

ALLIED MOTION TECHNOLOGIES INC
Form 10-Q
November 02, 2007

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

Form 10-Q

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

For the Quarter Ended September 30, 2007

Commission File Number 0-04041

ALLIED MOTION TECHNOLOGIES INC.

(Incorporated Under the Laws of the State of Colorado)

23 Inverness Way East, Suite 150

Englewood, Colorado 80112

Telephone: (303) 799-8520

84-0518115

(IRS Employer Identification Number)

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

Indicate by check mark whether the registrant is 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

Number of Shares of the only class of Common Stock outstanding: 6,917,419 as of October 30, 2007

ALLIED MOTION TECHNOLOGIES INC.

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ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, except per share data)

(Unaudited)

	September 30, 2007	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	\$ 504	\$ 669
Trade receivables, net of allowance for doubtful accounts of \$270 and \$293 at September 30, 2007 and December 31, 2006, respectively	12,221	10,225
Inventories, net	11,853	10,807
Deferred income taxes	615	778
Prepaid expenses and other	1,116	619
Total Current Assets	26,309	23,098
Property, plant and equipment, net	11,419	12,173
Goodwill and intangible assets, net	16,862	17,341
Total Assets	\$ 54,590	\$ 52,612
Liabilities and Stockholders Investment		
Current Liabilities:		
Debt obligations	\$ 840	\$ 9,066
Accounts payable	6,561	4,826
Accrued liabilities and other	3,819	4,226
Income taxes payable	1,073	1,179
Total Current Liabilities	12,293	19,297
Debt obligations, net of current portion	7,319	763
Deferred income taxes	1,396	1,318
Pension and post-retirement obligations	1,490	1,712
Total Liabilities	22,498	23,090
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; 6,650 and 6,533 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	15,862	15,469
Retained earnings	14,649	12,901
Other comprehensive income	1,581	1,152
Total Stockholders Investment	32,092	29,522
Total Liabilities and Stockholders Investment	\$ 54,590	\$ 52,612

See accompanying notes to financial statements

ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, except per share data)

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
Revenues	\$ 20,901	\$ 20,308	\$ 63,292	\$ 63,662
Cost of products sold	15,613	15,244	48,145	48,596
Gross margin	5,288	5,064	15,147	15,066
Operating costs and expenses:				
Selling	959	780	2,783	2,433
General and administrative	1,860	1,810	5,477	5,780
Engineering and development	999	986	2,961	2,894
Amortization of intangible assets	259	254	773	757
Total operating costs and expenses	4,077	3,830	11,994	11,864
Operating income	1,211	1,234	3,153	3,202
Other income (expense), net:				
Interest expense	(153)	(251)	(556)	(756)
Other income (expense), net	(3)	11	55	(21)
Total other expense, net	(156)	(240)	(501)	(777)
Income before income taxes	1,055	994	2,652	2,425
Provision for income taxes	(369)	(377)	(904)	(882)
Net income	\$ 686	\$ 617	\$ 1,748	\$ 1,543
Basic net income per share:				
Net income per share	\$ 0.10	\$ 0.10	\$ 0.26	\$ 0.24
Basic weighted average common shares	6,655	6,489	6,620	6,434
Diluted net income per share:				
Net income per share	\$ 0.10	\$ 0.09	\$ 0.24	\$ 0.22
Diluted weighted average common shares	7,099	6,977	7,147	6,920

See accompanying notes to financial statements.

ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	For the nine months ended September 30,	
	2007	2006
Cash Flows From Operating Activities:		
Net income	\$ 1,748	\$ 1,543
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,607	2,440
Provision for doubtful accounts	47	153
Provision for obsolete inventory	250	363
Deferred income taxes	209	138
Other	172	93
Changes in assets and liabilities:		
(Increase) decrease in -		
Trade receivables	(1,857)	(1,405)
Inventories, net	(1,087)	(1,747)
Prepaid expenses and other	(356)	(54)
Increase (decrease) in -		
Accounts payable	1,599	150
Accrued liabilities and other	(864)	669
Net cash provided by operating activities	2,468	2,343
Cash Flows From Investing Activities:		
Purchase of property and equipment	(977)	(1,005)
Net cash used in investing activities	(977)	(1,005)
Cash Flows From Financing Activities:		
Borrowings (repayments) on line-of-credit, net	(683)	227
Proceeds from sales/leaseback		51
Borrowings on term loans	4,000	
Repayments on term loans	(4,981)	(1,645)
Repayments of capital lease obligations	(89)	(160)
Stock transactions under employee benefit stock plans	211	261
Debt issuance costs	(142)	
Net cash used in financing activities	(1,684)	(1,266)
Effect of foreign exchange rate changes on cash	28	6
Net (decrease) increase in cash and cash equivalents	(165)	78
Cash and cash equivalents at beginning of period	669	624
Cash and cash equivalents at September 30	\$ 504	\$ 702

See accompanying notes to financial statements.

ALLIED MOTION TECHNOLOGIES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Preparation and Presentation

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

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

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

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

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

It is suggested that the accompanying condensed interim financial statements be read in conjunction with the Consolidated Financial Statements and related Notes to such statements included in the Annual Report on Form 10-K for the year ended December 31, 2006 that was previously filed by the Company.

Recent Accounting Pronouncements

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In February 2007 the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which permits companies to choose, at specified election dates, to measure certain financial instruments and other eligible items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are subsequently reported in earnings. The decision to elect the fair value option is generally irrevocable, is applied instrument by instrument and can only be applied to an entire instrument. The standard will be effective for the Company as of January 1, 2008 and is currently under evaluation. At this time, the Company does not expect to elect the fair value option for any eligible items and did not early adopt the standard as permitted.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans , an

amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). This statement requires recognition of the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability in the statement of financial position and changes in that funded status to be recognized in comprehensive income in the year in which the changes occur. The recognition provisions of SFAS 158 were adopted during the fourth quarter of the year ended December 31, 2006. SFAS No. 158 also prescribes the measurement date of a plan to be the date of its year-end balance sheet effective for years ending after December 15, 2008. The Company was not affected by adopting the latter component of SFAS 158.

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

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 requires that realization of an uncertain income tax position must be more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Further, FIN 48 prescribes the benefit to be recorded in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. FIN 48 also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. The Company adopted FIN 48 on January 1, 2007. Adoption of FIN 48 did not have an impact on our Condensed Consolidated Financial Statements.

2. Inventories

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

	September 30, 2007	December 31, 2006
Parts and raw materials	\$ 8,608	\$ 8,864
Work-in process	2,289	1,745
Finished goods	2,746	1,854
	13,643	12,463
Less reserves	(1,790)	(1,656)
	\$ 11,853	\$ 10,807

3. Property, Plant and Equipment

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

	September 30, 2007	December 31, 2006
Land	\$ 332	\$ 332
Building and improvements	4,682	4,585
Machinery, equipment, tools and dies	16,132	15,420
Furniture, fixtures and other	2,290	1,983
	23,436	22,320
Less accumulated depreciation	(12,017)	(10,147)
	\$ 11,419	\$ 12,173

4. Stock-Based Compensation

The Company's Year 2000 Stock Incentive Plan provides for awards of stock options, stock appreciation rights and restricted stock to employees and directors, as determined by the board of directors. Effective January 1, 2006, the Company implemented FASB Statement No. 123R (Statement 123R) *Accounting for Share-Based Payment*, an amendment of FASB Statement No. 123, adopting the modified prospective method of implementation. Statement 123R requires recognition of the grant-date fair value of stock options and other equity-based compensation issued to employees in the income statement. The cost of share based payments is recognized on a straight-line basis over the vesting period.

Stock Options

During the quarters ended September 30, 2007 and 2006, the Company recognized zero and \$5,000 respectively in compensation expense related to outstanding stock options. During the nine months ended September 30, 2007 and 2006, the Company recognized zero and \$16,000 in compensation expense related to outstanding stock options. All stock options were full vested by September 30, 2006.

