

ALLIED MOTION TECHNOLOGIES INC  
Form 10-K/A  
April 04, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-K/A**

Amendment No. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 0-04041

**ALLIED MOTION TECHNOLOGIES INC.**

(Exact name of registrant as specified in its charter)

**Colorado**

(State or other jurisdiction of  
incorporation or organization)

**84-0518115**

(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

**80112**

(Zip Code)

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

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

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

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

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  No

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

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

Indicate by check mark whether the registrant is 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        Accelerated filer        Non-accelerated filer   

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

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 \$20,000,000.

Number of shares of the only class of Common Stock outstanding: 6,369,351 as of March 20, 2006

DOCUMENTS INCORPORATED BY REFERENCE  
Notice and Proxy for 2006 Annual Meeting of Shareholders

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**EXPLANATORY NOTE**

Allied Motion Technologies Inc. (the "Company") inadvertently omitted the signature of KPMG LLP from the "Report of Independent Registered Public Accounting Firm" included in Item 8 of the Company's Form 10-K for the fiscal year ended December 31, 2005, which was filed with the Securities and Exchange Commission ("SEC") on March 28, 2006 (the "Original Form 10-K").

In order to comply with certain technical requirements of the SEC's rules in connection with the filing of this amendment on Form 10-K/A, the Company is (i) setting forth in this amendment the complete text of Item 8 (Financial Statements and Supplementary Data), as amended and (ii) filing, as exhibits, certain current dated certifications of the Company's Chief Executive and Chief Financial Officer and the President and Chief Operating Officer.

Except for the matters described above, this amendment does not modify or update disclosures in, or exhibits to, the Original Form 10-K. Furthermore, except for the matters described above, this amendment does not change any previously reported financial results, nor does it reflect events occurring after the date of the Original Form 10-K.

**Item 8. Financial Statements and Supplementary Data.**

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**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 sheets of Allied Motion Technologies Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' investment and comprehensive income, and cash flows for the years ended December 31, 2005, 2004 and 2003. 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, 2004 and 2003. 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 2004, and the results of their operations and their cash flows for the years ended December 31, 2005, 2004 and 2003, 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,<br>2005 | December 31,<br>2004 |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| Current Assets:   |                      |                      |
| Cash and cash equivalents   | \$ 624               | \$ 456               |
| Trade receivables, net of allowance for doubtful accounts of \$281 and \$235 at December 31, 2005 and 2004, respectively                        | 10,087               | 9,353                |
| Inventories, net  | 9,185                | 9,382                |
| Deferred income taxes   | 402                  | 1,186                |
| Prepaid expenses and other  | 577                  | 518                  |
| Total Current Assets  | 20,875               | 20,895               |
| Property, plant and equipment, net  | 12,939               | 13,301               |
| Deferred income taxes   | 582                  |                      |
| Goodwill and intangible assets, net   | 18,941               | 20,624               |
| Total Assets  | \$ 53,337            | \$ 54,820            |
| <b>Liabilities and Stockholders' Investment</b>   |                      |                      |
| Current Liabilities:  |                      |                      |
| Current maturities of capital lease obligations   | \$ 180               | \$ 183               |
| Debt obligations  | 7,155                | 6,904                |
| Accounts payable  | 5,543                | 4,669                |
| Accrued liabilities and other   | 3,877                | 5,316                |
| Income taxes payable  | 664                  | 687                  |
| Total Current Liabilities   | 17,419               | 17,759               |
| Long-term capital lease obligations, net of current portion   | 92                   | 241                  |
| Debt obligations, net of current portion  | 4,654                | 7,079                |
| Deferred income taxes   | 1,862                | 2,304                |
| Pension and post-retirement obligations   | 3,503                | 3,077                |
| Total Liabilities   | 27,530               | 30,460               |
| 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; 6,369 and 6,070 shares issued and outstanding at December 31, 2005 and 2004, respectively | 15,110               | 14,169               |
| Deferred compensation   | (119)                |                      |
| Loan receivable from Employee Stock Ownership Plan  |                      | (155)                |
| Retained earnings   | 10,970               | 10,047               |
| Other comprehensive income (loss)   | (154)                | 299                  |
| Total Stockholders' Investment  | 25,807               | 24,360               |
| Total Liabilities and Stockholders' Investment  | \$ 53,337            | \$ 54,820            |

See accompanying notes to consolidated financial statements.



## ALLIED MOTION TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)

|  | For the year<br>ended<br>December 31,<br>2005 | For the year<br>ended<br>December 31,<br>2004 | For the year<br>ended<br>December 31,<br>2003 |
|--|---|---|---|
| Revenues   | \$ 74,302                                     | \$ 62,738                                     | \$ 39,434                                     |
| Cost of products sold (exclusive of amortization of acquired product designs and technologies intangibles) | 58,118  | 46,280  | 29,167  |
| Gross margin   | 16,184  | 16,458  | 10,267  |
| Operating costs and expenses:  |   |   |   |
| Selling  | 3,265   | 2,557   | 2,022   |
| General and administrative   | 5,952   | 6,226   | 4,596   |
| Engineering and development  | 3,526   | 2,896   | 1,853   |
| Amortization of intangible assets  | 1,010   | 647   | 315   |
| Restructuring charges  |   | 10  | 211   |
| Total operating costs and expenses   | 13,753  | 12,336  | 8,997   |
| Operating income   | 2,431   | 4,122   | 1,270   |
| Other income (expense), net:   |   |   |   |
| Interest expense   | (1,075)                                       | (696)   | (226)   |
| Other income (expense), net  | 125   | (17)  | (77)  |
| Total other expense, net   | (950)   | (713)   | (303)   |
| Income before income taxes   | 1,481   | 3,409   | 967   |
| Provision for income taxes   | 558   | 1,159   | 19  |
| Net income   | \$ 923  | \$ 2,250                                      | \$ 948  |
| Basic net income per share:  |   |   |   |
| Net income per share   | \$ .15  | \$ .40  | \$ 0.19                                       |
| Basic weighted average common shares   | 6,245   | 5,581   | 4,925   |
| Diluted net income per share:  |   |   |   |
| Net income per share   | \$ .13  | \$ .36  | \$ 0.19                                       |
| Diluted weighted average common shares   | 6,869   | 6,185   | 5,061   |

See accompanying notes to consolidated financial statements.

## ALLIED MOTION TECHNOLOGIES INC.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT  
AND COMPREHENSIVE INCOME**  
(In thousands)

|  | Common Stock |           | Other    | Retained Earnings | Other Comprehensive Income Adjustments | Comprehensive Income |
|--|--------------|-----------|----------|-------------------|--|----------------------|
|  | Shares       | Amount    |          |                   |  |                      |
| Balances, December 31, 2002  | 4,837        | \$ 8,100  | \$       | \$ 6,849          | \$ 28                                  |                      |
| Stock transactions under employee benefit stock plans                      | 183          | 271       | (200)    |                   |  |                      |
| Issuance of restricted stock   | 1            | 3         |          |                   |  |                      |
| Stock compensation expense   |              | 9         |          |                   |  |                      |
| Foreign currency translation adjustment                                    |              |           |          |                   | 51                                     | \$ 51                |
| Net income   |              |           |          | 948               |  | 948                  |
| Comprehensive income   |              |           |          |                   |  | \$ 999               |
| 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)                               |                      |



See accompanying notes to consolidated financial statements.

