

ALLIED MOTION TECHNOLOGIES INC  
Form 10-Q  
May 16, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**Form 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**

**For the quarterly period ended March 31, 2011**

**Commission File Number**

**0-04041**

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**ALLIED MOTION TECHNOLOGIES INC.**

Incorporated Under the Laws of the State of Colorado

**Colorado**  
(State or other jurisdiction of

**84-0518115**  
(I.R.S. Employer

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incorporation or organization)

Identification No.)

**23 Inverness Way East, Suite 150**

**Englewood, Colorado 80112**

**Telephone: (303) 799-8520**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

Number of Shares of the only class of Common Stock outstanding: 8,465,627 as of May 16, 2011

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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, except per share data)

**(Unaudited)**

	March 31, 2011	December 31, 2010
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,317	\$ 3,553
Trade receivables, net of allowance for doubtful accounts of \$234 and \$226 at March 31, 2011 and December 31, 2010, respectively	13,511	11,753
Inventories, net	13,093	11,787
Deferred income taxes	405	402
Prepaid expenses and other assets	1,850	1,415
Total Current Assets	31,176	28,910
Property, plant and equipment, net	7,082	6,923
Deferred income taxes	5,431	5,533
Intangible assets, net	3,734	3,704
Goodwill	6,315	5,936
Total Assets	\$ 53,738	\$ 51,006
<b>Liabilities and Stockholders Investment</b>		
Current Liabilities:		
Debt obligations	846	795
Accounts payable	7,712	6,506
Contingent consideration	2,555	314
Accrued liabilities	6,150	6,976
Income taxes payable	798	562
Total Current Liabilities	18,061	15,153
Contingent consideration		2,386
Deferred income taxes	1,102	1,070
Pension and post-retirement obligations	2,454	2,453
Total Liabilities	21,617	21,062
Commitments and Contingencies		
Stockholders Investment:		
Common stock, no par value, authorized 50,000 shares; 8,408 and 8,110 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	20,709	20,473
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding		
Retained earnings	10,555	9,342
Accumulated other comprehensive income	857	129
Total Stockholders Investment	32,121	29,944
Total Liabilities and Stockholders Investment	\$ 53,738	\$ 51,006

See accompanying notes to financial statements.



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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, except per share data)

**(Unaudited)**

	For the three months ended March 31,	
	2011	2010
Revenues	\$ 26,724	\$ 17,422
Cost of products sold	18,775	13,017
Gross margin	7,949	4,405
Operating costs and expenses:		
Selling	1,462	941
General and administrative	2,966	2,059
Engineering and development	1,534	1,013
Amortization of intangible assets	180	165
Insurance recoveries		(685)
Total operating costs and expenses	6,142	3,493
Operating income	1,807	912
Other (expense) income, net:		
Interest expense	(24)	(3)
Other income, net	1	155
Total other (expense) income, net	(23)	152
Income before income taxes	1,784	1,064
Provision for income taxes	(571)	(330)
Net income	\$ 1,213	\$ 734
Basic net income per share:		
Net income per share	\$ 0.15	\$ 0.09
Basic weighted average common shares	8,279	7,764
Diluted net income per share:		
Net income per share	\$ 0.14	\$ 0.09
Diluted weighted average common shares	8,495	7,768

See accompanying notes to financial statements.

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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	For the three months ended March 31,	
	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 1,213	\$ 734
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	542	496
Other	218	70
Changes in assets and liabilities:		
Trade receivables	(1,447)	(1,390)
Inventories, net	(995)	(577)
Prepaid expenses and other assets	(404)	113
Accounts payable	988	1,887
Accrued liabilities	(768)	289
Net cash (used in) provided by operating activities	(653)	1,622
<b>Cash Flows From Investing Activities:</b>		
Contingent consideration paid for acquisition	(332)	
Purchase of property and equipment	(428)	(304)
Net cash used in investing activities	(760)	(304)
<b>Cash Flows From Financing Activities:</b>		
Repayments on lines-of-credit, net		(278)
Stock transactions under employee benefit stock plans	95	80
Net cash provided by (used in) financing activities	95	(198)
Effect of foreign exchange rate changes on cash	82	(279)
Net (decrease) increase in cash and cash equivalents	(1,236)	841
Cash and cash equivalents at beginning of period	3,553	4,470
Cash and cash equivalents at end of period	\$ 2,317	\$ 5,311

See accompanying notes to financial statements.