The following is a summary of option activity, during the nine months ended September 30, 2007:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at beginning of period	1,245,150	\$ 3.68	3.4	
Forfeited	(71,250)	6.65		
Exercised	(60,000)	3.70		
Outstanding at end of Period	1,113,900	\$ 3.49	2.7	\$ 1,546,000

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Exercisable at end of period	1,113,900 \$	3.49	2.7 \$	1,546,000
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There have been no options granted since October 2004. During the nine months ended September 30, 2007, options to purchase 60,000 shares were exercised with an aggregate intrinsic value totaling approximately \$146,000.

Restricted Stock

For the nine months ended September 30, 2007, a total of 58,600 shares of unvested restricted stock were granted. Restricted shares are valued based on the NASDAQ closing average of the bid and ask price of the Company's common stock as of the date of grant. Compensation expense is recognized over the related three year vesting period. Compensation expense of \$55,000 and \$27,000 was recognized for the quarters ended September 30, 2007 and 2006, respectively. Compensation expense of \$142,000 and \$66,000 was recognized for the nine months ended September 30, 2007 and 2006, respectively.

The following is a summary of restricted stock activity during the nine-months ended September 30, 2007:

	Number of Restricted Shares
Outstanding at beginning of year	69,991
Granted	58,600
Forfeited	(1,283)
Vested	(28,848)
Outstanding at end of period	98,460

5. Earnings per Share

Basic income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted income per share is determined by dividing the net income by the sum of (1) the weighted average number of common shares outstanding and (2) if not anti-dilutive, the effect of stock awards determined utilizing the treasury stock method. The dilutive effect of outstanding options for the quarters ended September 30, 2007 and 2006 was 443,000 and 488,000 shares, respectively. The dilutive effect of outstanding options for the nine months ended September 30, 2007 and 2006 was 527,000 and 486,000 shares, respectively. Stock options to purchase 55,000 and 215,000 shares of common stock were excluded from the calculation of diluted income per share for the quarters ended September 30, 2007 and 2006, respectively, since the results would have been anti-dilutive. Stock options to purchase 55,000 and 378,000 shares of common stock were excluded from the calculation of diluted income per share for the nine months ended September 30, 2007 and 2006, respectively, since the results would have been anti-dilutive.

6. Segment Information

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

The Company operates in one segment 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 condensed consolidated financial statements and within this note.

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

	As of and for the three months ended September 30,		As of and for the nine months ended September 30,	
	2007	2006	2007	2006
Revenues derived from foreign subsidiaries	\$ 5,122	\$ 4,473	\$ 15,789	\$ 14,288
Identifiable assets	\$ 10,974	\$ 9,158	\$ 10,974	\$ 9,158

Sales to customers outside of the United States by all subsidiaries were \$7,733,000 and \$6,310,000 for the quarters ended September 30, 2007 and 2006, respectively, and \$22,554,000 and \$19,795,000 for the nine months ended September 30, 2007 and 2006, respectively.

During the quarters and nine months ended September 30, 2007 and 2006, no single customer accounted for more than 10% of total revenues.

7. Comprehensive Income

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

Comprehensive income is computed as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
Net income	\$ 686	\$ 617	\$ 1,748	\$ 1,543
Foreign currency translation adjustment	328	36	429	199
Comprehensive income	\$ 1,014	\$ 653	\$ 2,177	\$ 1,742

8. Goodwill and Intangible Assets

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

September 30, 2007	December 31, 2006	Estimated Life
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Number of Shares of the only class of Common Stock outstanding: 6,917,419 as of October 30, 2007 15

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Goodwill	\$	12,262	\$	12,072	
Amortizable intangible assets					
Customer lists		4,553		4,473	8 years
Trade name		1,340		1,340	10 years
Design and technologies		2,679		2,597	8 years
Accumulated amortization		(3,972)		(3,141)	
Net intangible assets		4,600		5,269	
Total goodwill and intangible assets	\$	16,862	\$	17,341	

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The change in the carrying amount of goodwill for 2007 is as follows (in thousands):

	September 30, 2007	
Balance at beginning of period	\$	12,072
Effect of foreign currency translation		190
Balance at end of period	\$	12,262

Amortization expense for intangible assets was \$259,000 and \$254,000 for the quarters ended September 30, 2007 and 2006, respectively, and \$773,000 and \$757,000 for the nine months ended September 30, 2007 and 2006, respectively.