## ALLIED MOTION TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

|   | For the year<br>ended<br>December 31,<br>2005 | For the year<br>ended<br>December 31,<br>2004 | For the year<br>ended<br>December 31,<br>2003 |
|---|---|---|---|
| <b>Cash Flows From Operating Activities:</b>  |   |   |   |
| Net income  | \$ 923  | \$ 2,250                                      | \$ 948  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |   |   |   |
| Depreciation and amortization   | 3,229   | 2,328   | 1,359   |
| Provision for doubtful accounts   | 146   | 52  | 47  |
| Provision for obsolete inventory  | 586   | 136   | 135   |
| Deferred income tax provision   | (130)   | 901   | 440   |
| Loss on disposition of assets   | 84  | 164   | 114   |
| Tax effect of non-qualifying option exercises   | 124   | 44  |   |
| Other   | 46  | (39)  | (14)  |
| Changes in assets and liabilities, net of effects from acquisitions and dispositions:       |   |   |   |
| Increase in trade receivables   | (1,065)                                       | (618)   | (414)   |
| Increase in inventories, net  | (644)   | (2,050)                                       | (74)  |
| Decrease (increase) prepaid expenses and other  | (69)  | 637   | (82)  |
| (Decrease) increase accounts payable  | 1,051   | (203)   | (201)   |
| Decrease in accrued liabilities and other   | (610)   | (329)   | (106)   |
| Net cash provided by operating activities   | 3,671   | 3,273   | 2,152   |
| <b>Cash Flows From Investing Activities:</b>  |   |   |   |
| Purchase of property and equipment  | (2,096)                                       | (953)   | (1,113)                                       |
| Cash paid for acquisition of Motor Products   |   |   | (300)   |
| Proceeds from sale of Power and Process Business  |   | 50  | 649   |
| 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   | (2,371)                                       | (17,719)                                      | (764)   |
| <b>Cash Flows From Financing Activities:</b>  |   |   |   |
| Borrowings (repayments) on lines-of-credit, net   | 441   | 3,736   | (500)   |
| Borrowings on term loans  |   | 10,314  |   |
| Repayments on term loans  | (2,236)                                       | (2,132)                                       | (1,500)                                       |
| Proceeds from sales/leaseback   | 50  |   | 500   |
| Repayments on capital leases  | (197)   | (149)   | (21)  |
| Issuance of restricted stock  |   | 1,000   |   |
| Repayment on loan to Employee Stock Ownership Plan  | 155   | 45  |   |
| Stock transactions under employee benefit stock plans                                       | 655   | 123   | 74  |
| Net cash (used in) provided by financing activities   | (1,132)                                       | 12,937  | (1,447)                                       |
| Effect of foreign exchange rate changes on cash   |   | 5   | 64  |
| Net increase (decrease) in cash and cash equivalents  | 168   | (1,504)                                       | 5   |
| Cash and cash equivalents at beginning of period  | 456   | 1,960   | 1,955   |
| Cash and cash equivalents at end of period  | \$ 624  | \$ 456  | \$ 1,960                                      |

|  | For the year<br>ended<br>December 31,<br>2005 | For the year<br>ended<br>December 31,<br>2004 | For the year<br>ended<br>December 31,<br>2003 |
|--|---|---|---|
|--|---|---|---|

**Supplemental disclosure of cash flow information:**

Net cash paid (received) during the period for:

|              |          |        |        |
|--------------|----------|--------|--------|
| Interest     | \$ 1,085 | \$ 687 | \$ 226 |
| Income taxes | (384)    | (57)   | (254)  |
| Acquisitions |          | 16,816 | 300    |

See accompanying notes to consolidated financial statements.

## ALLIED MOTION TECHNOLOGIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Business*

Allied Motion Technologies Inc. (Allied Motion or the Company) is engaged in the business of designing, manufacturing and selling motion control products to a broad spectrum of customers throughout the world primarily for the commercial motor, industrial motion control, and aerospace and defense markets.

*Principles of Consolidation*

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

*Cash and Cash Equivalents*

Cash and cash equivalents include instruments which are readily convertible into cash (original maturities of three months or less) and which are not subject to significant risk of changes in interest rates. Cash flows from foreign currency transactions are translated using an average rate.

*Accounts Receivable*

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable; however, changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future.

*Inventories*

Inventories include costs of materials, direct labor and manufacturing overhead, and are stated at the lower of cost (first-in, first-out basis) or market, as follows (in thousands):

|                         | December 31,<br>2005 | December 31,<br>2004 |
|-------------------------|----------------------|----------------------|
| Parts and raw materials | \$ 7,739             | \$ 7,510             |
| Work-in-process         | 1,418                | 1,485                |
| Finished goods          | 1,710                | 1,883                |
|                         | 10,867               | 10,878               |
| Less reserves           | (1,682)              | (1,496)              |
|                         | \$ 9,185             | \$ 9,382             |

**Property, Plant and Equipment**

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

|                                      | Useful<br>lives | December 31,<br>2005 | December 31,<br>2004 |
|--------------------------------------|-----------------|----------------------|----------------------|
| Land                                 |                 | \$ 332               | \$ 332               |
| Building and improvements            | 5-39 years      | 4,537                | 4,395                |
| Machinery, equipment, tools and dies | 2-8 years       | 15,271               | 13,366               |
| Furniture, fixtures and other        | 3-10 years      | 764                  | 1,134                |
|                                      |                 | <u>20,904</u>        | <u>19,227</u>        |
| Less accumulated depreciation        |                 | (7,965)              | (5,926)              |
|                                      |                 | <u>\$ 12,939</u>     | <u>\$ 13,301</u>     |

Depreciation expense is provided using the straight-line method over the estimated useful lives of the assets. Amortization of building improvements and leased equipment is provided using the straight-line method over the life of the lease term or the life of the assets, whichever is shorter. Maintenance and repair costs are charged to operations as incurred. Major additions and improvements are capitalized. The cost and related accumulated depreciation of retired or sold property are removed from the accounts and the resulting gain or loss, if any, is reflected in earnings.

Depreciation expense was approximately \$2,219,000, \$1,681,000 and \$1,044,000, in 2005, 2004 and 2003, respectively.

**Goodwill**

Goodwill represents the excess of the purchase price over the fair value of identifiable net tangible and intangible assets acquired in a business combination. Goodwill is required to be tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. The Company completed its annual analysis of the fair value of its goodwill at October 31, 2005 and determined there was no indicated impairment of its goodwill. There can be no assurance that future goodwill impairments will not occur.

**Intangible Assets**

Intangible assets, other than goodwill, are recorded at cost and are amortized over their estimated useful lives using the straight-line method.

**Impairment of Long-Lived Assets**

The Company reviews the carrying values of its long-lived assets whenever events or changes in circumstances indicate that such carrying values may not be recoverable. Under SFAS No. 144, long-lived assets must be carried at historical cost if the projected cash flows from their use will recover their carrying amounts on an undiscounted basis and without considering interest. However, if projected cash flows are less than their carrying value, the long-lived assets must be reduced to their estimated fair value. Considerable judgment is required to project such cash flows and, if required,

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estimate the fair value of the impaired long-lived asset. No impairments of long-lived assets were recorded in 2005, 2004 or 2003.

