Eaton Corp plc
Form DEF 14A
March 13, 2015
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Check the appropriate box

Filed by a Party other than the Registrant ¨

¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

Eaton Corporation plc

(Name of Registrant as Specified in its Charter)

XXXXXXXXXXXXXXXXX

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies: ____

(2) Aggregate number of securities to which transaction applies: ____

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined): ____________________
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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid: ____
____

(2) Form, Schedule or Registration Statement No.: ____
____

(3) Filing Party: ____
____

(4) Date Filed: ____
____

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ONE VISION	To be the most admired company in our markets.
ONE MISSION	To provide safe, reliable, efficient and sustainable power management solutions for our global customers.
CORE VALUES	We drive high performance through the Eaton Philosophy, which connects our core values with our responsibilities to one another, to the enterprise, to our customers and to other stakeholders.

- **Customer Orientation:** We make our customers the focus of everything we do.
- **People:** We recognize our people as our most valued resource.
- **Trust:** We have confidence in the reliability of others to do the right thing.
- **Respect:** We treat each other with respect and consideration.
- **Dignity:** We honor the pride and self-esteem of others.
- **Integrity:** We are honest and ethical.

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Notice of Annual General Meeting

MEETING AGENDA:

1. Electing the 12 director nominees named in the proxy statement;
2. Approving a proposal to adopt the 2015 Stock Plan;
3. Approving the appointment of Ernst & Young LLP as independent auditor for 2015 and authorizing the Audit Committee of the Board of Directors to set its remuneration;
4. Advisory approval of the Company s executive compensation;
5. Authorizing the Company and any subsidiary of the Company to make overseas market purchases of Company shares; and
6. Transacting any other business that may properly come before the meeting.

These proposals are ordinary resolutions requiring a simple majority of the votes cast at the meeting. All proposals are more fully described in this proxy statement.

Also during the meeting, management will present Eaton s Irish Statutory Accounts for the fiscal year ended December 31, 2014 along with the related directors and auditor s reports.

By order of the Board of Directors,

Thomas E. Moran

Senior Vice President and Secretary

March 13, 2015

YOUR VOTE IS IMPORTANT. WE ENCOURAGE YOU TO VOTE.

If possible, please vote your shares using the toll-free telephone number or Internet instructions found in the Notice. Alternatively, you may request a printed copy of the proxy materials and mark, sign, date and mail your proxy form in the postage-paid envelope that will be provided. Voting by any of these methods will not limit your right to vote in person at the annual general meeting. **Under New York Stock Exchange rules, if you hold your shares in street name through a brokerage account, your broker will *NOT* be able to vote your shares on non-routine matters being considered at the annual general meeting unless you have given instructions to your broker prior to the meeting on how to vote your shares. Proposals 1, 2, 4 and 5 are not considered routine matters under New York Stock Exchange rules. This means that you must give specific voting instructions to your broker on how to vote your shares so that your vote can be counted.**

Date:	**Wednesday, April 22, 2015**
Time:	**8:00 a.m. local time**
Location:	**Eaton House**

30 Pembroke Road

Dublin 4, Ireland

Record date: Shareholders of record at the close of business on February 23, 2015 are entitled to vote at the meeting.

Online proxy delivery and voting: As permitted by the Securities and Exchange Commission, we are making this proxy statement, the Company s annual report to shareholders and our Irish statutory accounts available to our shareholders electronically via the Internet. We believe electronic delivery expedites your receipt of materials, reduces the environmental impact of our annual general meeting and reduces costs significantly. The Notice Regarding Internet Availability of Proxy Materials (the Notice) contains instructions on how you can access the proxy materials and how to vote online. If you received the Notice by mail, you will not receive a printed copy of the proxy materials unless you request one in accordance with the instructions provided in the Notice. The Notice has been mailed to shareholders on or about March 13, 2015 and provides instructions on how you may access and review the proxy materials on the Internet and how to vote.

Admission to the Annual General Meeting: Shareholders who plan to attend the 2015 annual general meeting may obtain admission tickets at the Registration Desk immediately prior to the meeting. Shareholders whose shares are registered in the name of a broker or bank should obtain certification of ownership to bring to the meeting. If you hold your shares in your broker s name and wish to vote in person at the annual general meeting, you must contact your broker and request a legal proxy. You must bring this legal proxy to the annual general meeting in order to vote in person.

Important Notice Regarding the Availability of Proxy Materials for the Annual General Meeting of Shareholders to be held on April 22, 2015: This proxy statement, the Company s 2014 Annual Report to Shareholders and our Irish Statutory Accounts for the year ended December 31, 2014 are available at www.proxyvote.com

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Proxy Summary

This summary is intended to provide an overview of the items that you will find elsewhere in this proxy statement. As this is only a summary, we encourage you to read the entire proxy statement for more information about these topics before voting.

ANNUAL GENERAL MEETING OF SHAREHOLDERS

DATE AND TIME:	LOCATION:	RECORD DATE:
April 22, 2015	**Eaton House**	**February 23, 2015**
8:00 a.m. local time	**30 Pembroke Road** **Dublin 4, Ireland**	

MEETING AGENDA VOTING MATTERS

This year there are five proposals on the agenda. Adoption of these proposals requires the affirmative vote of a majority of ordinary shares represented at the meeting by person or by proxy.

Proposals	Board Voting Recommendations	Page
Proposal 1 To elect the 12 director nominees named in this Proxy Statement	ü FOR each nominee	8
Proposal 2 To approve a proposed 2015 Stock Plan	ü FOR	21
Proposal 3 To appoint Ernst & Young LLP as independent auditor for the 2015 fiscal year and to authorize the Audit Committee to set the auditor fees	ü FOR	28
Proposal 4 To approve, on an advisory (non-binding) basis, our named executive officers compensation as described in this Proxy Statement	ü FOR	30
Proposal 5 To authorize the Company and any subsidiaries of the Company to make overseas market purchases of Company shares	ü FOR	68

BOARD AND GOVERNANCE FACTS

In addition to executive compensation practices that strongly link pay and performance, Eaton s Code of Ethics and Board of Directors Governance polices help to ensure that we do business right. For more information about our Governance programs and Board of Directors, see Proposal 1 beginning on page 8.

Board and Governance Information	2014	Board and Governance Information	2014
Size of Board	13	Independent Directors Meet without Management Present	Yes
Average Age of Directors	62.5	Director Stock Ownership Guidelines (Readopted in 2015)	Yes
Number of Independent Directors	12	Mandatory Retirement Age	Yes
Board Meetings Held in 2014 (average director attendance 97%)	4	Board Orientation and Continuing Education Program	Yes
Annual Election of Directors	Yes	Code of Ethics for Directors, Officers and Employees	Yes
Majority Voting For Directors	Yes	Succession Planning and Implementation Process	Yes
Lead Independent Director	Yes	Comprehensive Sustainability Program	Yes

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Proxy Summary Director Nominees

DIRECTOR NOMINEES

Each director nominee is elected annually by a majority of votes cast. For more information about our nominees, see page 8 of this proxy statement.

				Board Committee Memberships				
Name	Age	Director Since	Independent	Audit	Compensation & Organization	Executive*	Finance	Governance
Todd M. Bluedorn Chairman and CEO, Lennox International Inc.	51	2010	ü	n		n	n	
Christopher M. Connor Chairman and CEO, The Sherwin-Williams Company	58	2006	ü		l	n	n	
Michael J. Critelli CEO and President, Dossia Services Corporation	66	1998	ü	n		n		n
Alexander M. Cutler Chairman, Eaton Corporation plc and CEO and President, Eaton Corporation	63	1993				l		
Charles E. Golden Retired Executive Vice President and CFO, Eli Lilly and Company	68	2007	ü		n	n	l	
Linda A. Hill Wallace Brett Donham Professor of Business Administration, Harvard Business School,	58	2012	ü		n	n		n

and former director of Cooper Industries plc								
Arthur E. Johnson Retired Senior Vice President, Corporate Strategic Development, Lockheed Martin Corporation	68	2009	ü		n	n		l
Ned C. Lautenbach **Lead Director** Retired Partner, Clayton, Dubilier & Rice, Inc.	71	1997	ü		n	n		n
Deborah L. McCoy Independent aviation safety consultant	60	2000	ü	n		n		n
Gregory R. Page Executive Chairman, Cargill, Incorporated	63	2003	ü	l		n		n
Sandra Pianalto Retired President and CEO of the Federal Reserve Bank of Cleveland	60	2014	ü		n	n	n	
Gerald B. Smith Chairman and CEO, Smith Graham & Co., and former lead independent director of Cooper Industries plc	64	2012	ü	n		n	n	

n Member l Chair

* Mr. Cutler is a member of the Executive Committee for the full 12-month term and serves as Committee Chair. Each of the non-employee directors serves a four-month term.

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Proxy Summary Director Nominees

LINKING PAY WITH PERFORMANCE

CEO Compensation and Cumulative Shareholder Returns

The following chart illustrates Mr. Cutler s compensation and cumulative return to shareholders over his tenure as the Company s Chairman and Chief Executive Officer of Eaton Corporation. The table clearly illustrates the correlation between pay and the performance we are delivering to our shareholders.

CUMULATIVE SHAREHOLDER RETURNS vs. TOTAL DIRECT COMPENSATION

Cumulative Shareholder Returns

2000 2014

Compound Annual Growth Rate

Total Direct Compensation**

- **Eaton: 13.6%**
- **Peer Group*: 11.3%**
- **S&P 500: 5.3%**

* Peer Group represents an equal weighted index of ABB, Ltd., Danaher Corporation, Dover Corporation, Emerson Electric Co., Honeywell International, Inc., Illinois Tool Works, Inc., Ingersoll-Rand plc, Legrand S.A., Parker Hannifin Corporation, Rockwell Automation, Schneider Electric SE, Siemens AG, and United Technologies Corporation.