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ALLIED MOTION TECHNOLOGIES INC.

**1. Basis of Preparation and Presentation**

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

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

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using end of period exchange rates. Changes in reported amounts of assets and liabilities of foreign subsidiaries that occur as a result of changes in exchange rates between foreign subsidiaries functional currencies and the U.S. dollar are included in foreign currency translation adjustment. Foreign currency translation adjustment is included in accumulated other comprehensive income, a component of stockholders' investment in the accompanying condensed consolidated balance sheets. Revenue and expense transactions use an average rate prevailing during the month of the related transaction. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency of each Technology Unit are included in the results of operations as incurred.

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

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

It is suggested that the accompanying condensed interim financial statements be read in conjunction with the Consolidated Financial Statements and related Notes to such statements included in the Annual Report on Form 10-K for the year ended December 31, 2010 that was previously filed by the Company.

**2. Inventories**



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

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Parts and raw materials	\$ 10,927	\$ 10,068
Work-in process	2,138	2,001
Finished goods	2,208	1,937
	15,273	14,006
Less reserves	(2,180)	(2,219)
Inventories, net	\$ 13,093	\$ 11,787

Table of Contents**3. Property, Plant and Equipment**

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

	March 31, 2011	December 31, 2010
Land	\$ 290	\$ 290
Building and improvements	3,390	3,310
Machinery, equipment, tools and dies	12,310	12,330
Furniture, fixtures and other	2,333	2,005
	18,323	17,935
Less accumulated depreciation	(11,241)	(11,012)
Property, Plant and Equipment, net	\$ 7,082	\$ 6,923

**4. Stock-Based Compensation***Stock Incentive Plans*

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

*Stock Options*

The following is a summary of option activity, during the quarter ended March 31, 2011:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at beginning of period	300,000	\$ 4.93	0.5	\$ 581,000
Forfeited				
Exercised	(163,375)	\$ 4.63		
Outstanding at end of Period	136,625	\$ 5.30	0.3	\$ 232,000
Exercisable at end of period	136,625	\$ 5.30	0.3	\$ 232,000

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All stock options are fully vested, and the Company did not recognize any compensation expense relating to outstanding stock options during 2011 or 2010.

### *Stock Warrants*

As of March 31, 2011, the Company had 72,582 warrants outstanding to purchase common stock that are exercisable at an exercise price of \$4.41. The warrants were issued May 10, 2004, in connection with an acquisition, and will expire May 10, 2011.

Subsequent to March 31, 2011, the remaining 72,582 warrants were exercised. As permitted under the warrant agreements, the warrants were exercised in a cashless transaction, and the total shares issued as a result of the warrant exercises was 25,716 shares.

Table of Contents***Restricted Stock***

In the quarter ended March 31, 2011, 130,200 shares of unvested restricted stock were awarded at a weighted average value of \$7.08. Of the restricted shares granted, 40,000 shares have performance based vesting conditions. The value of the shares are amortized to compensation expense over the related service period, which is normally three years, or over the estimated performance period. Shares of nonvested restricted stock are forfeited if a recipient leaves the Company before the vesting date. Shares that are forfeited become available for future awards.

The following is a summary of restricted stock activity during the quarter ended March 31, 2011:

	<b>Number of Shares</b>
Outstanding at beginning of period	379,079
Granted	130,200
Forfeited	
Vested	(221,974)
Outstanding at end of Period	287,305

For the quarter ended March 31, 2011 and 2010, compensation expense, net of forfeitures, of \$142,000 and \$108,000 was recorded, respectively.