### *Warranty*

The Company offers warranty coverage for its products for periods ranging from 12 to 18 months after shipment, with the majority of its products for 12 months. The Company estimates the costs of repairing products under warranty based on the historical average cost of the repairs. The assumptions used to estimate warranty accruals are reevaluated periodically in light of actual experience and, when appropriate, the accruals are adjusted. Estimated warranty costs are recorded at the time of sale of the related product, and are considered a cost of sale. Accrued warranty costs were \$307,000 and \$375,000 as of December 31, 2005 and 2004, respectively.

Changes in the Company's reserve for product warranty claims during 2005 and 2004, were as follows (in thousands):

|   | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|---|------------------------------|------------------------------|
|   | <u>          </u>            | <u>          </u>            |
| Warranty reserve at beginning of the year | \$ 375                       | \$ 185                       |
| Warranty expenditures                     | (171)                        | (142)                        |
| Provision                                 | 113                          | 101                          |
| Additions due to acquisitions             |                              | 223                          |
| Effect of foreign currency translation    | (10)                         | 8                            |
|   | <u>          </u>            | <u>          </u>            |
| Warranty reserve at end of year           | \$ 307                       | \$ 375                       |
|   | <u>          </u>            | <u>          </u>            |

### *Accrued Liabilities*

Accrued liabilities consist of the following (in thousands):

|                                    | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|------------------------------------|------------------------------|------------------------------|
|                                    | <u>          </u>            | <u>          </u>            |
| Compensation and fringe benefits   | \$ 2,494                     | \$ 3,428                     |
| Litigation and legal fees (Note 9) | 145                          | 255                          |
| Customer deposits                  | 38                           | 32                           |
| Warranty reserve                   | 307                          | 375                          |
| Other accrued expenses             | 893                          | 1,226                        |
|                                    | <u>          </u>            | <u>          </u>            |
|                                    | \$ 3,877                     | \$ 5,316                     |
|                                    | <u>          </u>            | <u>          </u>            |

### *Foreign Currency Translation*

In accordance with SFAS No. 52, "Foreign Currency Translation," the assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using end of period exchange rates. Revenue and expense transactions use an average rate prevailing during the month of transaction. The resulting comprehensive income is recorded in the other comprehensive income 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.

***Engineering and Development Costs***

Engineering and development costs are expensed as incurred.

***Revenue Recognition***

The Company recognizes revenue when products are shipped or delivered (shipping terms may be either FOB shipping point or destination) and title has passed to the customer, persuasive evidence of an arrangement exists, the selling price is fixed or determinable, and collectibility is reasonably assured.

***Basic and Diluted Income per Share from Continuing Operations***

Basic income per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding. Diluted income per share is determined by dividing the net income or loss by the sum of (1) the weighted average number of common shares outstanding and (2) if not anti-dilutive, the effect of stock awards determined utilizing the treasury stock method. Outstanding options totaling 624,000, 604,000, and 136,000 had a dilutive effect for years 2005, 2004 and 2003, respectively. Stock options to purchase 241,000, 130,000 and 734,000 shares of common stock, were excluded from the calculation of diluted income per share for years 2005, 2004 and 2003, respectively, since the results would have been anti-dilutive.

***Comprehensive Income***

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by and distributions to stockholders. Comprehensive income consisted of cumulative translation adjustments from the translation of the financial statements of the Company's foreign subsidiary and an additional minimum pension liability (see Note 10) for year 2005. Adjustments for comprehensive income for years 2004 and 2003 are comprised only of cumulative translation adjustments.

***Stock-Based Compensation***

The Company accounts for employee stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. All options granted under these plans have an exercise price equal to the market value of the underlying common stock on the date of grant and therefore no stock-based compensation cost is reflected in net income (loss), except as discussed in Note 8. Had compensation cost for these plans been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123", the

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Company's net income (loss) would have been adjusted to the following amounts (in thousands, except per share data):

|  | For the year<br>ended<br>December 31,<br>2005 | For the year<br>ended<br>December 31,<br>2004 | For the year<br>ended<br>December 31,<br>2003 |
|--|---|---|---|
| <b>Net income:</b>                             |   |   |   |
| Reported net income                            | \$ 923  | \$ 2,250                                      | \$ 948  |
| Stock-based compensation expense, net of taxes | \$ (130)                                      | \$ (1,231)                                    | \$ (573)                                      |
| <b>Pro forma net income</b>                    | <b>\$ 793</b>                                 | <b>\$ 1,019</b>                               | <b>\$ 375</b>                                 |
| <b>Basic net income per share:</b>             |   |   |   |
| Reported basic net income per share            | \$ 0.15                                       | \$ 0.40                                       | \$ 0.19                                       |
| Pro forma basic net income per share           | \$ 0.13                                       | \$ 0.18                                       | \$ 0.08                                       |

**Diluted net income per share:**

|  |         |         |         |
|--|---------|---------|---------|
| Reported diluted net income per share  | \$ 0.13 | \$ 0.36 | \$ 0.19 |
| Pro forma diluted net income per share | \$ 0.12 | \$ 0.16 | \$ 0.07 |

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

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

|                         | For the year<br>ended<br>December 31,<br>2004 | For the year<br>ended<br>December 31,<br>2003 |
|-------------------------|---|---|
| Risk-free interest rate | 3.7%  | 2.9%  |
| Expected dividend yield | 0.0%  | 0.0%  |
| Expected life           | 5 years                                       | 6 years                                       |
| Expected volatility     | 91.1%   | 102.7%  |

There were no options granted during 2005. The weighted average fair value of options granted, assuming the Black-Scholes option-pricing model, during 2004 and 2003 was \$3.81 and \$1.64, respectively. The total fair value of options granted was \$1,290,000 and \$324,000 in 2004 and 2003, respectively. These amounts are being amortized over the vesting periods of the options for purposes of this disclosure.

The weighted average fair value of employee stock purchase rights issued pursuant to the Employee Stock Purchase Plan during 2005, 2004 and 2003 was \$.66, \$2.45 and \$1.62, respectively. The fair value of the stock purchase rights was calculated as the difference between the stock price at the date of issuance and the employee purchase price.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different than those of



traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

#### ***Fair Values of Financial Instruments***

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, trade receivables, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. The carrying amount of the lines-of-credit and variable term loans approximate their fair value because the underlying instrument is a variable rate note that reprices frequently. The carrying amount of the term loan approximates its fair value because the fixed interest rate is a current market interest rate.

#### ***Income Taxes***

The current provision for income taxes represents actual or estimated amounts payable or refundable on tax return filings each year. Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax base of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, and for operating loss and tax credit carryforwards. A valuation allowance may be provided to the extent management deems it is more likely than not that deferred tax assets will not be realized. The change in deferred tax assets and liabilities for the period measures the deferred tax provision or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to the tax provision or benefit in the period of enactment. The ultimate realization of net deferred tax assets is dependent upon the generation of future taxable income, in the appropriate taxing jurisdictions, during the periods in which temporary differences become deductible. Management believes that it is more likely than not that the Company will realize the benefits of these temporary differences and operating loss and tax credit carryforwards, net of valuation allowances.

#### ***Concentration of Credit Risk***

Trade receivables subject the Company to the potential for credit risk. To reduce this risk, the Company performs evaluations of its customers' financial condition and creditworthiness at the time of sale, and updates those evaluations when necessary. No single customer makes up more than 10% of trade receivables.