9. Debt Obligations

Debt obligations consisted of the following (in thousands):

	September 30,		December 31,	
	2007		2006	
Credit Agreement (at variable rates)				
Term Loan, 6.82% as of September 30, 2007	\$	3,800	\$	
Domestic revolving line-of-credit, 6.84% average rate as of September 30, 2007		3,258		
Foreign revolving line-of-credit, 5.16% as of September 30, 2007		1,056		
Previous debt agreements				
Domestic revolving line-of-credit				4,925
Term loan payable to bank in monthly installments of \$90				451
Term loan payable to bank in monthly installments of \$59				3,160
Term loan payable to bank in quarterly installments of \$80 (\$106 at December 31, 2006 exchange rate)				1,162
Capital lease obligations		45		131
Total		8,159		9,829
Less current maturities		(840)		(9,066)
Long-term debt obligations	\$	7,319	\$	763

Effective May 7, 2007, the Company entered into a credit agreement to provide term debt of \$4 million and revolving credit of up to \$11 million and \$3 million. The new facility was used to pay off the company's existing domestic and foreign bank debt and will also provide funds for working capital needs and financing of future growth of the Company. All borrowings are secured by substantially all the assets of the Company.

The credit agreement has a five year term (maturity date of May 7, 2012). The term debt is payable in twenty equal quarterly installments of \$200,000 over the five year term. No principal payments are required on the revolving credit facilities prior to maturity. The interest rates on the agreement are variable rates based on one or more interest rate indices.

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The credit agreement contains certain financial covenants related to maximum leverage, minimum fixed charge coverage and minimum tangible net worth of the company. The Company was in compliance with all covenants at September 30, 2007.

At September 30, 2007, approximately \$10.9 million was available under the credit agreement and 300,000 was available under a bank overdraft facility.

10. 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.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
Service cost	\$ 34	\$ 32	\$ 104	\$ 96
Interest cost on projected benefit obligations	60	56	179	168
Expected return on assets	(78)	(72)	(236)	(216)
Net periodic pension expense	\$ 16	\$ 16	\$ 47	\$ 48

The Company has contributed approximately \$218,000 to the pension plan during 2007. Approximately \$20,000 of additional contributions are expected in 2007.

11. Reclassifications

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

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

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

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

Overview

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

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

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

One of the Company's major challenges is to maintain and improve price competitiveness. The Company's customers are continually being challenged by their markets and competitors to be price competitive and they are requiring their suppliers to deliver the highest quality product at the lowest price possible. Currently, the Company is producing some of its motor sub-assemblies and finished products at a sub-contract manufacturing facility in China. The Company will continue to look for opportunities where production in low cost regions for certain projects are anticipated to result in increased profits.

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

The Company has an aggressive motor development plan for new products and product lines that leverage the combined technology base of the Allied Motion companies. The Company continues to focus on new product designs that enhance our motor capabilities, design-out costs, provide higher performance and provide application specific solutions for our served markets. It normally takes twelve to eighteen months to get new products designed into new customer applications. While the Company's products are designed using standard platforms, most are customized to meet the exact needs of customers. All product development efforts are focused on adding value for customers in our served market segments.