**5. Earnings per Share**

Basic income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted income per share is determined by dividing the net income by the sum of (1) the weighted average number of common shares outstanding and (2) if not anti-dilutive, the effect of stock awards determined utilizing the treasury stock method. The dilutive effect of outstanding awards for the quarters ended March 31, 2011 and 2010 was 215,000 and 4,000 shares, respectively. Stock awards to purchase 790,000 shares of common stock were excluded from the calculation of diluted income per share for the quarter ended March 31, 2010, since the results would have been anti-dilutive.

**6. Segment Information**

ASC Topic Segment Reporting requires disclosure of operating segments, which as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

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The Company operates in one segment for the manufacture and marketing of motion control products for original equipment manufacturers and end user applications. In accordance with the Segment Reporting Topic of the ASC, the Company's chief operating decision maker has been identified as the Chief Executive Officer and President, which reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Existing guidance, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under Segment Reporting due to their similar customer base and similarities in: economic

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characteristics; nature of products and services; and procurement, manufacturing and distribution processes. Since the Company operates in one segment, all financial information required by Segment Reporting can be found in the accompanying consolidated financial statements and within this note.

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

	As of and for the three months ended March 31,			
	2011		2010	
Revenues derived from foreign subsidiaries	\$	12,544	\$	5,928
Identifiable assets	\$	25,325	\$	11,246

Sales to customers outside of the United States by all subsidiaries were \$13,449,000 and \$7,510,000 during the quarters ended March 31, 2011 and 2010, respectively.

During the quarters ended March 31, 2011 and 2010, 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 March 31,			
	2011		2010	
Net income	\$	1,213	\$	734
Foreign currency translation adjustment		728		(503)
Comprehensive income	\$	1,941	\$	231

**8. Intangible Assets**

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

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>Estimated Life</b>
<b>Amortizable intangible assets</b>			
Customer lists	\$ 4,527	\$ 4,371	8-10 years
Trade name	946	946	10 years
Design and technologies	2,793	2,633	8-10 years
Patents	24	24	
Accumulated amortization	(4,556)	(4,270)	
<b>Total intangible assets</b>	<b>\$ 3,734</b>	<b>\$ 3,704</b>	

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Amortization expense for intangible assets for the quarters ended March 31, 2011 and 2010 was \$180,000 and \$165,000, respectively.

**9. Goodwill**

The change in the Company's goodwill during the quarter ended March 31, 2011 is summarized in the table below (in thousands):

Balance, December 31, 2010	\$	5,936
Currency translation		379
Balance, March 31, 2011	\$	6,315

**10. Contingent Consideration**

In conjunction with the acquisition of Östergrens, the Company recorded contingent cash consideration based on the seller meeting certain performance criteria. The Company paid a portion of the contingent consideration in the quarter ended March 31, 2011. The remaining portion of contingent consideration accrued is \$2,555,000 as of March 31, 2011 and is expected to be paid in the first quarter of 2012. The contingent consideration is management's best estimate through the date of the financial statements. No adjustments to management's estimate of the contingent consideration were made in the quarter ended March 31, 2011.

**11. Debt Obligations**

Debt obligations consisted of the following (in thousands):

	March 31, 2011	December 31, 2011
<b>Credit Agreement (at variable rates)</b>		
Revolving line-of-credit, 2.90% as of March 31, 2011	\$ 846	\$ 795

The Company's amended Credit Agreement, which matures October 26, 2012, provides revolving credit up to \$4 million and 3 million.

The amended 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 March 31, 2011.



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At March 31, 2011, approximately \$7,400,000 million (\$4 million and 2.4 million) was available under the amended Credit Agreement and approximately \$750,000 ( 300,000 and 2,100,000 Swedish Krona ( SEK )) was available under bank overdraft facilities in Europe.

### 12. Acquisition of Ostergrens

On December 30, 2010, Allied Motion Technologies, B.V., a wholly-owned subsidiary of Allied Motion Technologies Inc., acquired 100% of the shares of Ostergrens Elmotor AB (Ostergrens), headquartered in Solna, Sweden. The accompanying condensed consolidated financial statements include the operating results of Ostergrens for the first quarter ended March 31, 2011.