#### ***Use of Estimates***

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

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

**2. OWOSSO MERGER**

On May 10, 2004, the Company completed the merger of Owosso Corporation, and its sole remaining operating subsidiary Stature Electric, Inc. located in Watertown, New York, with a wholly owned subsidiary of the Company pursuant to the terms of the Agreement and Plan of Merger dated February 10, 2004. The consideration for the merger of \$17.1 million consisted of \$1 million of cash payable to Owosso's preferred shareholders, \$11.7 million of cash for Owosso's debt, liabilities and transaction costs, \$1.2 million in fees and expenses incurred by the Company, the issuance of 535,527 shares of the Company's common stock (fair value of \$2,421,000) and the issuance of warrants to purchase 300,000 shares of Allied Motion common stock at \$4.41 per share (valued at \$725,000 using the Black Scholes Model) which were issued to Owosso's preferred shareholders. There were no additional notes issued by Allied Motion related to the acquisition. Allied Motion financed the cash portion of the acquisition price with existing cash, borrowings of \$8.25 million under new term loan agreements and borrowings under its revolving line-of-credit. The Company merged with Owosso to further the Company's strategy to expand its penetration into the motion control market.

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

|   |           |
|---|-----------|
| Cash  | \$ 99     |
| Trade receivables                                 | 2,058     |
| Inventories                                       | 1,676     |
| Prepaid expenses and other                        | 328       |
| Property, plant and equipment                     | 6,485     |
| Amortizable intangible assets                     | 3,744     |
| Goodwill  | 5,502     |
| Accounts payable                                  | (1,545)   |
| Accrued liabilities and other current liabilities | (1,224)   |
|   | <hr/>     |
| Net purchase price                                | \$ 17,123 |
|   | <hr/>     |

The amortization of acquired goodwill and intangible assets are deductible for tax purposes. The amortizable intangible assets are amortized as discussed in Note 4.

The accompanying consolidated financial statements include the operating results of Stature Electric, Owosso's remaining sole operating subsidiary, subsequent to May 10, 2004.

The following presents the Company's unaudited pro forma financial information for the year ended December 31, 2004 and 2003 after certain pro forma adjustments giving effect to the acquisition of Owosso Corporation as if it had occurred at January 1, 2003. The pro forma financial information is

for informational purposes only and does not purport to present what the Company's results would actually have been had the acquisition actually occurred at the beginning of the fiscal period or to project the Company's results of operations for any future period (in thousands, except per share data).

|                                     | For the year ended<br>December 31, |           |
|-------------------------------------|------------------------------------|-----------|
|                                     | 2004                               | 2003      |
| Revenues                            | \$ 70,002                          | \$ 57,149 |
| Gross margin                        | 17,172                             | 13,118    |
| Operating income (loss)             | 3,041                              | (5,066)   |
| Net income (loss)                   | 1,236                              | (5,155)   |
| Diluted net income (loss) per share | .20                                | (.94)     |

### 3. PREMOTEC ACQUISITION

On August 23, 2004, the Company completed the acquisition of Precision Motor Technology B.V. (Premotec), located in Dordrecht, The Netherlands from Premotec Holding B.V., both limited liability companies incorporated in The Netherlands, pursuant to the Stock Purchase Agreement dated July 23, 2004. Neither the companies acquired nor the seller was related to the Company, and there is no material relationship between those companies and the Company, other than in respect of this acquisition. The acquisition was completed to achieve European presence to provide additional opportunities for the sale and support of the all of the Company's products while increasing purchasing volume provided by Premotec to enhance the Company's strategic sourcing opportunities. The purchase price was EUR 3.75 million plus expenses (approximately \$5 million total purchase price). The cash portion of the consideration of EUR 2.5 million (U.S. \$3.1 million) was funded by a term loan, a line of credit and an overdraft facility from a Netherlands bank and is discussed more thoroughly in Note 6 below. The remaining portion of the consideration of EUR 1.25 million (U.S. \$1,471,000) was funded by the issue of 263,231 shares of the Company's common stock (at market value) to the seller, Premotec Holding B.V. The expenses of the acquisition were funded from the Company's cash balances and amounts available under the lines of credit.

The acquisition was accounted for using the purchase method of accounting, and, accordingly, the purchase price was allocated to the assets purchased and the liabilities assumed based on their

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respective estimated fair values at the date of acquisition. The net purchase price allocation was as follows (in thousands):

|   |          |
|---|----------|
| Cash  | \$ 82    |
| Trade receivables                                 | 649      |
| Inventories                                       | 1,740    |
| Prepaid expenses and other                        | 426      |
| Property, plant and equipment                     | 1,165    |
| Amortizable intangible assets                     | 1,869    |
| Goodwill  | 2,283    |
| Accounts payable                                  | (1,142)  |
| Accrued liabilities and other current liabilities | (1,054)  |
| Long-term capital lease obligations               | (47)     |
| Deferred income taxes                             | (971)    |
|   | <hr/>    |
| Net purchase price                                | \$ 5,000 |
|   | <hr/>    |

The amortization of acquired goodwill and intangible assets are non-deductible for tax purposes in accordance with tax regulations in The Netherlands. The amortizable intangible assets are amortized as discussed in Note 4.

#### 4. GOODWILL AND INTANGIBLE ASSETS

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

|  | December 31,<br>2005 | December 31,<br>2004 | Estimated<br>Life |
|--|----------------------|----------------------|-------------------|
|  | <hr/>                | <hr/>                |                   |
| Goodwill                                 | \$ 12,818            | \$ 13,246            |                   |
|  | <hr/>                | <hr/>                |                   |
| Amortizable intangible assets:           |                      |                      |                   |
| Customer lists                           | 4,371                | 4,506                | 8 years           |
| Trade names                              | 1,340                | 1,340                | 10 years          |
| Designs and technologies                 | 2,494                | 2,631                | 8 years           |
| Accumulated amortization                 | (2,082)              | (1,099)              |                   |
|  | <hr/>                | <hr/>                |                   |
| Total net intangible assets              | 6,123                | 7,378                |                   |
|  | <hr/>                | <hr/>                |                   |
| Total goodwill and net intangible assets | \$ 18,941            | \$ 20,624            |                   |
|  | <hr/>                | <hr/>                |                   |

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The change in the carrying amount of goodwill for 2005 is as follows (in thousands):

|   | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|---|------------------------------|------------------------------|
|   | <u>          </u>            | <u>          </u>            |
| Balance at beginning of period                            | \$ 13,246                    | \$ 5,213                     |
| Goodwill resulting from acquisition of Owosso Corporation |                              | 5,502                        |
| Goodwill resulting from acquisition of Premotec           |                              | 2,283                        |
| Effect of foreign currency translation                    | (326)                        | 248                          |
| Other   | (102)                        |                              |
|   | <u>          </u>            | <u>          </u>            |
| Balance at end of period                                  | <u>\$ 12,818</u>             | <u>\$ 13,246</u>             |

Total amortization expense for intangible assets for the years 2005, 2004, and 2003 was \$1,010,000, \$647,000 and \$315,000 respectively. Amortization expense of designs and technologies included in total amortization expense for the years 2005, 2004 and 2003 was \$324,000, \$170,000 and zero, respectively. Estimated amortization expense for intangible assets is \$1,008,000 for each of the years ended December 31, 2006 through 2009 and \$908,000 for 2010.