** Total direct compensation is the sum of the annual base salary, short-term incentive award earned in each respective year, long-term cash incentive award earned for the award period ending in each respective year, and grant date value of stock and option awards granted in each respective year. There was no payment under the long-term ESIP plan in 2012. 2013 total compensation includes a $15.6M payout from the 2010-2013 ESIP. This resulted from exceeding the maximum EPS growth and CFR goals of 30% 15.1%, respectively, and from increasing our stock price by 123% over the four year period.

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Proxy Summary   Executive Compensation

EXECUTIVE COMPENSATION

We design our executive compensation plans and programs to help us attract, motivate, reward, and retain highly qualified executives who are capable of creating and sustaining value for our shareholders over the long term. We endorse compensation actions that fairly reflect company performance as well as the responsibilities and personal performance of individual executives.

Executive Compensation Program Highlights

Our executive compensation programs are intended to align the interests of our executives with those of our stakeholders and are structured to reflect best practices. Some features are included in the following chart.

2014 EXECUTIVE COMPENSATION PRACTICES

What We Do:	What We Don t Do:
ü Focus on long-term compensation using a balanced portfolio of compensation elements such as cash and equity, and deliver rewards based on sustained performance over time	× No employment contracts with any salaried U.S. employees, including NEOs
ü Stock ownership requirements for executives (6X base salary for CEO)	× No hedging or pledging of our shares
ü Shareholder-approved short-term and long-term incentive plans	× No dividend or dividend equivalent payments on unearned performance-based grants
ü Incentive plan payout caps in our short- and long-term incentive plans; this prevents unintended windfalls	× No use of the same metrics in short- and long-term incentive plans
ü Compensation recovery policy (clawbacks)	× No repricing of stock options and no discounted stock options

ü Use targeted performance metrics to align pay with performance

SAY ON PAY 2014 ADVISORY VOTE AND SHAREHOLDER ENGAGEMENT

The Board of Directors is committed to understanding the views of our shareholders by providing an opportunity to endorse our executive compensation through an advisory, non-binding vote. In 2014, our shareholders approved our executives compensation by a vote of 94%.

After carefully considering these voting results and a comprehensive assessment of Eaton s executive compensation programs, the Committee decided to make certain adjustments to our executive compensation programs beginning in 2015. These changes are summarized on page 51. The Committee will continue to review our compensation programs each year in light of the annual say-on-pay voting results.

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Proxy Statement

Eaton Corporation plc

Registered Address -

Eaton House

30 Pembroke Road

Dublin 4, Ireland

This proxy statement, the accompanying proxy form, Eaton s annual report for the year ended December 31, 2014, and our Irish Statutory Accounts for the year ended December 31, 2014 will be made available or sent to shareholders commencing on or about March 13, 2015.

Throughout this proxy statement, all references to our Board of Directors (or its committees) or officers for periods prior to November 30, 2012, are references to the Board of Directors (or its committees) or officers, respectively, of Eaton Corporation, our predecessor. Similarly, all references to the Company for such periods refer to Eaton Corporation.

PROXY SOLICITATION

Eaton s Board of Directors solicits your proxy for use at the 2015 annual general meeting of shareholders and any adjournments or postponements of the meeting.

In addition to soliciting proxies over the Internet and through the mail, certain persons may solicit proxies in person or by telephone or fax. Eaton has retained The Proxy Advisory Group, LLC, 18 East 41st Street, Suite 2000, New York, New York 10017, to assist in the solicitation of proxies, primarily from brokers, banks and other nominees, for a fee of $15,000, plus reasonable out-of-pocket expenses. Brokerage firms, nominees, custodians and fiduciaries may be asked to forward proxy soliciting material to the beneficial shareholders. All reasonable soliciting costs will be borne by Eaton.

HOW PROXIES WILL BE VOTED

The individuals named in the enclosed form of proxy have advised the Board of their intention to vote at the meeting in accordance with instructions on all proxy forms submitted by shareholders and, where no contrary instruction is indicated on the proxy form, as follows: *for* the election of the individuals nominated to serve as directors, *for* approval of the 2015 Stock Plan, *for* the appointment of Ernst & Young LLP as independent auditor for 2015 and authorizing the Audit Committee of the Board of Directors to set its remuneration, *for* advisory approval of the Company s executive compensation, and *for* the authorization of overseas market purchases of Company shares.

You may revoke a proxy by submitting a later-dated proxy, by notifying Eaton by fax, email or other verifiable communication before the meeting, or by revoking it at the meeting. All properly executed or transmitted proxies not revoked will be voted at the meeting.

VOTING AT THE MEETING

Each Eaton shareholder of record at the close of business on February 23, 2015 is entitled to one vote for each share then held. On that date, 467,515,594 Eaton ordinary shares (par value US $0.01 each) were outstanding and entitled to vote.

At the 2015 annual general meeting, the inspector of election appointed by the Board of Directors for the meeting will determine the presence of a quorum and tabulate the results of shareholder voting. As provided by the Company s Articles of Association, three shareholders present in person or by proxy at the meeting will constitute a quorum. The inspector of election intends to treat as present for these purposes shareholders who have submitted properly executed and transmitted proxies even if marked abstain as to some matters. The inspector will also treat as present shares held in street name by brokers that are voted on at least one proposal to come before the meeting.

Adoption of all proposals to come before the meeting will require the affirmative vote of a majority of the votes cast by the holders of ordinary shares represented at the annual general meeting in person or by proxy.

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Proxy Statement Voting at the Meeting

Abstentions and broker non-votes will not be considered votes cast at the annual general meeting. The practical effect of this is that abstentions and shares held in street name by brokers that are not voted in respect of these proposals will not have any effect on the outcome of voting on the proposals.

There is no requirement under Irish law that Eaton s Irish Statutory Accounts for the fiscal year ended December 31, 2014 or the related directors and auditor s reports thereon be approved by the shareholders, and no such approval will be sought at the annual general meeting.

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Proposal 1: Election of Directors

Our Board of Directors is currently comprised of 13 members, all of whom serve for a term of one year or until a respective successor is elected and has qualified. Effective at the annual general meeting, our board size will be reduced to 12 members as George S. Barrett has determined not to stand for re-election. Mr. Barrett had informed the Chair of the Governance Committee of this determination because the location, dates and timing of our meetings often directly conflict with certain of his on-going duties as Chairman and CEO of Cardinal Health. All nominees are currently Eaton directors who were elected by shareholders at the 2014 annual general meeting, except Sandra Pianalto, who was elected by the Board of Directors on July 22, 2014.

If any of the nominees become unable or decline to serve, the individuals named as proxies in the enclosed proxy form will have the authority to vote for any substitutes who may be nominated in accordance with Eaton s Articles of Association. However, we have no reason to believe that this will occur.

OUR NOMINEES

Todd M. Bluedorn

Chairman and Chief Executive Officer, Lennox International Inc. **Director Since 2010**

Age 51

Todd M. Bluedorn is Chairman and Chief Executive Officer of Lennox International Inc., a global provider of climate control solutions for heating, air conditioning and refrigeration markets. Prior to joining Lennox International, Mr. Bluedorn served in numerous senior management positions for United Technologies since 1995, including President, Americas Otis Elevator Company; President, North America Commercial Heating, Ventilation and Air Conditioning for Carrier Corporation; and President, Hamilton Sundstrand Industrial. He is also a trustee at Washington University in St. Louis.

Director Qualifications: Mr. Bluedorn has executive leadership experience in original equipment and aftermarket business and distributor/dealer-based commercial channels. He also has senior leadership experience with two major industrial corporations. His experience with industrial companies in responding to dynamic market conditions benefits Eaton as a global manufacturing company with product distribution through numerous commercial channels.

Christopher M. Connor

Chairman and Chief Executive Officer, The Sherwin-Williams Company **Director since 2006**

Age 58

Christopher M. Connor is Chairman and Chief Executive Officer of The Sherwin-Williams Company, a global manufacturer of paint, architectural coatings, industrial finishes and associated supplies. Mr. Connor has held a number of executive positions at Sherwin-Williams since 1983. He became Chief Executive Officer in 1999 and Chairman and Chief Executive Officer in 2000. He currently serves on the boards of the Federal Reserve Bank of Cleveland, United Way of Greater Cleveland, University Hospitals Health System, Playhouse Square Foundation and The Rock and Roll Hall of Fame.

Director Qualifications: As CEO of a Fortune 500 company, Mr. Connor has leadership experience and is thoroughly knowledgeable in marketing, talent development, planning, operational and financial processes. In particular, Mr. Connor has had extensive sales and marketing experience in both direct and distribution channels, and brings broad knowledge of construction, automotive and industrial markets, all areas of strategic importance to Eaton. His background and experience with human resources, talent development, compensation and management are of particular benefit to Eaton in his role as Chair of the Compensation and Organization Committee.

Proposal 1: Election of Directors Our Nominees

Michael J. Critelli

Chief Executive Officer and President, Dossia Services Corporation

Director since 1998

Age 66

Michael J. Critelli is Chief Executive Officer and President and a director of Dossia Services Corporation, a personal and population health management systems company. He has held those positions since January 2011. Mr. Critelli is the retired Executive Chairman of Pitney Bowes Inc., a provider of global mailstream solutions. Mr. Critelli served as Pitney Bowes Chairman and Chief Executive Officer from 1997 to 2007 and as Executive Chairman from 2007 to 2008. Mr. Critelli was a director of Wyeth from April 2008 until its acquisition by Pfizer Inc. in late 2009. He currently serves as a director of ProHealth Physicians, Inc.