The following presents the Company's unaudited pro forma financial information for the quarter ended March 31, 2010 after certain pro forma adjustments giving effect to the acquisition

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of Ostergrens as if it had occurred at January 1, 2010. The pro forma financial information is for information purposes only and does not purport to present what the Company's results would actually have been had the acquisition occurred on that date or to project the Company's results for operations for any future period:

	<b>For the three months ended March 31, 2010</b>	
Revenues	\$	22,003
Gross margin	\$	5,870
Operating income	\$	1,167
Net income	\$	875
Diluted net income per share	\$	0.11

**13. Reclassifications**

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

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

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



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*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's sole focus is in the motion control industry and has developed a long term corporate strategy, with a defined driving force of electro-magnetic, mechanical and electronic motion technology/know how to ensure it meets the goals and objectives of the Company. Through its sales force and its Technology Units (TUs), Allied Motion designs, manufactures and sells motion products to a broad spectrum of customers throughout the world. The Company's commitment to its own lean manufacturing tool kit, known as Allied's Systematic Tools, or AST for short, drives continuous improvement in quality, delivery, cost, growth and innovation throughout the company.

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

Allied Motion is organized into six TUs: Emoteq Corporation (Emoteq Tulsa, OK), Motor Products Corporation (Motor Products Owosso, MI), Stature Electric, Inc. (Stature Watertown, NY), Allied Motion Controls (Amherst, NY and Waterloo, Ontario, Canada, acquired in 2010, formerly known as Agile Systems Inc.), Precision Motor Technology B.V. (Premotec Dordrecht, The Netherlands), and Östergrens Elmotor AB (Östergrens Solna, Sweden and Changzhou, China), which was acquired in 2010. Allied Motion also has contract production capabilities in Slovakia and China.

The TUs offer a wide range of standard and customized motors, encoders and drive electronics for original equipment manufacturers (OEM) and end user applications. A particular strength of each company is its ability to design and manufacture high quality custom motion control solutions to meet the needs of its customers.



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**Outlook**

After having a record year in both profits and orders in 2010, conditions have continued to be strong, and management continues its efforts to foster additional growth in revenues and profitability. Orders for the quarter ended March 31, 2011 were \$26.4 million compared to \$26.2 million in the same quarter of last year. Backlog at March 31, 2011 was \$38.7 million, reflecting a 33% increase over the backlog at the same time last year. The increased backlog levels reflect the economic recovery experienced during the last 12 months in the Company's served markets as well as orders received by the TUs acquired in 2010. We believe that the increase provides a good indication that these markets are recognizing the value of the Company's motion solutions.

In 2010, the Company acquired Agile Systems Inc., now known as Allied Motion Canada (AM Canada). AM Canada designs and develops advanced motion control technology including integrated power electronics, digital controls and network communications for motor control and power conversion. AM Canada, based in Waterloo, Ontario, Canada, part of the Allied Motion Controls TU, has established customers in a wide range of industries.

At the end of 2010, the Company acquired the shares of Östergrens-Elmotor AB (Östergrens). Östergrens has expertise in designing drive electronics, software and mechanical processes. The products are manufactured at Östergrens' facilities in Sweden and China. Östergrens' current products integrate their electronics expertise with other motion control products such as motors and gears. Östergrens' products are sold to OEM customers throughout Europe and are used in a wide variety of industrial, commercial and medical applications, including emerging Green Technology alternative energy and electric vehicle applications, leading-edge medical instrumentation and test equipment applications and other industrial and commercial applications in which Östergrens' products improve the efficiency/performance of the OEM's products. In addition, Östergrens' China facility further facilitates low cost region sourcing capabilities and provides the Company with a base to expand operations in the Asian market.

The acquisitions made in 2010 were made primarily with cash on hand, and management believes these acquisitions will expand the Company's customer base, increase the various markets into which we sell, augment the Company's engineering knowledge, and provide all of our customers more integrated motion system solutions.