**5. DEBT OBLIGATIONS**

Debt obligations consisted of the following (in thousands):

|  | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|--|------------------------------|------------------------------|
| Domestic revolving line-of-credit (A)  | \$ 4,434                     | \$ 3,615                     |
| Foreign revolving line-of-credit (B)   | 547                          | 626                          |
| Bank overdraft facility payable to bank with no monthly repayments required, interest due at the bank's base rate plus 2%, minimum of 4.75% (4.75% as of December 31, 2005), due on demand, secured by Premotec's inventory; EUR 200 (\$237 at December 31, 2005 exchange rate) was available at December 31, 2005 |                              | 422                          |
| Term loan payable to bank in monthly installments of \$90 plus interest at 8.68%, due in May 2007, secured by machinery and equipment  | 1,535                        | 2,618                        |
| Term loan payable to bank in monthly installments of \$59 plus interest at the bank's prime rate plus 0.75% (8.0% as of December 31, 2005), plus balloon payment of \$2,863, due in May 2007, secured by buildings, machinery and equipment  | 3,872                        | 4,585                        |
| Term loan payable to bank in quarterly installments of EUR 80 (\$95 at December 31, 2005 exchange rate) plus interest at 4.74% until August, 2006, then at EURIBOR plus 2.5% with a minimum of 4.75%, due in July 2009, secured by Allied Motion Technologies, B.V. shares   | 1,421                        | 2,074                        |
| Term loan payable to bank, paid in full in January 2005  |                              | 43                           |
|  | <b>11,809</b>                | <b>13,983</b>                |
| Less current maturities  | <b>(7,155)</b>               | <b>(6,904)</b>               |
| Long-term debt obligations   | <b>\$ 4,654</b>              | <b>\$ 7,079</b>              |

(A)

Under the domestic revolving line-of-credit agreement (Agreement), the Company has available the lesser of (a) \$10,500,000 or (b) the sum of 85% of eligible trade accounts receivable (excluding Premotec) and 50% of eligible inventory, as defined in the Agreement. The line-of-credit expires in May 2007, unless extended. Under the Agreement, the Company utilizes lock-box arrangements whereby remittances from customers reduce the outstanding debt, and therefore the line-of-credit balance has been classified as a current liability. Borrowings under the line-of-credit bear interest at a rate equal to the bank's prime rates plus 1% (8.25% as of December 31, 2005). All borrowings are collateralized by substantially all assets of the Company. The Agreement prohibits the Company from paying dividends and requires that the Company maintain compliance with certain covenants related to tangible net worth and fixed charge coverage. As of December 31, 2005, the Company was in compliance with such covenants. As of December 31, 2005, the amount available under the domestic line-of-credit was \$4,656,000.

(B)

Under the foreign line-of-credit agreement (Foreign Agreement), the Company has available the lesser of (a) EUR 1.25 million, or (b) 85% of eligible trade accounts receivable of Premotec as defined in the Foreign Agreement. The line-of-credit expires in August 2006, unless extended. Borrowings under the line-of-credit bear interest at a rate equal to the bank's base rate plus 1.75%, with a minimum of 4.75% (4.75% at December 31, 2005). Under the Foreign Agreement, remittances from customers reduce the outstanding debt, therefore the balance has been classified

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as a current liability. As of December 31, 2005, the amount available under the foreign line-of-credit was \$333,000.

Future maturities of debt obligations are as follows as of December 31, 2005:

|      |    |        |
|------|----|--------|
| 2006 | \$ | 7,155  |
| 2007 |    | 3,990  |
| 2008 |    | 379    |
| 2009 |    | 285    |
|      |    | 11,809 |
|      | \$ | 11,809 |

### 6. INCOME TAXES

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

|                            | For the year<br>ended<br>December 31,<br>2005 | For the year<br>ended<br>December 31,<br>2004 | For the year<br>ended<br>December 31,<br>2003 |
|----------------------------|---|---|---|
| Domestic                   | \$ 782  | \$ 3,151                                      | \$ 900  |
| Foreign                    | 699   | 258   | 67  |
|                            | 1,481   | 3,409   | 967   |
| Income before income taxes | \$ 1,481                                      | \$ 3,409                                      | \$ 967  |

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

|                                      | For the year<br>ended<br>December 31,<br>2005 | For the year<br>ended<br>December 31,<br>2004 | For the year<br>ended<br>December 31,<br>2003 |
|--------------------------------------|---|---|---|
| <b>Current provision (benefit):</b>  |   |   |   |
| Domestic                             | \$ 73   | \$ 131  | \$ (441)                                      |
| Foreign                              | 324   | 127   | 20  |
|                                      | 396   | 258   | (421)   |
| <b>Deferred provision (benefit):</b> |   |   |   |
| Domestic                             | 274   | 1,063   | 440   |
| Foreign                              | (112)   | (162)   |   |
|                                      | 162   | 901   | 440   |
| Provision for income taxes           | \$ 558  | \$ 1,159                                      | \$ 19   |

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The provision for income taxes differs from the amount determined by applying the federal statutory rate as follows (in thousands):

|   | For the year<br>ended<br>December 31,<br>2005 | For the year<br>ended<br>December 31,<br>2004 | For the year<br>ended<br>December 31,<br>2003 |
|---|---|---|---|
| Tax provision, computed at statutory rate | \$ 504  | \$ 1,159                                      | \$ 328  |
| State tax, net of federal impact          | 62  | 150   | 88  |
| Nondeductible expenses                    | 28  | 30  | 48  |
| Permanent tax deductions                  | (24)  | (109)   |   |
| Adjustments to prior year accruals(1)     | 52  |   | (144)   |
| Effect of changes in enacted tax law      | (18)  | (124)   |   |
| Prior year state tax refund(2)            |   |   | (298)   |
| Change in valuation allowance             | (37)  |   |   |
| Other                                     | (9)   | 53  | (3)   |
| <b>Provision for income taxes</b>         | <b>\$ 558</b>                                 | <b>\$ 1,159</b>                               | <b>\$ 19</b>                                  |

(1) Adjustments relate to the resolution of certain prior year income tax related issues.

(2) Refund relates to the realization of a prior year state income tax refund for Motor Products from periods prior to the acquisition.

The tax effects of significant temporary differences and credit and operating loss carryforwards that give rise to the net deferred tax assets are as follows (in thousands):

|  | December 31,<br>2005 | December 31,<br>2004 |
|--|----------------------|----------------------|
| <b>Deferred tax assets:</b>              |                      |                      |
| Allowances and other accrued liabilities | \$ 645               | \$ 303               |
| Restricted stock                         | 13                   |                      |
| Tax credit carryforwards                 | 233                  | 233                  |
| Net operating loss carryforwards         | 408                  | 1,002                |
| <b>Total deferred tax assets</b>         | <b>1,299</b>         | <b>1,538</b>         |
| Valuation allowance                      | (315)                | (352)                |
| <b>Net deferred tax assets</b>           | <b>984</b>           | <b>1,186</b>         |
| <b>Deferred tax liabilities:</b>         |                      |                      |
| Property, plant and equipment            | (1,081)              | (1,170)              |
| Goodwill and intangibles                 | (781)                | (1,134)              |
| <b>Total deferred tax liabilities</b>    | <b>(1,862)</b>       | <b>(2,304)</b>       |
| <b>Net deferred tax liabilities</b>      | <b>\$ (878)</b>      | <b>\$ (1,118)</b>    |



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

|                                      | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|--------------------------------------|------------------------------|------------------------------|
| Current deferred tax assets          | \$ 402                       | \$ 1,186                     |
| Non-current deferred tax assets      | 582                          |                              |
| Non-current deferred tax liabilities | (1,862)                      | (2,304)                      |
|                                      | <b>_____</b>                 | <b>_____</b>                 |
| Net deferred tax assets              | \$ (878)                     | \$ (1,118)                   |
|                                      | <b>_____</b>                 | <b>_____</b>                 |

The Company has domestic tax credit carryforwards of \$233,000 expiring in 2006 and 2007 and a domestic net operating loss carryforward of \$1,132,000 expiring in 2023 through 2024.