Director Qualifications: Mr. Critelli has extensive experience in risk management, cybersecurity, industry-wide leadership in transportation, logistics, online and social media marketing and communications issues. In addition to broad business experience gained while leading a global Fortune 500 company, he is a thought leader on transportation strategy and regulatory reform, as well as innovative approaches to health care. His background and experience are valuable to our Board as it oversees management s efforts to develop and maintain talent, assess and evaluate enterprise risk management and cybersecurity issues, and navigate the regulatory environment.

Alexander M. Cutler

Director since 1993

Age 63

Chairman, Eaton Corporation plc and Chief Executive Officer and President,

Eaton Corporation

Alexander M. Cutler is Chairman of the Company and Chief Executive Officer and President of Eaton Corporation. Mr. Cutler joined Cutler-Hammer, Inc. in 1975, which was subsequently acquired by Eaton, and became President of Eaton s Industrial Group in 1986 and President of the Controls Group in 1989. He advanced to Executive Vice President

Operations in 1991, was elected Executive Vice President and Chief Operating Officer Controls in 1993, President and Chief Operating Officer in 1995, and assumed his present position in 2000. Mr. Cutler is a director of E. I. du Pont de Nemours and Company and KeyCorp. He is also a member of The Business Council and a member of the Executive Committee of the Business Roundtable.

Director Qualifications: Mr. Cutler s long tenure with Eaton and his experience in a wide range of management roles provides him important perspective on the Company to the benefit of the Board of Directors. Mr. Cutler has a detailed knowledge of Eaton s businesses, customers, end markets, sales and marketing, technology innovation and new product development, supply chains, manufacturing operations, talent development, policies and internal functions. He possesses significant corporate governance knowledge developed by current and past service on the boards of other publicly-traded companies, as well as having served as Chair of the Business Roundtable s Corporate Governance Committee.

Proposal 1: Election of Directors   Our Nominees

Charles E. Golden

Retired Executive Vice President and Chief Financial Officer,

Eli Lilly and Company

Director since 2007

Age 68

Charles E. Golden served as Executive Vice President and Chief Financial Officer and a director of Eli Lilly and Company, an international developer, manufacturer and seller of pharmaceutical products, from 1996 until his retirement in 2006. Prior to joining Eli Lilly, he had been associated with General Motors Corporation since 1970, where he held a number of positions, including Corporate Vice President, Chairman and Managing Director of the Vauxhall Motors subsidiary and Corporate Treasurer. He is currently on the board of Hill-Rom Holdings. He also serves as a director of the Lilly Endowment.

Director Qualifications: Mr. Golden has a comprehensive knowledge of both U.S. and international financial accounting standards. He has extensive experience in financial statement preparation, accounting, corporate finance, risk management and investor relations both in the U.S. and internationally. His broad financial expertise enables him to provide expert guidance and oversight in his role as Chair of the Finance Committee. Mr. Golden also has significant experience in global vehicle markets.

Linda A. Hill

Wallace Brett Donham Professor of Business Administration, Harvard Business School, and former director of Cooper Industries plc

Director since 2012

Age 58

Linda A. Hill served as a director of Cooper Industries plc from 1994 until 2012. Ms. Hill joined the Board effective upon the close of the Cooper acquisition. She is the Wallace Brett Donham Professor of Business Administration at the Harvard Business School, faculty chair of the Leadership Initiative and has chaired numerous HBS Executive Education programs. Ms. Hill is a member of the Board of Directors of State Street Corporation and Harvard Business Publishing. She is also a trustee of The Bridgespan Group and the Art Center College of Design. She is a Special Representative to the Bryn Mawr College Board of

Trustees and is on the Advisory Board of the Aspen Institute Business and Society Program.

Director Qualifications: Ms. Hill has expertise in human resource management and organizational behavior including valuable knowledge of corporate governance, talent management, implementation of global strategies and innovation through her position as a Professor at the Harvard Business School and serving as a consultant for numerous Fortune 500 corporations and other organizations. Ms. Hill s service as a director of Cooper Industries plc since 1994 benefits the process of integrating Cooper into Eaton.

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Proposal 1: Election of Directors Our Nominees

Arthur E. Johnson

Retired Senior Vice President, Corporate Strategic Development, **Director since 2009**

Lockheed Martin Corporation Age 68

Arthur E. Johnson is the retired Senior Vice President, Corporate Strategic Development of Lockheed Martin Corporation, a manufacturer of advanced technology systems, products and services. Mr. Johnson was elected a Vice President of Lockheed Martin Corporation and named President of Lockheed Martin Federal Systems in 1996. He was named President and Chief Operating Officer of Lockheed Martin s Information and Services Sector in 1997 and Senior Vice President, Corporate Strategic Development in 1999. Mr. Johnson is currently lead director of AGL Resources, Inc., a director of Booz Allen Hamilton and an independent trustee of the Fixed Income and Asset Allocation Funds of Fidelity Investments.

Director Qualifications: Mr. Johnson s role in strategic development with a leading company in the defense industry has given him an understanding of doing business with governments, strategic planning, regulatory compliance, and legislative and public policy matters. His knowledge of the global aerospace and defense industry are of particular benefit to our Board in connection with these businesses. Mr. Johnson s service as lead director of a New York Stock Exchange listed company, as well as his service on other boards, provides Eaton with valuable corporate governance expertise, which is of particular benefit to Eaton in his role as Chair of the Governance Committee.

Ned C. Lautenbach

Director since 1997

Retired Partner, Clayton, Dubilier & Rice, Inc. Age 71

Ned C. Lautenbach retired as a Partner of Clayton, Dubilier & Rice, Inc., a private equity investment firm specializing in management buyouts during 2010. Before joining the firm in 1998, Mr. Lautenbach was associated with IBM from 1968 until his retirement in 1998. While at IBM, he held a number of executive positions including serving as a member of the IBM Corporate Executive Committee. He was also Senior Vice President and Group

Executive of Worldwide Sales and Services. Mr. Lautenbach is currently chairman of the Independent Trustees of the Equity and High Income Funds of Fidelity Investments. He is also Chairman of the Board of Artis-Naples in Naples, Florida, a member of the Council on Foreign Relations and a member of the Florida Board of Governors, State University System. Mr. Lautenbach previously served as a member of the Florida Transportation Commission and as a director of Sony Corporation.

Director Qualifications: Mr. Lautenbach has extensive experience in executive, operational and oversight roles during his career. He has expertise in general management, corporate finance, sales and marketing, and corporate restructurings. All of these attributes are valuable to the Eaton Board of Directors in its role with management oversight. In addition, his role as chairman of independent trustees of prominent investment funds provides him with a unique perspective on governance issues of concern to shareholders. His broad background and experience are of particular benefit to Eaton in his role as Lead Director.

Proposal 1: Election of Directors Our Nominees

Deborah L. McCoy

Independent aviation safety consultant

Director since 2000

Age 60

Deborah L. McCoy is an independent aviation safety consultant. She retired from Continental Airlines, Inc. in 2005, where she had served as Senior Vice President, Flight Operations since 1999. During part of 2005, Ms. McCoy also briefly served as the Chief Executive Officer of DJ Air Group, a start-up commercial airline company.

Director Qualifications: Ms. McCoy has extensive experience in the commercial aerospace markets, and brings an understanding of aircraft design and performance, airline operations and the strategic issues and direction of the aerospace industry. In addition, Ms. McCoy has extensive experience in safety initiatives, Federal regulatory compliance, labor relations and talent management. All of these attributes are of benefit to Eaton s Board in its oversight role across the enterprise.

Gregory R. Page

Executive Chairman, Cargill, Incorporated

Director since 2003

Age 63

Gregory R. Page is Executive Chairman of Cargill, Incorporated, an international marketer, processor and distributor of agricultural, food, financial and industrial products and services. He was named Corporate Vice President & Sector President, Financial Markets and Red Meat Group of Cargill in 1998, Corporate Executive Vice President, Financial Markets and Red Meat Group in 1999, President and Chief Operating Officer in 2000 and became Chairman and Chief Executive Officer in 2007. He was named Executive Chairman of Cargill in 2013. Mr. Page is a director of Cargill, Incorporated, Carlson, Deere & Company, and a director and past non-executive Chair of the Board of Big Brothers Big Sisters of America. He is also President and a board member of the Northern Star Council of the Boy Scouts of America.

Director Qualifications: As Executive Chairman and former Chief Executive Officer of one of the largest global corporations, Mr. Page brings extensive leadership and global business experience, in-depth knowledge of commodity markets, and a thorough familiarity with the key operating processes of a major corporation, including financial systems and processes, global market dynamics and succession management. Mr. Page s experience and expertise provide him valuable insight on financial, operational and strategic matters in his role as Chair of the Audit Committee.

Sandra Pianalto

Retired President and Chief Executive Officer of the Federal Reserve Bank of Cleveland

Director since 2014

Age 60

Sandra Pianalto served as President and Chief Executive Officer of the Federal Reserve Bank of Cleveland from February 2003 until her retirement in June 2014. She joined the Bank in 1983 as an economist in the research department. She was appointed Assistant Vice President of public affairs in 1984, Vice President and Secretary to the board of directors in 1988, and Vice President and Chief Operating Officer in 1993. Before joining the Bank, Ms. Pianalto was an economist at the Federal Reserve Board of Governors and served on the staff of the Budget Committee of the U.S. House of Representatives. She is currently a director of The J.M. Smucker Company, Vice Chair of the board of directors of University Hospitals Health System, past chair and life director of the board of United Way of Greater Cleveland, and she holds the FirstMerit Chair in Banking at the University of Akron. Ms. Pianalto is also an advisory trustee at the University of Akron and serves on the board of College Now Greater Cleveland.

Director Qualifications: Ms. Pianalto has extensive experience in monetary policy and financial services, and brings to Eaton wide-ranging leadership and operating skills through her former roles with the Federal Reserve Bank of Cleveland. As Chief Executive Officer of the Bank, she developed expertise in economic research, management of financial institutions, and payment services to banks and the U.S. Treasury. Ms. Pianalto s comprehensive experience qualifies her to provide substantial guidance and oversight to the Board especially with regard to the Company s finances.