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

Operating Results*Quarter Ended September 30, 2007 compared to Quarter Ended September 30, 2006*

(in thousands)	For the three months ended		September 30,		Increase (decrease)	
	2007	2006	2007	2006	\$	%
Revenues	\$ 20,901	\$ 20,308	\$ 20,901	\$ 20,308	\$ 593	3%
Cost of products sold	15,613	15,244	15,613	15,244	369	2%
Gross margin	5,288	5,064	5,288	5,064	224	4%
Gross margin percentage	25%	25%	25%	25%		
Operating costs and expenses:						
Selling	959	780	959	780	179	23%
General and administrative	1,860	1,810	1,860	1,810	50	3%
Engineering and development	999	986	999	986	13	1%
Amortization of intangible assets	259	254	259	254	5	2%
Total operating costs and expenses	4,077	3,830	4,077	3,830	247	6%
Operating income	1,211	1,234	1,211	1,234	(23)	(2)%
Interest expense	153	251	153	251	(98)	(39)%
Other income (expense), net	(3)	11	(3)	11	(14)	(127)%
Income before income taxes	1,055	994	1,055	994	61	6%
Provision for income taxes	369	377	369	377	(8)	(2)%
Net income	\$ 686	\$ 617	\$ 686	\$ 617	\$ 69	11%

NET INCOME The Company had net income of \$686,000 or \$.10 per diluted share for the third quarter 2007 compared to net income of \$617,000 or \$.09 per diluted share for the same quarter last year. The increase in net income is primarily the result of lower interest expense and a lower effective income tax rate.

EBITDA EBITDA was \$2,106,000 for the third quarter 2007 compared to \$2,066,000 for the same quarter last year. EBITDA is a non-GAAP measurement that consists of income before interest expense, provision for income taxes and depreciation and amortization. See information included in **Non - GAAP Measures** below for a reconciliation of net income to EBITDA.

REVENUES Revenues were \$20,901,000 in the quarter ended September 30, 2007 compared to \$20,308,000 for the quarter ended September 30, 2006. This increase is primarily attributable to increased sales to customers in industrial, electronics and aerospace & defense markets, partially offset by decreases in the medical mobility and motor vehicle markets. The primary reasons for the decrease in sales to customers in the medical mobility market were caused by program changes by one of our large customers and also the reduction in Medicare's payment for such products. The primary reasons for the decline in the motor vehicle market are due to declines in the U.S. construction industry and increased price competition from other low cost region producers. We are placing an increased emphasis on our low cost region operations to ensure we are globally competitive on a cost basis while maintaining the same high technical and commercial standards we have already established.

ORDER BACKLOG At September 30, 2007, order backlog was \$29,878,000, which is up 15% from the same quarter last year and a 6% increase over December 31, 2006.

GROSS MARGINS Gross margin as a percentage of revenues for the third quarter of 2007 were slightly higher compared to the same quarter last year, reflecting an improved mix of higher margin sales as well as cost reductions realized by the Company.

SELLING EXPENSES Selling expenses in the third quarter were \$959,000 compared to \$780,000 for the third quarter last year. This 23% increase is primarily due to increased efforts to strengthen our sales capabilities with more sales personnel and incentive programs for our sales personnel.

GENERAL AND ADMINISTRATIVE EXPENSES General and administrative expenses were \$1,860,000 in the quarter ended September 30, 2007 compared to \$1,810,000 in the quarter ended September 30, 2006. Increases in G&A for the third quarter are due to increased payroll related costs, SOX implementation costs and other professional fees, offset by a lower incentive bonus accrual.

ENGINEERING AND DEVELOPMENT EXPENSES Engineering and development expenses were \$999,000 in the third quarter and \$986,000 in the same quarter last year. The Company continues to focus resources on new product designs to meet the needs of its served markets.

AMORTIZATION Amortization expense was \$259,000 in the quarter ended September 30, 2007 and \$254,000 in the same quarter last year. These costs relate to the amortizable intangible assets acquired in the Motor Products, Stature and Premotec acquisitions.

INTEREST EXPENSE Interest expense for the third quarter was \$153,000 compared to \$251,000 in the quarter ended September 30, 2006. The decrease in interest is attributable to the Company's new credit agreement with lower interest rates as well as lower debt balances than in the prior year.

INCOME TAXES Provision for income taxes was \$369,000 for the third quarter this year compared to \$377,000 in the third quarter last year. The effective rate used to record income taxes is based on projected income for the fiscal year and differs from the statutory amounts primarily due to the impact of differences in state and foreign tax rates. The effective income tax rate as a percentage of income before income taxes was 35% and 38% in the quarters ended September 30, 2007 and 2006, respectively. The lower effective tax rate for the current year is primarily because a greater portion of the Company's income was derived from a foreign jurisdiction with a lower tax rate than domestic jurisdictions plus a reduction in enacted tax rates in the foreign jurisdiction.

