirement plan is unfunded. We record expense as employees render the services necessary to earn the benefits. The expenses are based on estimates including health care cost increases, retirement and mortality. Actual results may vary materially from estimates which could result in an increase to our expense and decrease in net income.

We have a significant amount of goodwill recorded and an impairment writedown would result in lower net income and a reduction in net worth.

Under accounting standards adopted in 2002, we are not required or allowed to amortize the goodwill reflected on our balance sheet. We are required to evaluate goodwill at least annually to determine if there has been an impairment in the value of such goodwill. If we determine that the goodwill is impaired, we would be required to writedown a portion or all of the goodwill which would reduce net income in the period of any writedown.

Anti-takeover provisions in our corporate documents may discourage or prevent a takeover, even if the change of control would be beneficial to shareholders.

Provisions in our articles of incorporation and our by-laws may have the effect of delaying or preventing an acquisition or merger in which we are acquired or a transaction that changes our board of directors. These provisions:

- authorize the board to issue preferred stock without shareholder approval;
- prohibit cumulative voting in the election of directors;
- limit the persons who may call special meetings of shareholders;
- establish advance notice requirements for nominations for the election of directors or for proposing matters that can be acted on by shareholders at shareholder meetings; and
- require that, in a vote to approve an acquisition or merger in which the Company is acquired or a transaction that changes the board of directors, the affirmative vote of the holders of two-thirds of the Company s outstanding shares is required, unless the transaction is approved by at least two-thirds of the continuing directors, in which event the provisions require that the affirmative vote of a majority of the holders of the Company s outstanding shares is required.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

We believe that effective internal controls are necessary to provide reliable financial reports and to assist in the effective prevention of fraud. If we are unable to detect or correct any issues in the design or operating effectiveness of internal controls over financial reporting or fail to prevent fraud, current and potential customers and shareholders could lose confidence in our financial reporting, which could harm our business and the trading price of our stock.

Item 2. Properties.

As of December 31, 2006, the Company occupies facilities as follows:

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

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

Item 3. Legal Proceedings.

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

PART II

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

Allied Motion s common stock is traded on the Nasdaq Capital Market System and trades under the symbol AMOT. The number of holders of record as reported by the Company s transfer agent of the Company s common stock as of the close of business on March 13, 2007 was 577. The Company did not pay or declare any dividends during years 2006 and 2005 and the Company s long-term financing agreement prohibits the Company from doing so without prior approval.

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

	Price Range	
	High	**Low**
YEAR ENDED DECEMBER 31, 2005		
First Quarter	$ 8.90	$ 6.66
Second Quarter	7.62	3.65
Third Quarter	4.73	3.82
Fourth Quarter	4.50	3.36
YEAR ENDED DECEMBER 31, 2006		
First Quarter	$ 4.50	$ 3.60
Second Quarter	5.99	3.42
Third Quarter	5.49	4.49
Fourth Quarter	7.00	4.53

Equity Compensation Plan Information

The following table shows the equity compensation plan information of the Company at December 31, 2006.

Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))**
Equity compensation plans approved by security holders	1,245,150	$ 3.68	108,768

PERFORMANCE GRAPH

The following performance graph reflects change in the Company s cumulative total stockholder return on Common Stock as compared with the cumulative total return of the NASDAQ Stock Market Index and the NASDAQ Electrical and Industrial Apparatus Index for the period of five years ended December 31, 2006.

COMPARISON OF 5 YEAR CUMULATIVE RETURN*

AMONG ALLIED MOTION TECHNOLOGIES, INC., THE NASDAQ STOCK MARKET
(U.S) INDEX AND ELECTRICAL INDUSTRIAL APPARATUS

* $100 invested on 12/31/01 in stock or index-including reinvestment of dividends.
Fiscal year ending December 31.

	12/01	12/02	12/03	12/04	12/05	12/06
ALLIED MOTION TECHNOLOGIES, INC.	100	61	136	251	145	239
NASDAQ STOCK MARKET (U.S.)	100	72	107	117	121	137
ELECTRICAL INDUSTRIAL APPARATUS	100	61	105	102	96	118

Item 6. Selected Financial Data.