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Gerald B. Smith

Chairman and Chief Executive Officer, Smith Graham & Co., and former lead independent director of Cooper Industries plc

Director since 2012

Age 64

Gerald B. Smith was a director of Cooper Industries plc from 2000 until 2012 and served as lead independent director of Cooper Industries plc since 2007. Mr. Smith joined the Board effective upon the close of the Cooper acquisition. He is Chairman and Chief Executive Officer of Smith Graham & Co., an investment management firm that he founded in 1990. Prior to launching Smith Graham, he served as Senior Vice President and Director of Fixed Income for Underwood Neuhaus & Company. He is a member of the Board of Trustees and chair of the Investment Oversight Committee for The Charles Schwab Family of Funds, and serves as a director of the New York Life Insurance Company. In the past five years, Mr. Smith was a director of ONEOK Inc. and ONEOK Partners MLP. He is a director of the Federal Reserve Bank of Dallas, Houston Branch, and serves as Chairman of the Texas Southern University Foundation.

Director Qualifications: Mr. Smith has expertise in finance, portfolio management and marketing through executive positions in the financial services industry including being founder, Chairman and CEO of Smith Graham & Company. In addition, Mr. Smith s experience as a director of companies in the oil and gas and energy services businesses has provided him with valuable insight into markets in which Eaton also participates. Mr. Smith s experience as lead independent director of Cooper Industries plc since 2007 benefits the process of integrating Cooper into Eaton.

HOW NOMINEES ARE CHOSEN

Director Nomination Process

The Governance Committee of the Board, composed entirely of directors who meet the independence standards of the Board of Directors and the New York Stock Exchange, is responsible for overseeing the process of nominating individuals to stand for election as directors. The Governance Committee charter is available on our website at http://www.eaton.com/governance.

The Governance Committee will consider any director candidates recommended by our shareholders, consistent with the process used for all candidates. To learn how to submit a shareholder recommendation, see below under Shareholder Recommendations of Director Candidates.

The Governance Committee chair reviews all potential director candidates in consultation with the Chairman, typically with the assistance of a professional search firm retained by the Committee. The Committee decides whether to recommend one or more candidates to the Board of Directors for nomination. Candidates who are ultimately nominated by the Board stand for election by the shareholders at the annual general meeting. Between annual general meetings, nominees may also be elected by the Board itself. Director Sandra Pianalto was elected by the Board on July 22, 2014. Ms. Pianalto was identified as a director candidate by the Chairman and other Company directors.

Director Qualifications and Board Diversity

In order to be recommended by the Governance Committee, a candidate must have the following minimum qualifications, as described in the Board of Directors Governance Policies: personal ability, integrity, intelligence, relevant business background, independence, expertise in areas of importance to our objectives, and a commitment to our corporate mission. In addition, the Governance Committee looks for individuals with specific qualifications so that the Board as a whole has diversity in experience, international perspective, background, expertise, skills, age, gender and ethnicity. These specific qualifications may vary from one year to another, depending upon the composition of the Board at that time.

The Governance Committee is responsible for ensuring that director qualifications are met and Board balance and diversity objectives are considered during its review of director candidates. The Committee annually evaluates the extent to which these goals are satisfied as part of its yearly assessment of the skills and experience of each of the current directors using a director skills matrix and a director evaluation process. The director evaluation process includes self-evaluation, peer evaluation and input from the chairs of each Board committee. Upon completion of the skills matrix and the evaluation process, the Governance Committee identifies areas of director knowledge and experience that may benefit the Board in the future, and uses that information as part of the director search and nomination effort.

The Board of Directors Governance Policies are available on our website at http://www.eaton.com/governance.

Shareholder Recommendations of Director Candidates

The Governance Committee will consider director candidates who are recommended to it in writing by any Eaton shareholder. In accordance with Eaton s Articles of Association, any shareholder wishing to recommend an individual as a nominee for election at the 2016 annual general meeting of shareholders should send a signed letter of recommendation to the following address: Eaton Corporation plc, Attention: Company Secretary, Eaton House, 30 Pembroke Road, Dublin 4, Ireland. Recommendation letters must be received no earlier than December 13, 2015 and no later than the close of business on January 15, 2016 and must include the reasons for the recommendation, the full name and address of each proposed nominee, and a brief biographical history setting forth past and present directorships, past and present positions held, occupations and civic activities. The recommendation letter should be accompanied by a written statement from the proposed nominee consenting to be nominated and, if nominated and elected, to serve as a director.

Any shareholder wishing to recommend an individual as a nominee for election as a director must also describe in writing any financial agreement, arrangement or understanding between the nominee and any party other than the Company relating to such nominee s potential service as a director, any compensation or other payment received from any party other than the Company relating to such nominee s potential service as a director, and details regarding such agreement, arrangement or understanding and its terms, or of any compensation received.

DIRECTOR INDEPENDENCE

The Board of Directors Governance Policies provide that all of our non-employee directors should be independent. The listing standards of the New York Stock Exchange state that no director can qualify as independent unless the Board of Directors affirmatively determines that he or she has no material relationship with the Company. Additional, and more stringent, standards of independence are required of Audit Committee members. Our annual proxy statement discloses the Board s determination as to the independence of the Audit Committee members and of all non-employee directors. For our current directors, we describe these determinations here.

As permitted by the New York Stock Exchange listing standards, the Board of Directors has determined that certain categories of relationships between a non-employee director and the Company will be treated as immaterial for purposes of determining a director s independence. These categorical standards are included in the Board of Directors independence criteria. The independence criteria for non-employee directors and members of the Audit Committee are available on our website at http://www.eaton.com/governance.

Because directors independence might be influenced by their use of Company aircraft and other Company-paid transportation, the Board has adopted a policy on this subject. This policy is included in the Board of Directors Independence Criteria, which is available on our website at http://www.eaton.com/governance.

In their review of director independence, the Board of Directors and its Governance Committee have considered the following circumstances:

- Directors G. S. Barrett, T. M. Bluedorn, C. M. Connor, L. A. Hill and G. R. Page currently serve as officers, employees or directors of companies that have had purchases and/or sales of property or services with us during 2014. In each case, the amounts of the purchases and sales met the Board s categorical standard for immateriality, that is, they were less than the greater of $1 million or 2% of the annual consolidated gross revenues of the director s company. Mr. Barrett is Chairman and Chief Executive Officer of Cardinal Health. Cardinal Health purchased approximately $436,000 worth of Eaton products during 2014. Mr. Bluedorn is Chairman and CEO of Lennox International Inc., which purchased approximately $462,000 worth of Eaton products during 2014. Mr. Connor is Chairman and CEO of The Sherwin-Williams Company, which purchased approximately $63,000 worth of Eaton products and sold approximately $514,000 worth of products to Eaton during 2014. Ms. Hill is a director of Harvard Business Publishing, which provided executive training services to Eaton for an aggregate of $170,000 during 2014. Mr. Page is Executive Chairman of Cargill, Incorporated, which purchased approximately $2,818,000 worth of Eaton products and sold approximately $17,238,000 worth of products to Eaton during 2014. In addition, Cargill paid approximately $7,235,000 in royalty payments to the Company.

- The use of our aircraft and other Company-paid transportation by all non-employee directors is consistent with the Board policy on that subject.

After reviewing the circumstances described above (which are the only relevant circumstances known to the Board of Directors), the Board has affirmatively determined that none of our non-employee directors has a material relationship with the Company other than in his or her capacity as a director, and that each of the following directors qualifies as independent under the Board s independence criteria and the New York Stock Exchange standards: G. S. Barrett, T. M. Bluedorn, C. M. Connor, M. J. Critelli, C. E. Golden, L. A. Hill, A. E. Johnson, N. C. Lautenbach, D. L. McCoy, G. R. Page, S. Pianalto and G. B. Smith. All members of the Audit, Compensation and Organization, Finance and Governance Committees qualify as independent under the standards described above.

The Board has also affirmatively determined that each member of the Audit Committee, that is, G. S. Barrett, T. M. Bluedorn, M. J. Critelli, D. L. McCoy, G. R. Page and G. B. Smith meets not only our Board s independence criteria but the special independence standards required by the New York Stock Exchange and by the Sarbanes-Oxley Act of 2002 and the related rules adopted by the Securities and Exchange Commission as well.

Review of Related Person Transactions

Our Board of Directors has adopted a written policy to identify and evaluate related person transactions, that is, transactions between us and any of our executive officers, directors, director nominees, 5%-plus security holders or members of their immediate families, or organizations where they or their family members serve as officers or employees. The Board policy calls for the disinterested members of the Board s Governance Committee to conduct an annual review of all such transactions. At the Committee s direction, a survey is conducted annually of all transactions involving related persons, and the Committee reviews the results in January or February of each year. The Committee is responsible for determining whether any related person transaction (i) poses a significant risk of impairing, or appearing to impair, the judgment or objectivity of the individuals involved; (ii) poses a significant risk of impairing, or appearing to impair, the independence of an outside director or director nominee; or (iii) has terms that are less favorable to us than those generally available in the marketplace. Depending upon the Committee s assessment of these risks, the Committee will respond appropriately. In addition, as required by the rules of the Securities and Exchange Commission, any transactions that are material to a related person are disclosed in our proxy statement.

In February 2015, the Governance Committee conducted an annual survey and found that since the beginning of 2014 the only related person transactions were those described above under the heading Director Independence and that none of our executive officers engaged in any such transactions. The Committee also concluded that none of the related person transactions posed risks to the Company in any of the areas described above.

BOARD COMMITTEES

The Board of Directors has the following standing committees: Audit, Compensation and Organization, Executive, Finance and Governance.