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Nine Months Ended September 30, 2007 compared to Nine Months Ended September 30, 2006

(in thousands)	For the nine months ended		Increase (decrease)	
	2007	September 30,	2006	
			\$	%
Revenues	\$ 63,292	\$ 63,662	\$ (370)	(1)%
Cost of products sold	48,145	48,596	(451)	(1)%
Gross margin	15,147	15,066	81	1%
Gross margin percentage	24%	24%		
Operating costs and expenses:				
Selling	2,783	2,433	350	14%
General and administrative	5,477	5,780	(303)	(5)%
Engineering and development	2,961	2,894	67	2%
Amortization of intangible assets	773	757	16	2%
Total operating costs and expenses	11,994	11,864	130	1%
Operating income	3,153	3,202	(49)	(2)%
Interest expense	556	756	(200)	(26)%
Other income (expense), net	55	(21)	76	362%
Income before income taxes	2,652	2,425	227	9%
Provision for income taxes	904	882	22	2%
Net income	\$ 1,748	\$ 1,543	\$ 205	13%

NET INCOME The Company had net income of \$1,748,000 or \$.24 per diluted share for the first nine months of 2007 compared to net income of \$1,543,000 or \$.22 per diluted share for the same nine months last year. The increase in net income is primarily the result of lower interest expense and a lower effective income tax rate.

EBITDA EBITDA was \$5,815,000 for the nine months ended September 30, 2007 compared to \$5,621,000 for the nine months ended September 30, 2006. EBITDA is a non-GAAP measurement that consists of income before interest expense, provision for income taxes and depreciation and amortization. See information included in **Non - GAAP Measures** below for a reconciliation of net income to EBITDA.

REVENUES Revenues were \$63,292,000 for the nine months ended September 30, 2007 compared to \$63,662,000 for the nine months ended September 30, 2006. This decrease is attributable to decreased sales in medical mobility and vehicle markets, partially offset by an increase in sales in industrial, electronics, distribution, and aerospace & defense markets. The primary reasons for the decrease in sales to customers in the medical mobility market were caused by program changes by one of our large customers and also the reduction in Medicare's payment for such products. The primary reasons for the decline in the motor vehicle market are due to declines in the U.S. construction industry and increased price competition from other low cost region producers. We are placing an increased emphasis on our low cost region operations to ensure we are globally competitive on a cost basis while maintaining the same high technical and commercial standards we have already established.

GROSS MARGINS Gross margin as a percentage of revenues for the nine months ended September 30, 2007, increased slightly compared to the same period of 2006, reflecting an improved mix of higher margin sales as well as cost reductions realized by the Company.

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SELLING EXPENSES Selling expenses for the nine months ended September 30 were \$2,783,000 compared to \$2,433,000 for 2007 and 2006, respectively. This 14% increase is primarily due to increased efforts to strengthen our sales capabilities with more sales personnel and incentive programs for our sales personnel.

GENERAL AND ADMINISTRATIVE EXPENSES General and administrative expenses were \$5,477,000 in the nine months ended September 30, 2007 compared to \$5,780,000 in the nine months ended September 30, 2006. The decrease is primarily related to decreased incentive bonus expense and reduced employee benefit costs resulting from changes in medical insurance plans and providers.

ENGINEERING AND DEVELOPMENT EXPENSES Engineering and development expenses were \$2,961,000 in the nine months ended September 30, 2007 compared to \$2,894,000 in the same nine months last year. The Company continues to focus resources on new product designs to meet the needs of its served markets.

AMORTIZATION Amortization expense was \$773,000 in the nine months ended September 30, 2007 and \$757,000 in the same nine months last year. These costs relate to the amortizable intangible assets acquired in the Motor Products, Stature and Premotec acquisitions.