The following tables summarize data from the Company s financial statements for the fiscal years 2002 through 2006 and the Transition and Comparative Periods and notes thereto; the Company s complete annual financial statements and notes thereto for the current fiscal year appear in Item 8 herein. See Management s Discussion and Analysis of Financial Condition and Results of Operation for discussion of non-recurring items that affect the comparability of results between periods.

	For the year ended December 31, 2006	2005	2004	2003
	In thousands (except per share data)			
Statements of Operations Data:				
Revenues from continuing operations	$ 82,768	$ 74,302	$ 62,738	$ 39,434
Net income	$ 1,931	$ 923	$ 2,250	$ 948
Diluted income per share from continuing operations	$ .28	$ .13	$ .36	$ 0.19

	For the Six Month Transition Period ended December 31, 2002	For the Six Month Comparative Period ended December 31, 2001
	In thousands (except per share data)	
Statements of Operations Data:		
Revenues from continuing operations	$ 17,191	$ 7,868
Income from continuing operations	$ 45	$ 60
Operating (loss) from discontinued operations	(736)	(223)
Gain on sale of power and process business, net of income taxes	1,019	
Net income (loss)	$ 328	$ (163)
Diluted income per share from continuing operations	$ 0.01	$ 0.01

	For the fiscal years ended June 30, 2002	2001
	In thousands (except per share data)	
Statements of Operations Data:		
Revenues from continuing operations	$ 15,723	$ 21,188
(Loss) income from continuing operations	$ (45)	$ 2,024
Operating (loss) from discontinued operations	(221)	(28)
Net (loss) income	$ (266)	$ 1,996
Diluted (loss) income per share from continuing operations	$ (0.01)	$ 0.42

	December 31, 2006	2005	2004	2003	2002
Balance Sheet Data:					
Total assets	$ 53,624	$ 53,337	$ 54,820	$ 27,497	$ 28,348
Total current and long-term debt	$ 9,829	$ 12,081	$ 14,407	$ 2,312	$ 4,133

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

Overview

Allied Motion designs, manufactures and sells motion products to a broad spectrum of customers throughout the world primarily for the commercial motor, industrial motion control, and aerospace and defense markets. The Company s products are used in demanding applications in medical equipment, HVAC systems for trucks, busses and off-road vehicles, the specialty automotive market, industrial automation, pumps, health-fitness, defense, aerospace, semiconductor manufacturing, fiber optic-based telecommunications, printing, and graphic imaging market sectors, to name a few.

Today, five companies form the core of Allied Motion. The companies, Emoteq, Computer Optical Products, Motor Products, Stature Electric and Premotec offer a wide range of standard motors, encoders and drives for original equipment manufacturers (OEM) and end user applications. A particular strength of each company is its ability to design and manufacture custom motion control solutions to meet the needs of its customers.

The Company has made considerable progress in implementing its new corporate strategy, the driving force of which is 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 a sub-contract manufacturing facility in China. The Company will continue to look for opportunities where production in low cost regions for certain projects are anticipated to result in increased profits.

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 both key materials in our products. The Company has reacted by aggressively sourcing material at lower cost from Asian markets, combining the sourcing of metals to benefit from volume purchasing and by passing on surcharges to our customers.

The Company has an aggressive motor development plan for five new standalone products and two new product lines that leverage the combined technology base of the Allied Motion companies. The Company continues to focus on new product designs that design-out cost, provide higher performance and meet the needs of our served markets. Early in 2006, the Company announced several new motor designs targeted at various markets. Each of these motors are targeted at precision motor applications. It normally takes twelve months to get new products designed into new customer applications. All product development efforts are focused on adding value for our customers in our served market segments.