Audit Committee

Met 11 times in 2014

Gregory R. Page

(Chair)

George S. Barrett

(through the date of the annual general meeting only)

Todd M. Bluedorn

Michael J. Critelli

Deborah L. McCoy

Gerald B. Smith

The functions of the Audit Committee include assisting the Board in overseeing:

- the integrity of our financial statements and its systems of internal accounting and financial controls;
- the independence, qualifications and performance of our independent auditor;
- the performance of our internal auditors; and
- our compliance with legal and regulatory requirements.

The Committee also has sole authority to appoint, compensate and terminate the independent auditor, and pre-approves all auditing services and permitted non-audit services that the audit firm may perform for the Company. The Committee is also responsible for negotiating the audit fees. In order to ensure continuing auditor independence, the Committee periodically considers whether there should be a rotation of the independent audit firm. In conjunction with the mandated rotation of the audit firm s lead engagement partner, the Committee and its Chair are directly involved in the selection of the audit firm s new lead engagement partner. Among its other responsibilities, the Committee meets regularly in separate Executive Sessions with our independent auditor and senior leaders of Eaton Corporation, including the Vice Chairman and Chief Financial and Planning Officer, Executive Vice President, General Counsel and Secretary, Senior Vice President-Internal Audit, and Senior Vice President-Global Ethics and Compliance; approves the Committee s report to be included in our annual proxy statement; assures that performance evaluations of the Audit Committee are conducted annually; and establishes procedures for the proper handling of complaints concerning accounting or auditing matters.

Each Committee member meets the independence requirements, and all Committee members collectively meet the other requirements, of the New York Stock Exchange, the

Sarbanes-Oxley Act of 2002 and the Securities and Exchange Commission. In addition, Committee members are prohibited from serving on more than two other public company audit committees. The Board of Directors has determined that each member of the Audit Committee is financially literate, that Messrs. Barrett, Bluedorn, Critelli, Page and Smith each qualify as an audit committee financial expert (as defined in Securities and Exchange Commission rules) and that all members of the Audit Committee have accounting or related financial management expertise.

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Proposal 1: Election of Directors Board Committees

Compensation and Organization Committee

Met 5 times in 2014

Christopher M. Connor

(Chair)

Charles E. Golden

Linda A. Hill

Arthur E. Johnson

Ned C. Lautenbach

Sandra Pianalto

The functions of the Compensation and Organization Committee include:

- reviewing proposed organization or responsibility changes at the senior officer level;
- evaluating the performance of the Company s Chairman and Eaton Corporation s Chief Executive Officer with input from all non-employee directors;
- reviewing the performance evaluations of the other senior officers;
- annually determining the aggregate amount of awards to be made under our short-term incentive compensation plans and adjusting those amounts as it deems appropriate within the terms of those plans;
- annually determining the individual awards to be made to our senior officers under our short- and long-term incentive compensation plans;
- reviewing succession planning for the Company s Chairmanand Eaton Corporation s Chief Executive Officer and for other key officer positions;
- reviewing our practices for recruiting and developing a diverse talent pool;
- determining the annual salaries and short-and long-term incentive opportunities for our senior officers;
- establishing performance objectives under our short- and long-term incentive compensation plans and assessing performance against these objectives;
- administering our stock plans;
- reviewing compensation practices as they relate to key employees to confirm that those plans remain equitable and competitive;
- reviewing significant new employee benefit plans or significant changes in such plans or changes with a disproportionate effect on our officers or primarily benefiting key employees; and
- preparing an annual report for our proxy statement regarding executive compensation.

Additional information on the Committee s processes and procedures is contained in the Compensation Discussion and Analysis portion of this proxy statement beginning on page 32.

Executive Committee

Alexander M. Cutler

(Chair)

Each non-employee director serves a

four-month term

The functions of the Executive Committee include:

- acting on matters requiring Board action during the intervals between Board meetings; and
- carrying out any function of the Board except for filling Board or Committee vacancies.

Mr. Cutler is a member of the Committee for the full 12-month term and serves as Committee Chair. Each of the non-employee directors serves a four-month term on this Committee.

Finance Committee

Met 2 times in 2014

Charles E. Golden

(Chair)

George S. Barrett

(through the date of

the annual general

meeting only)

Todd M. Bluedorn

Christopher M. Connor

Sandra Pianalto

The functions of the Finance Committee include:

- the periodic review of our financial condition and the recommendation of financial policies to the Board;
- analyzing Company policy regarding its debt-to-equity relationship;
- reviewing and making recommendations to the Board regarding our dividend policy;
- reviewing our cash flow, proposals for long- and short-term debt financing and the financial risk management program;
- meeting with and reviewing the performance of the management pension committees and any other fiduciaries appointed by the Board for pension and profit-sharing retirement plans; and
- reviewing the key assumptions used to calculate annual pension expense.

Gerald B. Smith

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Governance Committee	Met 3 times in 2014
Arthur E. Johnson (Chair) Michael J. Critelli Linda A. Hill Ned C. Lautenbach Deborah L. McCoy Gregory R. Page	The responsibilities of the Governance Committee include:

- recommending to the Board improvements in our corporate governance processes and any changes in the Board Governance Policies;
- advising the Board on changes in the size and composition of the Board;
- making recommendations to the Board regarding the structure and responsibilities of Board committees;
- annually submitting to the Board candidates for members and chairs of each standing Board committee;
- in consultation with the Chief Executive Officer of Eaton Corporation, identifying and recommending to the Board candidates for Board membership;
- reviewing and recommending to the Board the nomination of directors for re-election;
- overseeing the orientation of new directors and the ongoing education of the Board;
- recommending to the Board compensation of non-employee directors;
- administering the Board s policy on director retirements and resignations; and
- establishing guidelines and procedures to be used by the directors to evaluate the Board s performance.

Other responsibilities include providing oversight on significant public policy issues with respect to our relationships with shareholders, employees, customers, competitors, suppliers and the communities in which we operate, including such areas as ethics, compliance, environmental, health and safety issues, community relations, government relations, charitable contributions and shareholder relations.

Committee Charters and Policies

The Board committee charters are available on our website at http://www.eaton.com/governance.

In addition to the Board of Directors Governance Policies, certain other policies relating to corporate governance matters are adopted from time to time by Board committees, or by the Board itself upon recommendation of the committees.

BOARD MEETINGS AND ATTENDANCE

The Board of Directors held four meetings in 2014. Each of the directors attended at least 85% of the meetings of the Board and the committees on which he or she served. The average rate of attendance for all directors was 97%.

Director Attendance at Annual General Meeting of Shareholders The policy of the Board of Directors is that all directors should attend annual general meetings of shareholders. At the 2014 annual general meeting held April 23, 2014, all 12 members of the Board at that time were in attendance.

BOARD GOVERNANCE POLICIES

The Board revised the Board of Directors Governance Policies most recently in February 2015, as recommended by the Governance Committee of the Board. The revised Governance Policies are available on our website at http://www.eaton.com/governance.

EXECUTIVE SESSIONS OF THE NON-EMPLOYEE DIRECTORS

The Board s policy is that the non-employee directors, all of whom qualify as independent under the criteria of the Board of Directors and the New York Stock Exchange, meet in Executive Session at each regular Board meeting, without the Chairman or other members of management present, to discuss whatever topics they deem appropriate. As described more fully in Leadership Structure below, the Lead Director chairs these Executive Sessions.

At each meeting of the Audit, Compensation and Organization, Finance and Governance Committees, the Committee members (all of whom qualify as independent) hold an Executive Session, without any members of our management present, to discuss whatever topics they deem appropriate.

Reclassifications

Certain items in the prior year s consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2017 presentation.

2. INVENTORIES

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

	September 30, 2017	December 31, 2016
Parts and raw materials	$ 23,914	$ 23,978
Work-in-progress	7,948	6,628
Finished goods	5,380	4,928
	37,242	35,534
Less reserves	(4,463)	(4,436)
Inventories	$ 32,779	$ 31,098

3. STOCK-BASED COMPENSATION

Stock Incentive Plans

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

Restricted Stock

For the nine months ended September 30, 2017, 105,785 shares of unvested restricted stock were awarded at a weighted average market value of $22.56. Of the restricted shares granted, 28,025 shares have performance based vesting conditions. The value of the shares is amortized to compensation expense over the related service period, which is normally three years, or over the estimated performance period. Shares of unvested restricted stock are generally forfeited if a recipient leaves the Company before the vesting date. Shares that are forfeited become available for future awards.

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(In thousands, except per share data)

The following is a summary of restricted stock activity for the nine months ended September 30, 2017:

	Number of shares
Outstanding at beginning of period	308,542
Awarded	105,785
Vested	(123,716)
Forfeited	(16,403)
Outstanding at end of period	274,208

Stock based compensation expense, net of forfeitures of $518 and $395 was recorded for the quarter ended September 30, 2017 and 2016, respectively. For the nine months ended September 30, 2017 and 2016, stock compensation expense, net of forfeitures, of $1,473 and $1,370 was recorded, respectively.

4. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	September 30, 2017	December 31, 2016
Compensation and fringe benefits	$ 6,471	$ 7,379
Warranty reserve	924	830
Income taxes payable	2,470	183
Other accrued expenses	3,877	2,286
	$ 13,742	$ 10,678

5. DEBT OBLIGATIONS

Debt obligations consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Current Borrowings		
China Credit Facility (5.0% at September 30, 2017)	$ 526	$ 936
Current borrowings	$ 526	$ 936
Long-term Debt		
Revolving Credit Facility, long term (1)	$ 62,604	$ 71,203
Unamortized debt issuance costs	(609)	(720)
Long-term debt	$ 61,995	$ 70,483

(1) The effective rate of the Revolver is 3.37% at September 30, 2017.