INTEREST EXPENSE Interest expense for the nine months ended September 30, 2007 was \$556,000 compared to \$756,000 in the nine months ended September 30, 2006. The decrease in interest is directly attributed to the lower interest rates under the Company's new credit agreement, as well as a decrease in outstanding debt obligations.

INCOME TAXES Provision for income taxes was \$904,000 for the first nine months this year compared to \$882,000 in the same nine months last year. The effective rate used to record income taxes is based on projected income for the fiscal year and differs from the statutory amounts primarily due to the impact of differences in state and foreign tax rates. The effective income tax rate as a percentage of income before income taxes was 34% and 36% in the nine months ended September 30, 2007 and 2006, respectively. The lower effective tax rate for the current year is primarily because a greater portion of the Company's income was derived from a foreign jurisdiction with a lower tax rate than domestic jurisdictions plus a reduction in enacted tax rates in the foreign jurisdiction.

Non-GAAP Measures

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

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The Company's calculation of EBITDA for the three and nine months ended September 30, 2007 and 2006 is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
Net income	\$ 686	\$ 617	\$ 1,748	\$ 1,543
Interest expense	153	251	556	756
Provision for income tax	369	377	904	882
Depreciation and amortization	898	821	2,607	2,440
Income before interest expense, provision for income taxes and depreciation and amortization (EBITDA)	\$ 2,106	\$ 2,066	\$ 5,815	\$ 5,621

Liquidity and Capital Resources

The Company's cash and cash equivalents decreased \$165,000 during the nine months to \$504,000 at September 30, 2007.

Net cash provided by operating activities was \$2,468,000 for the nine months ended September 30, 2007 compared to \$2,343,000 for the nine months ended September 30, 2006. Cash provided by operations included net income of \$1,748,000 plus non-cash charges for depreciation and amortization of \$2,607,000, provisions for doubtful accounts, obsolete inventory and deferred income taxes totaling \$506,000 and other non-cash adjustments of \$172,000. Cash provided by operating activities also included an increase in trade receivables primarily due to changes in terms with certain customers; inventories, primarily as a result of producing safety stock for products manufactured in China which require longer lead times to ramp up production; prepaid expenses and other, primarily due to timing of payments of annual insurance premiums; and accounts payable. Operating activities also included a decrease in accrued liabilities which can be attributed to lower incentive bonuses accrued as well as increased funding to the pension plan and higher income tax payments.

Net cash used in investing activities was \$977,000 and \$1,005,000 for the nine months ended September 30, 2007 and 2006, respectively, and relates to purchases of property and equipment.

Net cash used in financing activities was \$1,684,000 for the nine months ended September 30, 2007 compared to net cash used of \$1,266,000 for the nine months ended September 30, 2006. In the nine months ended September 30, 2007, the Company had net repayments on lines-of-credit of \$683,000 compared to \$227,000 of net borrowings in the same period last year. The Company also borrowed \$4,000,000 in term loans as part of the new credit agreement. The Company repaid \$4,981,000 and \$1,645,000 on term loans during the nine months ended September 30, 2007 and 2006, respectively. The Company repaid \$89,000 and \$160,000 on capital leases during the nine months ended September 30, 2007 and 2006, respectively. During the nine months ended September 30, 2007 the Company received \$211,000 from stock transactions under employee benefit stock plans compared to \$261,000 in the first nine months last year. Of this \$211,000, the Company received \$153,000 from its employee stock ownership plan and \$66,000 from stock option exercises offset by \$8,000 of treasury stock purchased from employees in the first nine months of this year. The Company also paid \$142,000 in debt issuance costs which relate to the new credit agreement entered into May 7, 2007.

At September 30, 2007, the Company had \$8,114,000 of bank debt obligations representing borrowings on lines-of-credit and a term loan.

The Company's working capital, capital expenditure and debt service requirements are expected to be funded from cash provided by operations and amounts available under the Company's credit facilities. On May 7, 2007, the Company entered into a credit agreement with JPMorgan Chase Bank, N.A. and J.P. Morgan Europe Limited to provide term debt of \$4 million and revolving credit of up to \$11 million and \$3 million. The new facility was used to pay off the Company's existing domestic and European bank debt and will also provide funds for working capital needs and to finance future growth for the Company. The debt is secured by substantially all the assets of the Company.