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

Operating Results

Year 2006 compared to 2005

	For the year ended December 31, 2006 (in thousands)	2005	Increase (decrease) $	%
Revenues	$ 82,768	$ 74,302	$ 8,466	11 %
Cost of products sold	63,207	58,118	5,089	9 %
Gross margin	19,561	16,184	3,377	21 %
Gross margin percentage	24 %	22 %		
Operating costs and expenses:				
Selling	3,227	3,265	(38)	(1)%
General and administrative	7,782	5,952	1,830	31 %
Engineering and development	3,823	3,526	297	8 %
Amortization of intangible assets	1,012	1,010	2	0 %
Total operating costs and expenses	15,844	13,753	2,091	15 %
Operating income	3,717	2,431	1,286	53 %
Other (expense) income, net:				
Interest expense	(983)	(1,075)	(92)	(9)%
Other income, net	166	125	(41)	(33)%
Total other (expense) income, net	(817)	(950)	(133)	(14)%
Income before income taxes	2,900	1,481	1,419	96 %
Provision for income taxes	969	558	411	74 %
Net income	$ 1,931	$ 923	$ 1,008	109 %

NET INCOME The Company achieved net income of $1,931,000 or $.28 per diluted share for 2006 compared to $923,000 or $.13 per diluted share for 2005.

EBITDA EBITDA was $7,166,000 for 2006 compared to $5,785,000 for 2005. EBITDA is a non-GAAP measurement that consists of income before interest expense, provision for income taxes and depreciation and amortization. See information included in Non - GAAP Measures below for a reconciliation of net income to EBITDA.

REVENUES Revenues were $82,768,000 in 2006 compared to $74,302,000 in 2005. This 11% increase is primarily attributable to increased sales in medical, industrial tool and electronics markets and in automotive liquid propane fuel pump applications partially offset by decreases in motors used in HVAC and actuation systems for vehicle markets.

GROSS MARGINS Gross margin as a percentage of revenues increased to 24% for 2006 from 22% for 2005. This improvement reflects the increase in sales of the Company s industrial and electronics markets which provide a higher gross margin from their sales, the cost reductions realized from products being produced at the Company s contract manufacturing facility in China, and the continuous improvement in efficiencies and productivity from implementation of the Company s AST tools.

SELLING EXPENSES Selling expenses were $3,227,000 and $3,265,000 in 2006 and 2005, respectively. Selling expense as a percentage of revenues decreased to 3.9% in 2006 compared to 4.4% last year. The decrease in selling expenses relates to a decrease in sales upon which commissions are paid and personnel changes.

GENERAL AND ADMINISTRATIVE EXPENSES General and administrative expenses were $7,782,000 in 2006 compared to $5,952,000 in 2005. Of this 31% increase, 14% related to employee performance bonuses, 5% related to salaries and employee benefit expenses and 4% related to audit and professional fees.

ENGINEERING AND DEVELOPMENT EXPENSES Engineering and development expenses were $3,823,000 and $3,526,000 for 2006 and 2005, respectively. The Company continues to focus resources on new product designs and new customer applications to meet the needs of its served markets.

AMORTIZATION OF INTANGIBLE ASSETS Amortization of intangible assets was $1,012,000 in 2006 and $1,010,000 in 2005.

INTEREST EXPENSE Interest expense for 2006 was $983,000 and for 2005 was $1,075,000. The decrease in interest is directly attributed to the decrease in outstanding debt obligations partially offset by higher interest rates.

INCOME TAXES The provision for income taxes was $969,000 for year 2006 compared to $558,000 for 2005. The effective rate differs from the statutory amounts primarily due to the impact of differences in state and foreign tax rates. The effective income tax rate as a percentage of income before income taxes was 33% in 2006 and 38% in 2005. The difference in the effective tax rates between periods was primarily due to a greater portion of income derived from a foreign jurisdiction with a lower tax rate and a reduction in the foreign jurisdiction enacted tax rates.

Operating Results

Year 2005 compared to 2004

	For the year ended December 31,		**Increase (decrease)**	
	2005	**2004**	**$**	**%**
	(in thousands)			
Revenues	$ 74,302	$ 62,738	$ 11,564	18 %
Cost of products sold	58,118	46,280	11,838	26 %
Gross margin	16,184	16,458	(274)	(0)%
Gross margin percentage	22 %	26 %		
Operating costs and expenses:				
Selling	3,265	2,557	708	28 %
General and administrative	5,952	6,226	(274)	(4)%
Engineering and development	3,526	2,896	630	22 %
Amortization of intangible assets	1,010	647	363	56 %
Restructuring charges		10	(10)	(100)%
Total operating costs and expenses	13,753	12,336	1,417	11 %
Operating income	2,431	4,122	(1,691)	(41)%
Other (expense) income, net:				
Interest expense	(1,075)	(696)	379	55 %
Other income (expense), net	125	(17)	(142)	(835)%
Total other (expense) income, net	(950)	(713)	237	33 %
Income before income taxes	1,481	3,409	(1,928)	(57)%
Provision for income taxes	558	1,159	(601)	(52)%
Net income	$ 923	$ 2,250	$ (1,327)	(59)%