The Company has a strong balance sheet and has improved liquidity when compared with the previous year. Two acquisitions were made within the last year, using approximately \$7.7 million, and the Company's cash position, net of outstanding debt, decreased by approximately \$3.5 million over the last twelve months. Excluding cash used for acquisitions, the Company's cash position, net of outstanding debt, increased by \$4.2 million over the last twelve months. The Company continues its position of maintaining resources in electro-magnetic, mechanical and electronic design capabilities as its primary goal is to provide products that raise the bar with customers and provide important differentiating solutions against competition. Management will continue to make investments in the markets believed to provide the most opportunity for continued growth and profitability of the Company.

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

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

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The Company continues to pursue aggressive motor and drive development plans for new products that leverage the combined technology base of the Allied Motion companies. The Company focuses on new product designs that design-out cost, provide higher level, value-added performance solutions and that meet the needs of its served markets. Over the last few years, the Company announced several new motor designs targeted at various markets. It normally takes twelve months to get new products designed into new customer applications.

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

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

**Operating Results**

*Quarter Ended March 31, 2011 compared to Quarter Ended March 31, 2010*

**NET INCOME** The Company reported net income of \$1,213,000, or \$0.14 per diluted share for the first quarter of 2011, compared to \$734,000, or \$0.09 per diluted share for the same quarter last year. This quarter's results include the results from Allied Motion Canada and Ostergrens Elmotor AB, both acquired in 2010.

**EBITDA AND EBITDA BEFORE NONRECURRING ITEMS** EBITDA was \$2,350,000 for the first quarter of 2011 compared to a \$1,563,000 for the same quarter last year. EBITDA before nonrecurring items was \$1,108,000 for the first quarter last year. EBITDA and EBITDA before nonrecurring items are non-GAAP measurements. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. EBITDA before nonrecurring items is EBITDA before insurance recoveries and inefficiencies from the relocation of encoder operations. See information included in **Non - GAAP Measures** below for a reconciliation of net income to EBITDA and EBITDA before nonrecurring items.

**REVENUES** Revenues were \$26,724,000 for the quarter ended March 31, 2011 compared to \$17,422,000 for the quarter ended March 31, 2010, a 53% increase. Of this 53% increase, revenues from existing businesses increased 22% and incremental revenues achieved by the companies acquired in 2010 contributed 31% of the increase. The 22% increase in revenues from existing businesses reflects increased sales into all markets, with the industrial and electronics markets accounting for the largest portion of the increase.

Sales to U.S. customers accounted for 50% and 57% of our sales in the first quarter of 2011 and 2010, respectively, with the balance to customers primarily in Europe and Canada. Sales volumes for the quarter ended March 31, 2011 increased by nearly 54%, slightly offset by the strengthening of the dollar against the euro for the same period of last year, which accounted for less than a one percent decrease in the Company's sales.



**ORDER BACKLOG** At March 31, 2011, order backlog was approximately \$38.7 million, which is up 33% from the same time last year and up 2% from the backlog at December 31, 2010.

**GROSS MARGINS** Gross margin as a percentage of revenues was 30% and 25% for the quarters ended March 31, 2011 and 2010, respectively. This 5% improvement in gross margin was due to a 2% improvement in our variable margin, which is due to our continued efforts in selling higher value added products and to our cost reduction efforts, and a 3% improvement resulting from the improvement in the percent that our fixed manufacturing overhead costs are to the increased sales.

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**SELLING EXPENSES** Selling expenses in the first quarter were \$1,462,000 compared to \$941,000 for the first quarter last year. The 55% increase is primarily due to an increase in the Company's sales force as a result of the acquisition of Östergrens, which was completed in the fourth quarter of 2010.

**GENERAL AND ADMINISTRATIVE EXPENSES** General and administrative expenses were \$2,966,000 in the quarter ended March 31, 2011 compared to \$2,059,000 in the quarter ended March 31, 2010. The 44% increase is primarily a result of additional general and administrative costs as a result of the acquisitions of AM Canada and Östergrens, which were made in the second and fourth quarters of 2010, respectively, as well as increased compensation expense, which includes incentive bonuses.