Credit Agreement

On October 28, 2016, the Company entered into a Credit Agreement (the Credit Agreement) for a $125,000 revolving credit facility (the Revolving Credit Facility). The Revolving Facility includes a $50,000 accordion amount and has an initial term of five years. HSBC Bank USA, National Association is the administrative agent, HSBC Securities (USA) Inc. is the sole lead arranger, and KeyBank National Association and Wells Fargo Bank, National Association are co-syndication agents.

ALLIED MOTION TECHNOLOGIES INC.

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(In thousands, except per share data)

Borrowings under the Revolving Credit Facility are subject to terms defined in the Credit Agreement. Borrowings bear interest at the LIBOR Rate plus a margin of 1.00% to 2.25% or the Prime Rate plus a margin of 0% to 1.25%, in each case depending on the Company s ratio of total funded indebtedness to Consolidated EBITDA (the Total Leverage Ratio). At September 30, 2017, the applicable margin for LIBOR Rate borrowings was 1.75% and the applicable margin for Prime Rate borrowings was 0.75%. In addition, the Company is required to pay a commitment fee of between 0.10% and 0.25% quarterly (currently 0.175%) on the unused portion of the Revolving Credit Facility, also based on the Company s Total Leverage Ratio.

The Credit Agreement contains certain financial covenants related to minimum interest coverage and total leverage ratio at the end of each quarter. The Credit Agreement also includes other covenants and restrictions, including limits on the amount of additional indebtedness, and restrictions on the Company s ability to merge, consolidate or sell all or substantially all of its assets. The Company was in compliance with all covenants at September 30, 2017.

Other

The China Facility provides credit of approximately $1,503 (Chinese Renminbi (RMB) 10,000). The China Facility is used for working capital and capital equipment needs at the Company s China operations. The average balance for 2017 was $907 (RMB 6,167). At September 30, 2017, there was approximately $977 (RMB 6,500) available under the facility.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company s derivative financial instruments are used to manage differences in the amount, timing and duration of the Company s known or expected cash receipts and its known or expected cash payments principally related to the Company s investments and borrowings.

The Company s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. During October 2013, the Company entered into two identical interest rate swaps with a combined notional of $25,000 that amortize quarterly to a notional of $6,673 at the September 2018 maturity. One of these interest rate swaps is currently active. The Company terminated the other interest rate swap during October 2016 as part of its debt refinancing. In February 2017, the Company entered into three interest rate swaps with a combined notional of $40,000 that matures in February 2022.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2017 and 2016, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. There was no hedge ineffectiveness recorded in the Company s earnings during the quarters ended September 30, 2017 and 2016.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt. The Company estimates that an additional $211 will be reclassified as an increase to interest expense over the next year.

Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

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(In thousands, except per share data)

The tables below present the fair value of the Company s derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016 (in thousands):

		Fair Value	
Derivative Instruments	**Balance Sheet Classification**	**September 30, 2017**	**December 31, 2016**
Interest Rate Swaps	Other Liabilities	$ 208	$ 30

The effect of the Company s derivative financial instruments on the condensed consolidated statement of income and comprehensive income is as follows (in thousands):

	Net deferral in OCI of derivatives (effective portion)			
	For the quarter ended September 30,		For the nine months ended September 30,	
Derivative Instruments	**2017**	**2016**	**2017**	**2016**
Interest Rate Swaps	$ (34)	$ 39	$ (417)	$ (145)

	Net reclassification from AOCI into income (effective portion)			
	For the quarter ended September 30,		For the nine months ended September 30,	
Statement of earnings classification	**2017**	**2016**	**2017**	**2016**
Interest expense	$ 79	$ 27	$ 239	$ 89

7. INCOME TAXES

The income tax provision for interim periods is determined using an estimate of the annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, the estimate of the annual effective tax rate is updated, and if the estimated effective tax rate changes, a cumulative adjustment is made. There is a potential for volatility of the effective tax rate due to several factors, including changes in the mix of the pre-tax income and the jurisdictions to which it relates, changes in tax laws and foreign tax holidays, settlements with taxing authorities and foreign currency fluctuations.

The Company has net operating loss carryforwards in an international jurisdiction expiring in 2017. The Company evaluates the future realizability of the tax loss and credit carryforwards considering the anticipated future earnings and tax planning strategies in the international jurisdictions.

The effective income tax rate as a percentage of income before income taxes was 33.1% and 27.6% in the third quarter 2017 and 2016, respectively and 32.1% and 29.5% for the nine months ended September 30, 2017 and 2016, respectively. The 2016 effective tax rates are revised from 29.9% to 27.6% for the third quarter 2016 and from 31.5% to 29.5% for the nine months ended September 30, 2016 to reflect the revised income resulting from the error correction described in Note 1. The effective tax rates include a discrete tax (benefit) provision related to the recognition of the tax effect of share-based payment awards as follows: for the third quarter of 2017 a net discrete tax benefit of (0.2%) and for the third quarter of 2016 a net discrete tax provision 0.2%. For the nine months ended September 30, 2017 and 2016, a net discrete tax benefit of (1.2%) in each period.

The effective rate before discrete items varies from the statutory rate due to permanent differences in state taxes and the difference in US and foreign tax rates and the mix of foreign and domestic income.

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(In thousands, except per share data)

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated Other Comprehensive Income for the quarter ended September 30, 2017 and 2016 is comprised of the following (in thousands):

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At June 30, 2017	$ (822)	$ (253)	$ (7,372)	$ (8,447)
Unrealized loss on cash flow hedges		(34)		(34)
Amounts reclassified from AOCI		79		79
Foreign currency translation gain			1,829	1,829
At September 30, 2017	$ (822)	$ (208)	$ (5,543)	$ (6,573)

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At June 30, 2016	$ (688)	$ (149)	$ (8,199)	(9,036)
Unrealized loss on cash flow hedges		39		39
Amounts reclassified from AOCI		27		27
Foreign currency translation gain			383	383
At September 30, 2016	$ (688)	$ (83)	$ (7,816)	$ (8,587)

Accumulated Other Comprehensive Income for the nine months ended September 30, 2017 and 2016 is comprised of the following (in thousands):

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At December 31, 2016	$ (822)	$ (30)	$ (11,151)	$ (12,003)
		(417)		(417)

Unrealized loss on cash flow hedges				
Amounts reclassified from AOCI		239		239
Foreign currency translation gain			5,608	5,608
At September 30, 2017	$ (822)	$ (208)	$ (5,543)	$ (6,573)

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At December 31, 2015	$ (688)	$ (27)	$ (9,162)	$ (9,877)
Unrealized loss on cash flow hedges		(145)		(145)
Amounts reclassified from AOCI		89		89
Foreign currency translation gain			1,346	1,346
At September 30, 2016	$ (688)	$ (83)	$ (7,816)	$ (8,587)

The realized gains relating to the Company s interest rate swap hedges were reclassified from accumulated other comprehensive income and included in interest expense in the Condensed Consolidated Statements of Operations and Comprehensive Income.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

9. DIVIDENDS PER SHARE

The Company declared a quarterly dividend of $0.025 per share in each of the three quarters of 2017 and 2016. Total year to date dividends declared in 2017 and 2016 were $709 and $708, respectively.

10. EARNINGS PER SHARE

Basic and diluted weighted-average shares outstanding are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Basic weighted average shares outstanding	9,173	9,350	9,137	9,325
Dilutive effect of equity awards	121		128	
Diluted weighted average shares outstanding	9,294	9,350	9,265	9,325

For the three and nine months ended September 30, 2017 there were 2,412 and 6,157 common shares, respectively, subject to equity-based awards excluded from the calculation of diluted earnings per share as they would be anti-dilutive.

11. 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.

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, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Existing guidance, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under Segment Reporting due to their similar customer base and similarities in: economic characteristics; nature of products and services; and procurement, manufacturing and distribution processes. Since the Company operates in one segment, all financial information required by Segment Reporting can be found in the accompanying condensed consolidated financial statements and within this note.

The Company s wholly owned foreign subsidiaries, located in The Netherlands, Sweden, Germany, Portugal, China and Mexico are included in the accompanying condensed consolidated financial statements.

Financial information related to the foreign subsidiaries is summarized below (in thousands):

	For the three months ended September 30,		**For the nine months ended September 30,**	
	2017	**2016**	**2017**	**2016**
Revenues derived from foreign subsidiaries	$ 27,265	$ 23,218	$ 77,360	$ 75,138

Identifiable foreign assets were $83,502 and $73,378 as of September 30, 2017 and December 31, 2016, respectively.

Revenues derived from foreign subsidiaries and identifiable assets outside of the United States are primarily attributable to Europe.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

Sales to customers outside of the United States by all subsidiaries were $30,409 and $26,670 during the quarters ended September 30, 2017 and 2016, respectively; and $86,130 and $84,904 for the nine months ended September 30, 2017 and 2016, respectively.

For third quarter 2017 and 2016, one customer accounted for 18% and 24% of revenues, respectively; and for the year to date 2017 and 2016 for 19% and 20% of revenues, respectively. As of September 30, 2017 this customer represented 19% of trade receivables.

12. RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. The standard applies to inventory that is measured using first-in, first-out (FIFO) or average cost. An entity should measure inventory within the scope of the standard at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The amendments in ASU 2015-11 more closely align the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards (IFRS). The standard is effective for fiscal years beginning after December 15, 2016. The Company adopted ASU 2015-11 effective January 1, 2017 and it had no impact on its consolidated financial statements.