NET INCOME The Company achieved net income of $923,000 or $.13 per diluted share for 2005 compared to $2,250,000 or $.36 per diluted share for 2004. Included in net income are results related to Stature Electric and Premotec from the dates of acquisition on May 10, 2004 and August 23, 2004, respectively. Results for both are included for all of 2005.

EBITDA EBITDA was $5,785,000 for 2005 compared to $6,400,000 for 2004. EBITDA is a non-GAAP measurement that consists of income before interest expense, provision for income taxes and depreciation and amortization. See information included in Non - GAAP Measures below for a reconciliation of net income to EBITDA.

REVENUES Revenues were $74,302,000 in 2005 compared to $62,738,000 in 2004 or a 18% increase. The incremental revenues achieved by the companies acquired in 2004 increased revenues by 25% which were partially offset by a decrease in revenues from existing businesses of 7%. On a proforma basis, sales from Premotec and Stature increased 8% and consolidated sales decreased 2%. The decrease in existing business is primarily due to revenues related to certain projects last year that were not repeated this year, primarily in the Aerospace/ Defense and Electronics markets and changes in customer buying patterns.

GROSS MARGINS Gross margin as a percentage of revenues was 22% for 2005 and 26% for 2004. The decrease is due to a change in sales mix (significant drop in sales of our higher margin business partially offset by increased sales of lower margin business), the weighting of the lower margins of the acquired businesses, additional costs incurred to set up low cost manufacturing capability in China and the negative impact of the upward trend in the cost of purchased metal. The Company has proactively responded to the increased metal costs by aggressively sourcing materials from Asian markets, by combining the sourcing of metals for its various manufacturing operations to benefit from volume purchasing and by passing surcharges to its customers. The Company anticipates gross margins will improve company wide as we continue to improve manufacturing efficiencies through the implementation of lean manufacturing, by increasing offshore sourcing of materials and from continued cost reduction efforts to reduce overhead costs and expenses. We also anticipate that we will start realizing improved margins from products manufactured in our low cost manufacturing facilities in 2006.

SELLING EXPENSES Selling expenses were $3,265,000 and $2,557,000 in 2005 and 2004, respectively. Of this 28% increase, selling expenses from existing businesses decreased 3% and incremental expenses from Stature and Premotec contributed 31% of this increase. The decrease in selling expense from existing businesses is due to cost reduction efforts and recruiting expenses incurred in 2004 that did not repeat in 2005.

GENERAL AND ADMINISTRATIVE EXPENSES General and administrative expenses were $5,952,000 in 2005 compared to $6,226,000 in 2004 or a decrease of 4%. Of the 4% decrease, 14% was attributed to a decrease in incentive bonus expense and 4% was attributed to a decrease from cost reduction efforts in existing businesses offset by a 14% increase from the impact of acquiring Stature and Premotec.

ENGINEERING AND DEVELOPMENT EXPENSES Engineering and development expenses were $3,526,000 and $2,896,000 for 2005 and 2004, respectively. Of the 22% increase in engineering and development expenses, 20% was due to the acquisitions of Stature and Premotec and 2% was due to additional expenditures associated with new product development.

AMORTIZATION OF INTANGIBLE ASSETS Amortization of intangible assets was $1,010,000 in 2005 and $647,000 in 2004. This increase was due to the amortization costs related to the amortizable intangible assets acquired in the Stature and Premotec acquisitions during 2004.

RESTRUCTURING CHARGE Restructuring charges were zero and $10,000 in 2005 and 2004, respectively. The charges in 2004 relate primarily to severance costs arising from workforce reductions from consolidation of the Company s manufacturing facilities.

INTEREST EXPENSE Interest expense for 2005 was $1,075,000 and for 2004 was $696,000. The increase in interest was directly attributed to the increased outstanding balance on the borrowings related to the financing of the acquisitions of Stature and Premotec.