**ENGINEERING AND DEVELOPMENT EXPENSES** Engineering and development expenses were \$1,534,000 in the first quarter of 2011 and \$1,013,000 in the same quarter last year. The 51% increase is primarily a result of the increased engineering staff from the acquisitions of AM Canada and Östergrens, which were made in the second and fourth quarters of 2010, respectively.

**AMORTIZATION OF INTANGIBLE ASSETS** Amortization of intangible assets expense was \$180,000 in the quarter ended March 31, 2011 and \$165,000 in the same quarter last year. The 9% increase is the result of the additional intangible amortization from the Östergrens acquisition, partially offset, by certain intangible assets that became fully amortized in 2010.

**TOTAL OPERATING COSTS AND EXPENSES** Selling, General & Administrative and Engineering costs as a percent of sales for the first quarter decreased to 22% this year compared to 23% last year with the decrease due to the increase in sales. However, the total operating costs and expenses for the quarter, excluding fire related insurance recoveries, increased by \$1,964,000 from the same time last year with 70% of the increase due to the incremental costs of the two acquired companies. The balance of the increase is primarily in General and Administrative expenses which is from increased compensation expense, which includes incentive bonuses, as well as incremental costs incurred as a result of the Östergrens acquisition.

**INCOME TAXES** Provision for income taxes was \$571,000 and \$330,000 for the first quarters of 2011 and 2010, respectively. The effective rate used to record income taxes is based on projected results for the fiscal year. The effective income tax rate as a percentage of income before income taxes was 32% and 31% for the quarters ended March 31, 2011 and 2010, respectively. The effective tax rate is lower than the statutory rate primarily due to differences in state and foreign tax rates.

**Non-GAAP Measures**

EBITDA and EBITDA before nonrecurring items are provided for information purposes only and are not measures 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. EBITDA is

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frequently used as one of the bases for comparing businesses in the Company's industry.

The Company also believes that EBITDA before nonrecurring items provides helpful information about the operating performance of its business. Non-recurring items are either income or expenses which do not occur regularly as part of the normal activities of the Company. The Company considers these items to be of significance in nature and/or size, and accordingly, has excluded these items from EBITDA before nonrecurring items. EBITDA before nonrecurring items in 2010 excludes insurance recoveries of \$685,000 and \$230,000 of expenses due to inefficiencies from the relocation of the Company's encoder operation.

EBITDA and EBITDA before nonrecurring items 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.

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for determining operating performance or liquidity that is calculated in accordance with generally accepted accounting principles.

The Company's calculation of EBITDA and EBITDA before nonrecurring items for the three months ended March 31, 2011 and 2010 is as follows (in thousands):

	For the three months ended March 31,			
	2011		2010	
Net income	\$	1,213	\$	734
Interest expense		24		3
Provision for income tax		571		330
Depreciation and amortization		542		496
Income before interest expense, provision for income taxes, depreciation and amortization (EBITDA)		2,350		1,563
Insurance recoveries				(685)
Inefficiencies from relocation of encoder operations				230
Income before interest expense, provision for income taxes, depreciation and amortization, and non-recurring items (EBITDA before nonrecurring items)	\$	2,350	\$	1,108

Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents decreased \$1,236,000 to a balance of \$2,317,000 at March 31, 2011. This decrease compares to an increase of \$841,000 for the same period last year. During the first quarter of 2011, operations used \$653,000 in cash compared to cash provided of \$1,622,000 for the quarter ended March 31, 2010. Cash used in operations this year as compared to cash provided last year is due to increased inventories to support increased sales volumes, and is also due to increases in trade receivables and other current assets and an increase in payments made pursuant to company incentive plans, partially offset by higher net income in 2011 when compared to the same quarter of last year.

Net cash used in investing activities was \$760,000 and \$304,000 for the first quarter of 2011 and 2010, respectively. The increase includes a payment of \$332,000, which is a portion of the contingent consideration for the Ostergrens acquisition, and an increase of \$124,000 for purchases of property and equipment.