Realization of the Company's net deferred tax asset is dependent upon the Company generating sufficient taxable income in the appropriate tax jurisdictions in future years to obtain benefit from the reversal of net deductible temporary differences and from utilization of net operating losses and tax credit carryforwards. The Company has recorded a valuation allowance due to the uncertainty related to the realization of certain deferred tax assets existing at December 31, 2005. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed. Management believes that it is more likely than not that the Company will realize the benefits of its net deferred tax assets, net of valuation allowances as of December 31, 2005.

### 7. STOCK COMPENSATION

#### *Allied Motion Stock Incentive Plan*

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

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Option and restricted stock activity during years 2005, 2004 and 2003, was as follows:

|                              | Common Stock<br>available for<br>grant | Stock<br>Options    |                                    | Restricted<br>Stock |
|------------------------------|--|---------------------|------------------------------------|---------------------|
|                              |  | Number of<br>Shares | Weighted Average<br>Exercise Price | Number of<br>Shares |
| Balances, December 31, 2002  | 270,640                                | 1,192,330           | 3.21                               |                     |
| Granted                      | (197,000)                              | 197,000             |                                    |                     |
| Forfeited                    | 45,900                                 | (65,900)            |                                    |                     |
| Balances, December 31, 2003  | 119,540                                | 1,323,430           | 3.00                               |                     |
| Additional shares authorized | 400,000                                |                     |                                    |                     |
| Granted                      | (404,600)                              | 404,600             |                                    |                     |
| Forfeited                    | 3,500                                  | (11,000)            |                                    |                     |
| Exercised                    |  | (29,160)            |                                    |                     |
| Balances, December 31, 2004  | 118,440                                | 1,687,870           | 3.48                               |                     |
| Granted                      | (47,000)                               |                     |                                    | 47,000              |
| Forfeited                    | 32,667                                 | (38,317)            |                                    | (3,000)             |
| Exercised                    |  | (200,903)           |                                    |                     |
| Balances, December 31, 2005  | 104,107                                | 1,448,650           | 3.62                               | 44,000              |

Exercise prices for options outstanding and exercisable at December 31, 2005 are as follows:

|   | Range of Exercise Prices |               |               | Total         |
|---|--------------------------|---------------|---------------|---------------|
|   | \$1.13-\$2.90            | \$3.20-\$4.83 | \$5.46-\$6.72 | \$1.13-\$6.72 |
| <b>Options Outstanding:</b>                 |                          |               |               |               |
| Number of options                           | 718,500                  | 488,900       | 241,250       | 1,448,650     |
| Weighted average exercise price             | \$2.44                   | \$4.15        | \$6.03        | \$3.62        |
| Weighted average remaining contractual life | 3.2 years                | 5.1 years     | 4.6 years     | 4.1 years     |
| <b>Options Exercisable:</b>                 |                          |               |               |               |
| Number of options                           | 704,500                  | 480,233       | 241,250       | 1,425,983     |
| Weighted average exercise price             | \$2.45                   | \$4.17        | \$6.03        | \$3.64        |

Under the terms of the plan, options may not be granted at less than 85% of fair value. All options granted to date have been granted at fair value as of the date of grant. Options granted through December 31, 2003 generally become exercisable evenly over three years starting one year from the date of grant and expire seven years from the date of grant. Options granted in 2004 became exercisable on December 31, 2004.

During 2005, 47,000 shares of nonvested restricted stock were awarded with a value of \$3.91 per share. The value at the date of grant is amortized to compensation expense over the related three year vesting period. During 2005, compensation expense of \$36,000 was recorded. None of the restricted shares awarded are vested as of December 31, 2005. The shares will vest one-third in each of 2006, 2007 and 2008.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, "Share-Based Payment" (SFAS 123R), which supersedes APB Opinion 25 and related interpretations. SFAS 123R requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS 123R is effective for all interim periods beginning after December 15, 2005 and, thus, will be effective for the Company beginning with the first quarter of 2006. For outstanding awards accounted for under APB No. 25 or SFAS No. 123, stock compensation expense must be recognized in earnings for the portion of those awards for which the requisite service has not yet been rendered, based upon the grant date fair value of such awards calculated under SFAS 123.

***Allied Motion Employee Stock Purchase Plan***

Until December 31, 2005, the Employee Stock Purchase Plan (ESPP) provided for the issuance of shares of capital stock through payroll deductions. Employees who choose to participate in the ESPP receive an option to purchase capital stock at a discount equal to the lower of 85 percent of the fair market value of the capital stock on the first or last day of an offering period. Employees purchased 58,000, 29,000 and 37,000 shares under the ESPP during 2005, 2004 and 2003, respectively.

***Allied Motion Employee Stock Ownership Plan***

The Company sponsors an Employee Stock Ownership Plan (ESOP) that covers all U.S. employees who work over 1,000 hours per year. The terms of the ESOP require the Company to make an annual contribution equal to the greater of i) the Board established percentage of pretax income before the contribution (5% in 2005, 2004 and 2003) or ii) the annual interest payable on any note outstanding to the Company. Company contributions to the Plan were \$78,000, \$181,000 and \$51,000 accrued for 2005, 2004 and 2003, respectively. Contributions were used to repay the loan as discussed below and/or acquire newly issued shares of the Company. During 2005 and 2003, contributions were used to acquire 2,000 and 17,000 shares, respectively.

During 2003, the Company loaned \$200,000 to the ESOP so that the ESOP could acquire 130,719 newly issued shares of the Company's common stock. The shares issued to the ESOP were pledged as collateral for the debt. Company contribution amounts are used in the following year to repay the debt or acquire new shares for the plan. During 2005 and 2004, accrued contributions used to repay the loan balance were \$155,000 and \$45,000, respectively. During 2005, the loan balance was repaid in full. As the debt was repaid, shares were released from collateral and allocated to active employees, based on the proportion of debt service paid in the year compared to the total debt service estimated for the current and future years.

***Allied Motion Employee Stock Repurchase Program***

Up until December 31, 2005, the Company offered a stock repurchase program whereby up to \$125,000 per year could be used to repurchase shares of common stock from employees at fair value. The Company repurchased 2,000, 6,000 and 2,000 shares during 2005, 2004 and 2003 respectively. This program ended December 31, 2005.

**8. LOANS RECEIVABLE FOR STOCK**

At December 31, 2004 the Company had \$155,000 receivable from its ESOP. This represents the unpaid balance of the original \$200,000 the Company loaned to the Plan during 2003. The note bore

an annual interest rate of 5.75% and was scheduled to mature May 31, 2018. The ESOP used contributions from the Company to repay the loan balance. On March 15, 2005, the 2004 contribution amount of \$181,000 was used to repay the loan balance and purchase 2,000 shares of newly issued shares of the Company.