INCOME TAXES The provision for income taxes was $558,000 for year 2005 compared to $1,159,000 for 2004. The effective income tax rate as a percentage of income before income taxes from continuing operations was 38% in 2005 and 34% in 2004. The difference in the effective tax rate between periods was primarily due to resolution of certain income tax related issues offset by less of an effect of reduction in enacted tax rates 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. Accordingly, the Company believes that EBITDA provides helpful information about the operating performance of its business, apart from the expenses associated with its physical assets or capital structure. EBITDA is frequently used as one of the bases for comparing businesses in the Company s industry. EBITDA does not represent and should not be considered as an alternative to net income, operating income, net cash provided by operating activities or any other measure for determining operating performance or liquidity that is calculated in accordance with generally accepted accounting principles.

The Company s calculation of EBITDA for year ended December 31, 2006 and 2005 is as follows (in thousands):

	For the year ended December 31,	
	2006	**2005**
Net income	$ 1,931	$ 923
Interest expense	983	1,075
Provision for income tax	969	558
Depreciation and amortization	3,283	3,229
Income before interest expense, provision for income taxes and depreciation and amortization (EBITDA)	$ 7,166	$ 5,785

Liquidity and Capital Resources

The Company s liquidity position as measured by cash and cash equivalents increased $45,000 during 2006 to a balance of $669,000 at December 31, 2006. The increase compares to a $168,000 increase in the same period last year. During 2006, operations provided $3,634,000 in cash. Cash provided by operations included net income of $1,931,000 plus non-cash charges for depreciation and amortization of $3,283,000, provisions for doubtful accounts, obsolete inventory and deferred income taxes totaling $1,290,000 and other non-cash charges of $240,000. Cash provided by operating activities included increases in trade receivables and inventories of $203,000 and $1,849,000, respectively. These increases are primarily due to increased business levels. Cash used in operations also included decreases in accounts payable and in accrued liabilities and other of $878,000 and $147,000, respectively.

Net cash used in investing activities was $1,422,000 and $2,371,000 for 2006 and 2005, respectively. The Company paid zero and $275,000, in years 2006 and 2005, respectively, related to the acquisition of Stature. Purchases of property and equipment were $1,422,000 and $2,096,000 during the years 2006 and 2005, respectively.

Net cash used in financing activities was $2,174,000 compared to $1,132,000 for the years 2006 and 2005, respectively. Net repayments on lines-of-credit for the year 2006 were $88,000 compared to net borrowings for the year 2005 of $441,000. The Company repaid $2,198,000 and $2,236,000 on term loans for the years 2006 and 2005, respectively. The Company repaid $201,000 and $197,000 on capital leases in 2006 and 2005, respectively. Proceeds received from capital leases were $52,000 and $50,000 for 2006 and 2005, respectively. Cash was also provided from stock transactions under various employee benefit stock plans of $261,000 and $655,000, respectively for 2006 and 2005, and repayment on a loan to the Company s Employee Stock Ownership plan of $155,000 in 2005.

At December 31, 2006, the Company had $9,698,000 of debt obligations representing borrowings on line-of-credit and term loans.

Under the domestic revolving line-of-credit agreement (Agreement), the Company has available the lesser of (a)$10,500,000 or (b) the sum of 85% of eligible trade accounts receivable (excluding Premotec) and 50% of eligible inventory, as defined in the Agreement. Under the Agreement, the Company utilizes lock-box arrangements whereby remittances from customers reduce the outstanding debt, and therefore the line-of-credit balance has been classified as a current liability. As of December 31, 2006, the amount available under the domestic line-of-credit was $3,747,000.

Under the foreign line-of-credit agreement (Foreign Agreement), the Company has available the lesser of (a) EUR 1.25 million ($1.65 million as of December 31, 2006), or (b) 85% of eligible trade accounts receivable of Premotec as defined in the Foreign Agreement. Borrowings under the line-of-credit bear interest at a rate equal to the bank s base rate plus 1.75%, with a minimum of 4.75% (6.00% at December 31, 2006). Under the Foreign Agreement, remittances from customers reduce the outstanding debt, therefore the balance has been classified as a current liability. As of December 31, 2006, the amount available under the foreign line-of-credit was $1,305,000.