Recently issued accounting pronouncements

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The new standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance. All transition requirements and elections should be applied to hedging relationships existing (that is, hedging relationships in which the hedging instrument has not expired, been sold, terminated, or exercised or the entity has not removed the designation of the hedging relationship) on the date of adoption. The effect of adoption should be reflected as of the beginning of the fiscal year of adoption. The Company is currently evaluating the impact of adopting this guidance.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The guidance in ASU 2017-04 eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new ASU, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value. ASU 2017-04 is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Company is currently evaluating the impact of adopting this guidance.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The amendments affect all companies that must determine whether they have acquired or sold a business. The amendments are intended to help companies and evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. The new standard is effective for the Company beginning on January 1, 2018. The Company does not expect the adoption of this ASU to have a material impact on its condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* The objective of ASU 2016-15 is to reduce existing diversity in practice by addressing eight specific cash flow issues related to how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within

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(In thousands, except per share data)

those fiscal years. Early adoption is permitted. If early adopted, an entity must adopt all the amendments in the same period. The Company is currently evaluating the impact of the adoption of ASU 2016-15 on the Company s financial statements.

In February 2016, the FASB issued ASU 2016-02, which amends the FASB Accounting Standards Codification and creates Topic 842, *Leases*. The new topic supersedes Topic 840, *Leases*, and increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires disclosures of key information about leasing arrangements. The guidance is effective for reporting periods beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* which is a comprehensive new revenue recognition model. Under ASU 2014-09, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. ASU 2014-09 is effective for our interim and annual reporting periods beginning January 1, 2018, and is to be adopted using either a full retrospective or modified retrospective transition method. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We do not plan to early adopt the guidance. We plan to adopt ASU 2014-09 and its amendments on a modified retrospective basis and are continuing to assess all future impacts of the guidance by reviewing our current contracts with customers to identify potential differences that could result from applying the new guidance. Based on our initial review, we expect that the adoption of ASU 2014-09 will not have a material impact on our consolidated financial statements. A significant majority of our revenue is recorded when we invoice customers and is largely aligned with the meeting of identified performance obligations under ASU 2014-09. Although at this time we don t expect a material change in our revenue recognition, in the remainder of 2017 we expect to continue to evaluate the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements. As we complete our overall assessment, we are evaluating our accounting policies and practices, business processes, systems and controls to determine if changes are necessary to support the new revenue recognition and disclosure requirements. Our assessment will be completed during the year ending December 31, 2017.

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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 to differ materially from the expected results described in the forward-looking statements. The risks and uncertainties include those associated with: the domestic and foreign general business and economic conditions in the markets we serve, including political and currency risks and adverse changes in local legal and regulatory environments; the introduction of new technologies and the impact of competitive products; the ability to protect the Company s intellectual property; our ability to sustain, manage or forecast its growth and product acceptance to accurately align capacity with demand; the continued success of our customers and the ability to realize the full amounts reflected in our order backlog as revenue; the loss of significant customers or the enforceability of the Company s contracts in connection with a merger, acquisition, disposition, bankruptcy, or otherwise; our ability to meet the technical specifications of our customers; the performance of subcontractors or suppliers and the continued availability of parts and components; changes in government regulations; the availability of financing and our access to capital markets, borrowings, or financial transactions to hedge certain risks; the ability to attract and retain qualified personnel who can design new applications and products for the motion industry; the ability to implement our corporate strategies designed for growth and improvement in profits including to identify and consummate favorable acquisitions to support external growth and the development of new technologies; the ability to successfully integrate an acquired business into our business model without substantial costs, delays, or problems; our the ability to control costs, including the establishment and operation of low cost region manufacturing and component sourcing capabilities; and the additional risk factors discussed under Item 1A. Risk Factors in Part II of this report and in the Company s Annual Report in Form 10-K. 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. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict the occurrence of those matters or the manner in which they may affect us. 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 the and are believed to have a reasonable basis; however, the Company makes no assurance that expectations, beliefs or projections will be achieved.

Overview

We are a global company that designs, manufactures and sells precision and specialty motion control components and systems used in a broad range of industries. Our target markets include Vehicle, Medical, Aerospace & Defense (A&D), and Industrial/Electronics. We are headquartered in Amherst, NY, and have operations in the United States, Canada, Mexico, Europe and Asia. We are known worldwide for our expertise in electro-magnetic, mechanical and electronic motion technology. We sell component and integrated motion control solutions to end customers and original equipment manufacturers (OEMs) through our own direct sales force and authorized manufacturers representatives and distributors. Our products include brush and brushless DC motors, brushless servo and torque motors, coreless DC motors, integrated brushless motor-drives, gearmotors, gearing, modular digital servo drives, motion controllers, incremental and absolute optical encoders, and other motion control-related products.

Financial overview

The third quarter results exceeded our expectations as a result of improving economic conditions and increased demand from our target markets. We achieved considerable growth within our Medical and Industrial/Electronics markets. We have seen solid demand for our servo motor products that are used in factory automation solutions. As previously announced in October, 2017, we secured a contract for $6,800 in the defense market which is further evidence that our target market strategy and focused selling efforts are beginning to yield benefits.

The benefit of improved market conditions, the successful victories with new solutions in more applications and the addition of new customers have led to orders strengthening through the year and our backlog achieving a new record level. We have a

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solid pipeline of sales opportunities and are methodically adding new channel partners for our distribution strategy. We believe that we are executing to plan and believe we are creating a strong business foundation upon which to grow.

Operating Results

Quarter ended September 30, 2017 compared to quarter ended September 30, 2016

	For the quarter ended September 30,		2017 vs. 2016 Variance	
(in thousands)	**2017**	**2016**	**$**	**%**
Revenues	$ 64,968	$ 61,040	$ 3,928	6%
Cost of goods sold	45,422	43,133	2,289	5%
Gross profit	19,546	17,907	1,639	9%
Gross margin percentage	30.1%	29.3%		
Operating costs and expenses:				
Selling	2,822	2,431	391	16%
General and administrative	6,255	5,264	991	19%
Engineering and development	4,389	3,961	428	11%
Business development		123	(123)	100%
Amortization of intangible assets	813	802	11	1%
Total operating costs and expenses	14,279	12,581	1,698	13%
Operating income	5,267	5,326	(59)	(1)%
Interest expense	633	1,504	(871)	(58)%
Other income (expense)	65	(75)	140	(187)%
Total other expense	698	1,429	(731)	(51)%
Income before income taxes	4,569	3,897	672	17%
Provision for income taxes	(1,512)	(1,076)	(436)	41%
Net Income	$ 3,057	$ 2,821	$ 236	8%
Effective tax rate	33.1%	27.6%	6%	20%
Diluted earnings per share	$ 0.33	$ 0.30	$ 0.03	10%
Bookings	$ 72,964	$ 59,088	$ 13,876	23%
Backlog	$ 93,547	$ 77,683	$ 15,864	20%

NET INCOME: Net income increased during the third quarter due to higher volumes driving gross margin improvement and the recognition of continued interest rate savings.

EBITDA AND ADJUSTED EBITDA: EBITDA was $7,832 for the third quarter of 2017 compared to $7,860 for the same quarter last year. Adjusted EBITDA was $8,351 and $8,378 for the third quarter of 2017 and 2016, respectively. EBITDA and adjusted EBITDA are non-GAAP measurements. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA also excludes stock compensation expense and certain other items. Refer to information included in Non - GAAP Measures below for a reconciliation of net income to EBITDA and adjusted EBITDA.

REVENUES: For the quarter, the increase in revenues reflects increased demand in all of our markets except for the Vehicle markets.

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Sales to U.S. customers were 53% of total sales for the quarter compared with 56% for the same period last year, with the balance of sales to customers primarily in Europe, Canada and Asia. Sales volume increased by 4% for the quarter and there was a 2% increase in sales due to the dollar weakening against the foreign currencies where we do business, primarily the Euro and the Swedish Krona.

ORDER BACKLOG: The increase in bookings in the third quarter of 2017 compared to the third quarter of 2016 is largely due to the increased demand across all of our markets outside of Vehicle. The increase in backlog as of September 30, 2017, compared to at September 30, 2016 is attributable to our strategy in penetrating deeper into specific markets and an increase in long term orders with firm production releases from domestic and European customers.

GROSS PROFIT AND MARGIN: Gross margin increased in third quarter 2017 compared to third quarter 2016 due to the increased sales volumes.

SELLING EXPENSES: Selling expenses increased in the third quarter of 2017 compared to the same period of 2016 primarily due to increased investment and growth of the One Allied Sales Organization. Selling expenses as a percentage of revenues were 4% in the third quarter of 2017 and 2016.

GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses increased by 19% in the third quarter 2017 from the third quarter 2016. As a percentage of revenues, general and administrative expenses increased to 10% for the period ended September 30, 2017 compared to 9% for the same period in 2016. The increase relates largely to increased incentive compensation accruals resulting from an improved level of profitability.

ENGINEERING AND DEVELOPMENT EXPENSES: Engineering and development expenses increased by 11% in the third quarter of 2017 compared to the same quarter last year. The increase is primarily due to the continued ramp up of development projects to meet the future needs of target markets, primarily at our European locations. As a percentage of revenues, engineering and development expenses were 7% for the third quarter of 2017 and 2016.

BUSINESS DEVELOPMENT COSTS: The Company did not incur any business development costs for the third quarter of 2017. For the same period in 2016, the Company incurred $123 of business development costs partially related to the acquisition of Heidrive GmbH on January 12, 2016.

AMORTIZATION OF INTANGIBLE ASSETS: Amortization expense was flat between the third quarter of 2017 compared to the third quarter of 2016.

INCOME TAXES: The effective income tax rate as a percentage of income before income taxes was 33.1% and 27.6% in the third quarter 2017 and 2016, respectively. The 2016 effective tax rates are revised from 29.9% to 27.6% for the third quarter 2016 to reflect the revised income resulting from the error correction described in Note 1. The effective tax rates include a discrete tax (benefit) provision related to the recognition of the tax effect of share-based payment awards as follows: for the third quarter of 2017 a net discrete tax benefit of (0.2%) and for the third quarter of 2016 a net discrete tax provision 0.2%. The effective tax rate differs from the statutory rate primarily due to differences in foreign tax rates. The effective rate is higher for the third quarter 2017 than 2016 due to the mix of income from domestic vs. foreign jurisdictions.