## 9. COMMITMENTS AND CONTINGENCIES

### *Operating Leases*

At December 31, 2005, the Company maintains leases for certain facilities and equipment. The Company has entered into facility agreements, some of which contain provisions for future rent increases. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to "Deferred rent obligation," which is included in "Accrued liabilities and other" in the accompanying Balance Sheet. Minimum future rental commitments under all non-cancelable operating leases are as follows (in thousands):

| Year ending December 31, | Total    |
|--------------------------|----------|
| 2006                     | \$ 598   |
| 2007                     | 431      |
| 2008                     | 438      |
| 2009                     | 354      |
| 2010                     | 252      |
| Thereafter               | 632      |
|                          | <hr/>    |
|                          | \$ 2,705 |
|                          | <hr/>    |

Rental expense was \$715,000, \$551,000, and \$468,000 in Years 2005, 2004 and 2003, respectively.

### *Capital Leases*

The Company leases certain machinery and equipment under agreements that are classified as capital leases. The cost of equipment under capital leases included in the accompanying consolidated balance sheets as property, plant and equipment was \$680,000 and \$610,000 at December 31, 2005 and 2004, respectively. Accumulated amortization of the leased equipment at December 31, 2005 and December 31, 2004 was \$229,000 and \$106,000, respectively. Amortization of assets under capital leases is included in depreciation expense.

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The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2005, are as follows (in thousands):

| <b>Year ending December 31,</b>                       |        |
|---|--------|
| 2006  | \$ 205 |
| 2007  | 93     |
| 2008  | 4      |
| <hr/>   |        |
| Total minimum lease payments                          | 302    |
| Less: amount representing interest and other          | 30     |
| <hr/>   |        |
| Present value of net minimum lease payments           | 272    |
| Less: Current maturities of capital lease obligations | 180    |
| <hr/>   |        |
| Long-term capital lease obligations                   | \$ 92  |
| <hr/>   |        |

### *Severance Benefit Agreements*

The Company has entered into annually renewable severance benefit agreements with seven key employees which, among other things, provide inducement to the employees to continue to work for the Company during and after any period of threatened takeover. The agreements provide the employees with specified benefits upon the subsequent severance of employment in the event of change in control of the Company and are effective for 24 months thereafter. The amount of salary and bonus that could be required to be paid under these contracts, if such events occur, totaled approximately \$1,822,000 and \$1,731,000, respectively as of December 31, 2005 and 2004. In addition to the salary, severance benefits include payment of 20% of annual salary for life, disability, accident and health insurance for 24 months and a pro-rata calculation of bonus for the current year.

### *Litigation*

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.

## **10. PENSION AND POSTRETIREMENT WELFARE PLANS**

### *Pension Plan*

Motor Products has a defined benefit pension plan covering substantially all of its hourly union employees hired prior to April 10, 2002. The benefits are based on years of service, the employee's compensation during the last three years of employment, and accumulated employee contributions.

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The following tables provide a reconciliation of the change in benefit obligation, the change in plan assets and the net amount recognized in the Consolidated Balance Sheet at December 31, 2005 and December 31, 2004 (in thousands):

|  | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|--|------------------------------|------------------------------|
| <b>Change in projected benefit obligation:</b>       |                              |                              |
| Projected benefit obligation at beginning of period  | \$ 3,882                     | \$ 3,245                     |
| Service cost   | 113                          | 90                           |
| Employee contributions                               | 14                           | 13                           |
| Interest cost  | 214                          | 197                          |
| Actuarial loss                                       | 74                           | 542                          |
| Benefits paid  | (201)                        | (205)                        |
| <b>Projected benefit obligation at end of period</b> | <b>\$ 4,096</b>              | <b>\$ 3,882</b>              |
| <b>Change in plan assets:</b>                        |                              |                              |
| Fair value of plan assets at beginning of period     | \$ 3,238                     | \$ 3,131                     |
| Actual return on plan assets                         | 168                          | 299                          |
| Employee contributions                               | 14                           | 13                           |
| Benefits and expenses paid                           | (201)                        | (205)                        |
| <b>Fair value of plan assets at end of period</b>    | <b>\$ 3,219</b>              | <b>\$ 3,238</b>              |

|   | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|---|------------------------------|------------------------------|
| Excess of projected benefit obligation over fair value of plan assets | \$ 877                       | \$ 644                       |
| Unrecognized loss   | (263)                        | (74)                         |
| Accrued pension cost  | \$ 614                       | \$ 570                       |
| Additional minimum liability  | 191                          |                              |
|   | <b>\$ 805</b>                | <b>\$ 570</b>                |

The accumulated benefit obligation for the pension plan was \$4,024,000 at December 31, 2005 and \$3,773,000 at December 31, 2004.

Components of net periodic pension expense included in the consolidated statements of operations for years 2005, 2004 and 2003 are as follows (in thousands):

|   | <b>For the year<br/>ended<br/>December 31,<br/>2005</b> | <b>For the year<br/>ended<br/>December 31,<br/>2004</b> | <b>For the year<br/>ended<br/>December 31,<br/>2003</b> |
|---|---|---|---|
| Service cost                                  | \$ 113  | \$ 90   | \$ 85   |
| Interest cost on projected benefit obligation | 214   | 197   | 185   |
| Expected return on assets                     | (282)   | (273)   | (241)   |
| <b>Net periodic pension expense</b>           | <b>\$ 45</b>  | <b>\$ 14</b>  | <b>\$ 29</b>  |

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

|                                | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|--------------------------------|------------------------------|------------------------------|
| Discount rate                  | 5.50%                        | 5.75%                        |
| Rate of compensation increases | 5.00%                        | 5.00%                        |

The weighted average assumptions used to determine net periodic benefit cost are as follows:

|  | <b>For the year<br/>ended<br/>December 31,<br/>2005</b> | <b>For the year<br/>ended<br/>December 31,<br/>2004</b> |
|--|---|---|
| Discount rate                                    | 5.50%   | 5.75%   |
| Expected long-term rate of return on plan assets | 9.00%   | 9.00%   |
| Rate of compensation increases                   | 5.00%   | 5.00%   |

Quarterly contributions were not required for 2005. The minimum required contribution for 2005 of \$74,446 will be paid by the date the Company files its U.S. income tax return or September 15, 2006, whichever is earlier. The Company expects to contribute approximately \$75,000 to the pension plan for 2006.

The pension plan assets allocation at December 31, 2005 and 2004 were as follows:

|                         | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|-------------------------|------------------------------|------------------------------|
| Cash equivalents        | 4%                           | 1%                           |
| Equity securities       | 71%                          | 70%                          |
| Fixed income securities | 25%                          | 29%                          |
| Total                   | 100%                         | 100%                         |

The pension assets are managed by an outside investment manager. The Company's investment policy with respect to pension assets is to make investments solely in the interest of the participants and beneficiaries of the plans and for the exclusive purpose of providing benefits accrued and defraying the reasonable expenses of administration. The Company strives to maintain investment diversification to assist in minimizing the risk of large losses.

### *Postretirement Welfare Plan*

Motor Products provides postretirement medical insurance and life insurance benefits to employees hired before January 1, 1994 who retire from Motor Products. Partial contributions from retirees are required for the medical insurance benefits. The Company's portion of the medical insurance premiums are funded from the general assets of the Company. The Company recognizes the expected cost of providing such post-retirement benefits during employees' active service periods.