The Company has a bank overdraft facility payable to a foreign bank with no monthly repayments required, interest due at the bank s base rate plus 2%, with a minimum of 5.25% (6.25% as of December 31, 2006), due on demand, secured by Premotec s inventory. As of December, 2006, the amount available under the overdraft facility was $264,000. Effective February 1, 2007, the Company terminated the foreign line-of-credit agreement and increased the amount available under its foreign bank overdraft facility to EUR 750,000 ($990,000 at December 31, 2006 exchange rate). Borrowings under the new line-of-credit bear interest at a rate equal to the bank s base rate plus 1.5%, with a minimum of 4.75%.

The Company also has various term loans obtained in connection with its acquisitions. All borrowings are collateralized by substantially all assets of the Company.

The loan agreements prohibit the Company from paying dividends and require that the Company maintain compliance with certain covenants related to tangible net worth and profitability. As of December 31, 2006, the Company was in compliance with such covenants. As of December 31, 2006, the amount available under the lines-of-credit and overdraft facility was $5,316,000.

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 line-of-credit facilities. The Company s domestic line-of-credit expires in May 2007. The Company is currently in discussions with lenders regarding its global debt financing needs. The Company believes it will be successful in obtaining debt financing facilities and that such debt financing facilities and the Company s capital currently available is sufficient to meet its currently anticipated needs for at least the next twelve months. If additional capital is needed in the future, the Company would pursue additional capital via debt or equity financings. A key component of the Company s liquidity relates to the availability of amounts under its lines-of-credit. Any lack of availability of these facilities could have a material adverse impact on the Company s liquidity position. There can be no assurances that such financing will be available to the Company on acceptable terms, or at all.

Price Levels and the Impact of Inflation

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

Critical Accounting Policies

The Company has prepared its financial statements in conformity with accounting principles generally accepted in the United States, and these statements necessarily include some amounts that are based on informed judgments and estimates of management. The Company s significant accounting policies are discussed in Note 1 to the consolidated financial statements. The 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 historical usage and 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 and excess inventories.

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 a portion of 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 SFAS No. 144. SFAS No. 144 provides a fair value test to evaluate goodwill and long-lived asset impairment. 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 other long-lived assets.

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.

Recent Accounting Pronouncements

In December 2004, the Financial Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which is a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123) and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*. SFAS 123R requires measurement of all employee stock-based compensation awards using a fair-value method and the recording of such expense in the consolidated financial statements. The Company selected the Black-Scholes option-pricing model as the most appropriate fair-value method for stock option awards and will recognize compensation cost on a straight-line basis over the awards vesting periods. The Company adopted SFAS 123R on January 1, 2006. See note 5 for further detail.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, *Inventory Costs* (SFAS 151), which amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing*. This statement requires abnormal amounts of idle facility expense, freight, handling costs and wasted material to be excluded from inventory costing and instead included as period expenses. In addition, this standard requires the allocation of fixed production overhead to be based on normal capacity of the production facilities. The Company adopted the standard on January 1, 2006 and it did not have an impact on our consolidated financial statements.

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. The Interpretation requires that realization of an uncertain income tax position must be more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Further, the Interpretation prescribes the benefit to be recorded in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. The Interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. The Interpretation is effective in the first quarter 2007 for Allied Motion and the Company plans to adopt the Interpretation when required. The Interpretation is currently being evaluated by Allied Motion for its full impact. At this time, the Company believes it has properly and adequately provided for all income tax positions and therefore expects minimal impact from adopting the Interpretation.

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

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. SAB 108 requires that registrants quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. The Company implemented SAB 108 January, 1 2006 and it did not have an impact on our consolidated financial statements.

In September 2006, the Financial Accounting Standards Board issued FASB No. 157, Fair Value Measurements. FAS 157 is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by GAAP; it does not create or modify any current GAAP requirements to apply fair value accounting. The Standard provides a single definition for fair value that is to be applied consistently for all accounting applications, and also generally describes and prioritizes according to reliability the methods and inputs used in valuations. FAS 157 prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in GAAP. The new measurement and disclosure requirements of FAS 157 are effective for Allied Motion in the first quarter 2008. The Company expects no significant impact from adopting the Standard.