Net cash provided by financing activities was \$95,000 for the quarter ended March 31, 2011 compared to \$198,000 used for the same period last year. The increase in cash provided is primarily due to decreased paydowns of Company debt in 2011. The Company did not pay off any debt in the quarter ended March 31, 2011, whereas the Company paid \$278,000 of debt in the same period of last year.

The average outstanding balance on the Company's line-of-credit was \$820,000. As of March 31, 2011, the amount available to borrow under the lines-of-credit was approximately \$7.4 million.



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The Company amended its Credit Agreement in 2010. The amended Credit Agreement extends the agreement to October 26, 2012. The amended Credit Agreement provides revolving credit up to \$4 million and 3 million. Borrowings under the revolver incur interest of LIBOR plus 2.0%. Overnight borrowings incur interest at PRIME plus 1.00%. The unused portion of the revolver is charged a commitment fee of .375% per annum. The amended Credit Agreement contains certain financial covenants related to maximum leverage, minimum fixed charge coverage and minimum tangible net worth of the Company. The Company's working capital, capital expenditure and debt service requirements are expected to be funded from cash provided by operations and amounts available under the Company's credit facilities.

The Company has bank overdraft facilities with foreign banks in Europe. The facilities had no outstanding balance as of March 31, 2011. The amount available under the overdraft facilities was approximately \$750,000.

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, 2010. The policies are reviewed on a regular basis. The Company's critical accounting policies are subject to judgments and uncertainties which affect the application of such policies. The Company uses historical experience and all available information to make these judgments and estimates. As discussed below the Company's financial position or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. The Company's critical accounting policies include:

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

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



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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

**Foreign Currency Risk**

The Company has international subsidiaries whose sales are denominated in currencies other than the U.S. dollar, thereby creating exposures to changes in exchange rates. The changes in these exchange rates against the U.S. dollar may positively or negatively affect the Company's sales, gross margins, net income and retained earnings. A 10% change in these foreign currencies vs. the U.S. dollar could affect the Company's pretax earnings for the remainder of the year by approximately \$200,000. The Company does not believe that reasonably possible near-term changes in exchange rates will result in a material effect on future results or cash flows of the Company.

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

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2011 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**



**Item 5. Other Information**

The Company held its annual stockholders meeting on May 12, 2011. At the annual meeting, the stockholders of the Company (i) elected the seven director nominees and (ii) ratified the appointment of Ehrhardt Keefe Steiner Hotman PC ( EKS&H ) as the Company's independent registered public accounting firm for the 2011 fiscal year.

The results of the voting for the seven director nominees were as follows:

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<b>Nominee</b>	<b>For</b>	<b>Against</b>	<b>Broker Non-votes</b>
D.D. Hock	5,011,208	50,812	2,528,145
Gerald J. Laber	5,011,704	50,316	2,528,145
G.J. Pilmanis	4,586,787	475,233	2,528,145
M.M. Robert	5,012,902	49,118	2,528,145
S.R. (Rollie) Heath, Jr.	4,587,881	474,139	2,528,145
R.D. Smith	4,544,840	517,180	2,528,145
R.S. Warzala	4,984,233	77,787	2,528,145

The results of the voting for the ratification of EKS&H as the Company's independent registered public accounting firm for the 2011 fiscal year were as follows:

<b>For</b>	<b>Against</b>	<b>Abstentions</b>
7,545,380	10,326	34,459

**Item 6. Exhibits**

(a) Exhibits

10.1 Fourth Amendment to Credit Agreement dated as of March 28, 2011, among Allied Motion Technologies Inc., Allied Motion Technologies B.V., JPMorgan Chase Bank, N.A. and J.P. Morgan Europe Limited.

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

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

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

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



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SIGNATURES

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

DATE: May 16, 2011

ALLIED MOTION TECHNOLOGIES INC.

By: /s/ Richard D. Smith

*Executive Chairman of the Board and Chief Financial Officer*