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The following tables provide a reconciliation of the change in the accumulated postretirement benefit obligation and the net amount recognized in the Consolidated Balance Sheet at December 31, 2005 and December 31, 2004 (in thousands):

|   | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|---|------------------------------|------------------------------|
| <b>Change in postretirement benefit obligation:</b>                   |                              |                              |
| Accumulated postretirement benefit obligation at beginning of period  | \$ 3,522                     | \$ 2,136                     |
| Service cost  | 68                           | 46                           |
| Interest cost   | 191                          | 146                          |
| Actuarial loss  | 2,464                        | 1,272                        |
| Benefits paid   | (122)                        | (78)                         |
|   | <b>6,123</b>                 | <b>3,522</b>                 |
| <b>Accumulated postretirement benefit obligation at end of period</b> |                              |                              |
|   | <b>\$ 6,123</b>              | <b>\$ 3,522</b>              |
| Accrued postretirement benefit cost at the beginning of period        | \$ 2,502                     | \$ 2,388                     |
| Net periodic postretirement cost                                      | 300                          | 192                          |
| Employer contribution   | (122)                        | (78)                         |
| Other   | 18                           |                              |
|   | <b>2,698</b>                 | <b>2,502</b>                 |
| <b>Accrued postretirement benefit cost at end of period</b>           |                              |                              |
|   | <b>\$ 2,698</b>              | <b>\$ 2,502</b>              |

In determining the accumulated postretirement benefit obligation at December 31, 2005, the Company's blended insurance premium rate for all active and retiree participants in the Company's medical insurance plans was used. The blended rate is higher than the rate would be for retiree participants only. The Company intends to re-determine the rate to use for 2006 based on a revision of retiree benefits.

Net periodic postretirement benefit costs included in the consolidated statements of operations for years 2005, 2004 and 2003, and are as follows (in thousands):

|                             | <b>For the year ended December 31,</b> |               |               |
|-----------------------------|--|---------------|---------------|
|                             | <b>2005</b>                            | <b>2004</b>   | <b>2003</b>   |
| Service cost                | \$ 68                                  | \$ 46         | \$ 61         |
| Interest cost               | 191                                    | 146           | 122           |
| Amortization of loss (gain) | 41                                     |               | (5)           |
|                             | <b>300</b>                             | <b>192</b>    | <b>178</b>    |
| <b>Total</b>                |  |               |               |
|                             | <b>\$ 300</b>                          | <b>\$ 192</b> | <b>\$ 178</b> |



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

|  | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|--|------------------------------|------------------------------|
| Annual rate of increase per capita of covered health care benefits | 11.25%                       | 12.00%                       |
| Ultimate rate  | 5.00%                        | 5.00%                        |
| Year ultimate rate is reached                                      | 2014                         | 2013                         |

Postretirement medical liabilities can be extremely sensitive to changes in the assumed rate of future medical increases, and, therefore the healthcare cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed healthcare cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2005 by \$1,233,800 and the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for year 2005 by \$59,600. Decreasing the assumed healthcare postretirement benefit obligation as of December 31, 2005 by 1% decreases the accumulated postretirement benefit obligation by \$953,600 and the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for year 2005 by \$45,200. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 5.50% and 5.75% as of December 31, 2005 and 2004, respectively. The weighted average discount rate used to determine the net periodic postretirement benefit cost was 5.50% for 2005 and 5.75% for 2004.

The Company expects to contribute approximately \$79,000 to the postretirement welfare plan during 2006.

### 11. RESTRUCTURING CHARGES

Restructuring charges include the costs associated with the Company's strategy of reducing its facility requirements and implementing lean manufacturing initiatives. These charges consist of costs that are incremental to the Company's ongoing operations and, for Years 2004 and 2003, include employee termination related charges. The Company recorded restructuring charges of zero, \$10,000 and \$211,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

At December 31, 2005, there were no outstanding liabilities related to the restructuring charges included in accrued liabilities and other in the consolidated balance sheet.

### 12. SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" requires disclosure of operating segments, which as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company operates in one segment for the manufacture and marketing of motion control products for original equipment manufacturers and end user applications. In accordance with SFAS No. 131, the Company's chief operating decision maker has been identified as the Office of the President and Chief Operating Officer, which reviews operating results to make decisions about

allocating resources and assessing performance for the entire company. SFAS No. 131, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under SFAS No. 131 due to their similar customer base and similarities in: economic characteristics; nature of products and services; and procurement, manufacturing and distribution processes. Since the Company operates in one segment, all financial information required by SFAS No. 131 can be found in the accompanying consolidated financial statements and within this note.

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

|  | For the year ended and as of December<br>31, |          |        |
|--|--|----------|--------|
|  | 2005   | 2004     | 2003   |
| Revenues derived from foreign subsidiaries | \$ 13,790                                    | \$ 5,018 | \$ 773 |
| Identifiable assets                        | 7,981  | 8,927    | 34     |

Sales to customers outside of the United States were \$20,096,000 \$13,737,000, and \$7,371,000, in years 2005, 2004 and 2003.

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

### 13. ISSUANCE OF RESTRICTED STOCK

During 2004, the Company issued 198,177 shares of unregistered restricted common stock under the terms of a Stock Purchase Agreement. The purchasers of these shares were certain trusts and pension plans, the beneficiaries of which are Michel Robert and members of his immediate family. The \$1,000,000 aggregate purchase price for the shares represented the fair value of the stock at the time the Company received the purchase price. Subsequent to the issuance of shares, Mr. Robert was appointed as a director of the Company.

### 14. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for each of the four quarters in years 2005, 2004 and 2003 is as follows (in thousands, except per share data):

| Year 2005                | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|--------------------------|------------------|-------------------|------------------|-------------------|
| Revenues                 | \$ 18,455        | \$ 18,913         | \$ 18,043        | \$ 18,891         |
| Gross margin             | 4,088            | 4,224             | 4,198            | 3,674             |
| Net income               | 168              | 368               | 383              | 4                 |
| Basic income per share   | .03              | .06               | .06              | .00               |
| Diluted income per share | .02              | .05               | .06              | .00               |

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| Year 2004                | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|--------------------------|------------------|-------------------|------------------|-------------------|
| Revenues                 | \$ 11,248        | \$ 15,104         | \$ 18,042        | \$ 18,344         |
| Gross margin             | 3,047            | 4,064             | 4,563            | 4,784             |
| Net income               | 427              | 608               | 612              | 603               |
| Basic income per share   | .09              | .11               | .10              | .10               |
| Diluted income per share | .08              | .10               | .09              | .09               |

| Year 2003                       | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|---------------------------------|------------------|-------------------|------------------|-------------------|
| Revenues                        | \$ 9,176         | \$ 9,736          | \$ 9,838         | \$ 10,684         |
| Gross margin                    | 2,203            | 2,553             | 2,292            | 3,219             |
| Net Income (loss)               | (149)            | 302               | 403              | 392               |
| Basic income (loss) per share   | (.03)            | .06               | .08              | .08               |
| Diluted income (loss) per share | (.03)            | .06               | .08              | .07               |

**ALLIED MOTION TECHNOLOGIES INC.**

**Item 15. Exhibits and Financial Statement Schedules**

The following exhibits are filed as part of this Amendment No. 1 to the Form 10-K:

- 31.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the President and Chief Operating Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLIED MOTION TECHNOLOGIES INC.

By: /s/ RICHARD D. SMITH

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

Date: April 4, 2006

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QuickLinks

EXPLANATORY NOTE

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

ALLIED MOTION TECHNOLOGIES INC. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT AND  
COMPREHENSIVE INCOME (In thousands)

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

ALLIED MOTION TECHNOLOGIES INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Item 15. Exhibits and Financial Statement Schedules

SIGNATURE