Contractual Commitments

For more information on the Company s contractual obligations on operating leases and contractual commitments, see Notes 3 and 6 to the consolidated financial statements. At December 31, 2006, the Company s commitments under these obligations were as follows (in thousands):

Year ending December 31,	Operating Leases	Capital Leases(1)	Line-of-Credit	Term Loans(2)	Interest on Debt Obligations(3)	Total
2007	$ 620	$ 115	$ 4,925	$ 4,034	$ 626	$ 10,320
2008	623	24		422	46	1,115
2009	522			317	12	851
2010	418					418
2011	382					382
Thereafter	408					408
	$ 2,973	$ 139	$ 4,925	$ 4,773	$ 684	$ 13,494

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

(2) Maturities for the term loans are discussed more thoroughly in Note 3.

(3) The interest rates used are the rates in effect at December 31, 2006.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk

The interest payable on the Company s domestic and foreign lines-of-credit and its foreign term loan are variable based on the prime rate and Euribor, and are effected by changes in market interest rates. The Company does not believe that reasonably possible near-term changes in interest rates will result in a material effect on future earnings, fair values or cash flows of the Company. A change in the interest rate of 1% on the Company s variable rate debt would have the impact of changing interest expense by approximately $81,000 annually.

Foreign Currency Risk

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

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

In our opinion, the 2006 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allied Motion Technologies Inc. and subsidiaries as of December 31, 2006 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the Consolidated Financial Statements, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment , as of January 1, 2006, and SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statement No. 87, 88, 106 and 132(R) , as of December 31, 2006.

Ehrhardt Keefe Steiner & Hottman PC
March 17, 2007

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheet of Allied Motion Technologies Inc. and subsidiaries as of December 31, 2005, and the related consolidated statements of operations, stockholders investment and comprehensive income, and cash flows for the years ended December 31, 2005 and 2004. In connection with our audits of the consolidated financial statements, we have also audited the consolidated financial statement Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2005 and 2004. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allied Motion Technologies Inc. and subsidiaries as of December 31, 2005, and the results of their operations and their cash flows for the years ended December 31, 2005 and 2004, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Denver, Colorado
March 20, 2006

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

	December 31, 2006	December 31, 2005
Assets		
Current Assets:		
Cash and cash equivalents	$ 669	$ 624
Trade receivables, net of allowance for doubtful accounts of $293 and $281 at December 31, 2006 and 2005, respectively	10,225	10,087
Inventories, net	10,807	9,185
Deferred income taxes	778	402
Prepaid expenses and other	619	577
Total Current Assets	23,098	20,875
Property, plant and equipment, net	12,173	12,939
Deferred income taxes	25	582
Goodwill and intangible assets, net	18,328	18,941
Total Assets	$ 53,624	$ 53,337
Liabilities and Stockholders Investment		
Current Liabilities:		
Current maturities of capital lease obligations	$ 107	$ 180
Debt obligations	8,959	7,155
Accounts payable	4,826	5,543
Accrued liabilities and other	4,226	3,877
Income taxes payable	1,179	664
Total Current Liabilities	19,297	17,419
Long-term capital lease obligations, net of current portion	24	92
Debt obligations, net of current portion	739	4,654
Deferred income taxes	2,330	1,862
Pension and post-retirement obligations	1,712	3,503
Total Liabilities	24,102	27,530
Commitments and Contingencies		
Stockholders Investment:		
Preferred stock, par value $1.00 per share, authorized 5,000 shares; no shares issued or outstanding		
Common stock, no par value, authorized 50,000 shares; 6,533 and 6,369 shares issued and outstanding at December 31, 2006 and 2005, respectively	15,469	14,991
Retained earnings	12,901	10,970
Other comprehensive income (loss)	1,152	(154)
Total Stockholders Investment	29,522	25,807
Total Liabilities and Stockholders Investment	$ 53,624	$ 53,337

See accompanying notes to consolidated financial statements.