The new facility has a five year term. The term debt is payable in twenty equal quarterly installments of \$200,000 over the five year term. No principal payments are required on the revolving credit facilities prior to maturity. The interest rates on the agreement are variable rates based on one or more interest rate indices. The interest rates in effect as of September 30, 2007 are a weighted average of 6.84% on the domestic line-of-credit, 6.82% on the term loan, and 5.16% on the foreign line-of-credit.

The agreement contains certain financial covenants related to maximum leverage, minimum fixed charge coverage and minimum tangible net worth of the company. The Company was in compliance with all covenants at September 30, 2007.

The Company has a bank overdraft facility payable to a foreign bank with no monthly repayments required, interest due at the bank's base rate plus 1.5%, with a minimum of 4.75% (6.50% as of September 30, 2007), and amounts borrowed are secured by Premotec's accounts receivable. The amount available under the overdraft facility was \$300,000 (\$428,000 at September 30, 2007 exchange rate).

Contractual Commitments

The Company's contractual commitments as of December 31, 2006 did not materially change during the nine months ended September 30, 2007, except for the changes in long-term debt under the new credit agreement discussed above.

Critical Accounting Policies

The Company has prepared its financial statements in conformity with accounting principles generally accepted in the United States, and these statements necessarily include some amounts that are based on informed judgments and estimates of management. The Company's significant accounting policies are discussed in Note 1 in the Annual Report on Form 10-K for the year ended December 31, 2006. The policies are reviewed on a regular basis. The Company's critical accounting policies are subject to judgments and uncertainties which affect the application of such policies. The Company uses historical experience and all available information to make these judgments and estimates. As discussed below the Company's financial position or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. The Company's critical accounting policies include:

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

change in the liquidity or financial position of the Company's customers could have a material adverse impact on the collectibility of accounts receivable and future operating results.

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

The Company records deferred tax assets and liabilities for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts recorded in the consolidated financial statements, and for operating loss and tax credit carryforwards. Realization of the recorded deferred tax assets is dependent upon the Company generating sufficient taxable income in the appropriate tax jurisdiction in future years to obtain benefit from the reversal of net deductible temporary differences and from tax credit and operating loss carryforwards. A valuation allowance is provided to the extent that management deems it more likely than not that the net deferred tax assets will not be realized. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed.

The Company reviews the carrying values of its long-lived assets, including goodwill and identifiable intangibles, in accordance with SFAS No. 142. SFAS No. 142 provides a fair value test to evaluate goodwill and long-lived asset impairment. As part of the review, the Company estimates fair value based on various methods such as market price of the Company's stock, future cash flows and revenue or earning multiples. Depending upon future assessments of fair value, there could be impairment recorded related to goodwill and other long-lived assets.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

The interest payable on the Company's domestic term loan and revolving line-of-credit are variable rates that are based on either the prime rate or LIBOR (at the option of the Company) and foreign lines-of-credit are also variable and are based on bank base rate and Euribor, and are affected by changes in market interest rates. The Company does not believe that reasonably possible near-term changes in interest rates will result in a material effect on future earnings, fair values or cash flows of the Company. A change in the interest rate of 1% on the Company's current outstanding variable rate debt would have the impact of changing interest expense by approximately \$81,000 annually.

Foreign Currency Risk

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

Item 4. Controls and Procedures

The Company's controls and procedures include those designed to ensure that material information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. As of September 30, 2007 the Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures designed to ensure that information is recorded, processed, summarized and reported in a timely manner as required by Exchange Act reports such as this Form 10-Q and concluded that they are effective.

There have not been any changes in the Company's internal controls over financial reporting during the quarter or nine months ended September 30, 2007 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

- (a) Exhibits
 - 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 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 the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: November 2, 2007

ALLIED MOTION TECHNOLOGIES INC.

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