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

	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
Revenues	$ 82,768	$ 74,302	$ 62,738
Cost of products sold	63,207	58,118	46,280
Gross margin	19,561	16,184	16,458
Operating costs and expenses:			
Selling	3,227	3,265	2,557
General and administrative	7,782	5,952	6,226
Engineering and development	3,823	3,526	2,896
Amortization of intangible assets	1,012	1,010	647
Restructuring charges			10
Total operating costs and expenses	15,844	13,753	12,336
Operating income	3,717	2,431	4,122
Other income (expense), net:			
Interest expense	(983)	(1,075)	(696)
Other income (expense), net	166	125	(17)
Total other expense, net	(817)	(950)	(713)
Income before income taxes	2,900	1,481	3,409
Provision for income taxes	969	558	1,159
Net income	$ 1,931	$ 923	$ 2,250
Basic net income per share:			
Net income per share	$ .30	$ .15	$ .40
Basic weighted average common shares	6,460	6,245	5,581
Diluted net income per share:			
Net income per share	$ .28	$ .13	$ .36
Diluted weighted average common shares	6,870	6,869	6,185

See accompanying notes to consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS INVESTMENT AND COMPREHENSIVE INCOME

(In thousands)

	Common Stock				Other Comprehensive	
	Shares	Amount	Other	Retained Earnings	Income Adjustments	Comprehensive Income
Balances, December 31, 2003	5,021	8,383	(200)	7,797	79	
Stock transactions under employee benefit stock plans	52	156	45			
Issuance of restricted stock	198	1,000				
Stock compensation expense		13				
Stock issued for acquisition of Owosso Corporation	536	2,421				
Stock issued for acquisition of Premotec	263	1,471				
Stock warrants issued for acquisition of Owosso Corporation		725				
Foreign currency translation adjustment					220	$ 220
Net income				2,250		2,250
Comprehensive income						$ 2,470
Balances, December 31, 2004	6,070	14,169	(155)	10,047	299	
Stock transactions under employee benefit stock plans and option exercises	259	780				
Payment on loan to Employee Stock Ownership Plan			155			
Issuance of restricted stock	40	155	(155)			
Stock compensation expense		6	36			
Additional minimum pension liability, net of tax					(122)	$ (122)
Foreign currency translation adjustment					(331)	(331)
Net income				923		923
Comprehensive income						$ 470
Balances, December 31, 2005	6,369	$ 15,110	$ (119)	$ 10,970	$ (154)	
Stock transactions under employee benefit stock plans and option exercises	125	371				
Issuance of restricted stock	39	159	(159)			
Restricted stock forfeitures		(8)	8			
Stock compensation expense		14	93			
Eliminate additional minimum pension liability, net of tax					122	
Amount recognized to initially apply SFAS No. 158, net of tax					824	$ 946
Foreign currency translation adjustment					360	360
Net income				1,931		1,931
Comprehensive income						$ 3,237
Balances, December 31, 2006	6,533	15,646	(177)	12,901	1,152	

See accompanying notes to consolidated financial statements.

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

	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
Cash Flows From Operating Activities:			
Net income	$ 1,931	$ 923	$ 2,250
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,283	3,229	2,328
Provision for doubtful accounts	250	146	52
Provision for obsolete inventory	449	586	136
Deferred income tax provision	591	(130)	901
Loss on disposition of assets	24	84	164
Other	216	170	5
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Increase in trade receivables	(203)	(1,065)	(618)
Increase in inventories, net	(1,849)	(644)	(2,050)
(Increase) decrease in prepaid expenses and other	(33)	(69)	637
(Decrease) increase in accounts payable	(878)	1,051	(203)
Decrease in accrued liabilities and other	(147)	(610)	(329)
Net cash provided by operating activities	3,634	3,671	3,273
Cash Flows From Investing Activities:			
Purchase of property and equipment	(1,422)	(2,096)	(953)
Proceeds from sale of Power and Process Business			50
Net cash paid for acquisition of Owosso Corporation		(275)	(13,563)
Net cash paid for acquisition of Premotec			(3,253)
Net cash used in investing activities	(1,422)	(2,371)	(17,719)
Cash Flows From Financing Activities:			
Borrowings (repayments) on lines-of-credit, net	(88)	441	3,736
Borrowings on term loans			