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Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

(in thousands)	**For the nine months ended September 30, 2017**	**2016**	**2017 vs. 2016 Variance $**	**%**
Revenues	$ 186,657	$ 190,550	$ (3,893)	(2)%
Cost of goods sold	131,529	134,274	(2,745)	(2)%
Gross profit	55,128	56,276	(1,148)	(2)%
Gross margin percentage	29.5%	29.5%		
Operating costs and expenses:				
Selling	8,135	7,490	645	9%
General and administrative	17,985	17,551	434	2%
Engineering and development	12,984	12,185	799	7%
Business development		341	(341)	100%
Amortization of intangible assets	2,405	2,409	(4)	(0)%
Total operating costs and expenses	41,509	39,976	1,533	4%
Operating income	13,619	16,300	(2,681)	(16)%
Interest expense	1,797	4,626	(2,829)	(61)%
Other income (expense)	135	(190)	325	(171)%
Total other expense	1,932	4,436	(2,504)	(56)%
Income before income taxes	11,687	11,864	(177)	(1)%
Provision for income taxes	(3,746)	(3,495)	(251)	7%
Net Income	$ 7,941	$ 8,369	$ (428)	(5)%
Effective tax rate	32.1%	29.5%	3%	9%
Diluted earnings per share	$ 0.86	$ 0.90	$ (0.04)	(4)%
Bookings	$ 199,177	$ 193,826	$ 5,351	3%
Backlog	$ 93,547	$ 77,683	$ 15,864	20%

NET INCOME: Net income decreased during 2017 due predominantly to the impact of decreased volumes in our Vehicle market.

EBITDA AND ADJUSTED EBITDA: EBITDA was $21,074 for 2017 compared to $23,799 last year. Adjusted EBITDA was $22,547 and $24,687 for 2017 and 2016, respectively. EBITDA and adjusted EBITDA are non-GAAP measurements. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA also excludes stock compensation expense and certain other items. Refer to information included in Non - GAAP Measures below for a reconciliation of net income to EBITDA and adjusted EBITDA.

REVENUES: For 2017, the decrease in revenues reflects lower sales in our Vehicle market. All other markets that Allied serves have shown increases year over year.

Sales to U.S. customers were 54% of total sales for 2017 compared with 55% for the same period last year, with the balance of sales to customers primarily in Europe, Canada and Asia.

ORDER BACKLOG: The increase in orders from year-to-date 2016 to year-to-date 2017 is reflective of the overall increase in demand across our served markets outside of Vehicle. The increase in backlog as of September 30, 2017 compared to at September 30, 2016 is attributable to our strategy in penetrating deeper into specific markets, and an increase in long term orders with firm production releases at both domestic and European customers.

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GROSS PROFIT AND MARGIN: Gross profit and margin was flat between 2017 and 2016.

SELLING EXPENSES: Selling expenses increased in 2017 compared to 2016 primarily due to increased investment and focused growth of the One Allied Sales Organization. Selling expenses as a percentage of revenues were consistent at 4% for 2017 and 2016.

GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses increased by 3% in 2017 compared to 2016 largely due to increased incentive compensation expense. As a percentage of revenues, general and administrative expenses increased to 10% for 2017 from 9% in 2016.

ENGINEERING AND DEVELOPMENT EXPENSES: Engineering and development expenses increased by 7% in 2017 compared to 2016. The increase is primarily due to the continued ramp up of development projects to meet the future needs of target markets, particularly at our European locations as well as supporting growing customer application development. As a percentage of revenues, engineering and development expenses were 7% for 2017 and 6% for 2016.

BUSINESS DEVELOPMENT COSTS: The Company incurred $341 of business development costs during 2016 related to the acquisition of Heidrive GmbH on January 12, 2016.

AMORTIZATION OF INTANGIBLE ASSETS: Amortization expense was flat in 2017 compared to 2016.

INCOME TAXES: The effective income tax rate as a percentage of income before income taxes was 32.1% and 29.5% for the nine months ended September 30, 2017 and 2016, respectively. The 2016 effective tax rates are revised from 31.5% to 29.5% for the nine months ended September 30, 2016 to reflect the revised income resulting from the error correction described in Note 1. The effective tax rates include a discrete tax (benefit) provision related to the recognition of the tax effect of share-based payment awards. For the nine months ended September 30, 2017 and 2016, there was a net discrete tax benefit of (1.2%) in each period. The effective tax rate differs from the statutory rate primarily due to differences in foreign tax rates. The effective rate is higher for the nine months ended September 30, 2017 than 2016 due to the mix of income from domestic vs. foreign jurisdictions.

Non-GAAP Measures

EBITDA and Adjusted EBITDA are provided for information purposes only and are not measures of financial performance under GAAP.

The Company believes the presentation of these financial measures reflecting non-GAAP adjustments provides important supplemental information in evaluating the operating results of the Company as distinct from results that include items that are not indicative of ongoing operating results; in particular, those charges and credits that are not directly related to operating unit performance, and that are not a helpful measure of the performance of our underlying business particularly in light of their unpredictable nature. This non-GAAP disclosure has limitations as an analytical tool, should not be viewed as a substitute for net income determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company s results as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies. In addition, supplemental presentation should not be construed as an inference that the Company s future results will be unaffected by similar adjustments to net income determined in accordance with GAAP.

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

The Company also believes that Adjusted EBITDA provides helpful information about the operating performance of its business. Adjusted EBITDA excludes stock compensation expense, as well as certain income or expenses which are not indicative of the ongoing performance of the Company. EBITDA and Adjusted EBITDA do not represent and should not be considered as an alternative to net income, operating income, net cash provided by operating activities or any other measure for determining operating performance or liquidity that is calculated in accordance with generally accepted accounting principles.

The Company s calculation of EBITDA and Adjusted EBITDA for the quarters ended September 30, 2017 and 2016 is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net income as reported	$ 3,057	$ 2,821	$ 7,941	$ 8,369
Interest expense	633	1,504	1,797	4,626
Provision for income tax	1,512	1,076	3,746	3,495
Depreciation and amortization	2,630	2,459	7,590	7,309
EBITDA	7,832	7,860	21,074	23,799
Stock compensation expense	519	395	1,473	1,370
Business development costs		123		341
Insurance recoveries				(823)
Adjusted EBITDA	$ 8,351	$ 8,378	$ 22,547	$ 24,687

Liquidity and Capital Resources

The Company s liquidity position as measured by cash and cash equivalents increased by $5,060 to a balance of $17,302 at September 30, 2017 from December 31, 2016.

	Nine months ended September 30,		2017 vs. 2016
	2017	2016	$
Net cash provided by (used in) operating activities	$ 15,312	$ 9,965	$ 5,347
Net cash used in investing activities	(4,220)	(19,743)	15,523
Net cash (used in) provided by financing activities	(9,908)	745	(10,653)
Effect of foreign exchange rates on cash	933	297	636
Net increase (decrease) in cash and cash equivalents	$ 2,117	$ (8,736)	$ 10,853

The 2017 increase in cash provided by operating activities reflects the favorable working capital dynamics of Allied Motion. During 2016, the decrease in cash provided by operating activities was primarily due to the impact of the Heidrive acquisition which created certain working capital needs, primarily related to trade receivables and acquired liabilities.

The significant cash used for investing activities in 2016 reflects the acquisition of Heidrive in the first quarter for $16,049 net of cash acquired. For the period ending September 30, 2017, purchases of property and equipment were $4,220 compared to

$3,694 for the comparable period of 2016.

The change in cash used in financing activities reflects the 2016 use of the existing foreign revolver of $10,859 (10,000) to partially finance the Heidrive acquisition. During 2017, payments of $9,114 were made towards the Revolving Credit Facility obligation. At September 30, 2017, we had approximately $62,604 of obligations under the Revolving Credit Facility.

The Credit Agreement contains certain financial covenants related to minimum interest coverage and total leverage ratio at the end of each quarter. The Credit Agreement also includes other covenants and restrictions, including limits on the amount of additional indebtedness, and restrictions on the ability to merge, consolidate or sell all or substantially all our assets. We were in compliance with all covenants at September 30, 2017.

As of September 30, 2017, the amount available to borrow under the Credit Agreement was approximately $62,396.

There were approximately $409 (RMB 3,000 RMB) of payments for the China Facility during the year to date 2017. The balance at September 30, 2017 was $526 (RMB 3,500). At September 30, 2017, there was approximately $977 (RMB 6,500) available under the facility.

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During the quarter ended September 30, 2017, the Company paid dividends of $0.025 per share. The Company s working capital, capital expenditure and dividend requirements are expected to be funded from cash provided by operations and amounts available under the Credit Agreement.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Foreign Currency

The Company has foreign operations in The Netherlands, Sweden, Germany, China, Portugal, Canada, Czech Republic and Mexico, which expose the Company to foreign currency exchange rate fluctuations due to transactions denominated in Euros, Swedish Krona, Chinese Yuan Renminbi, Canadian dollar and Mexican pesos, respectively. The Company continuously evaluates its foreign currency risk and will take action from time to time in order to best mitigate these risks. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency exposures would have had an impact of approximately $2,900 on our third quarter 2017 sales and $8,300 on our year to date 2017 sales. These amounts are not indicative of the hypothetical net earnings impact due to partially offsetting impacts on cost of sales and operating expenses in those currencies. The Company estimates that foreign currency exchange rate fluctuations during the three months ended September 30, 2017 increased sales in comparison to the three months ended September 30, 2016 by approximately $1,300. On a year to date basis, we estimate that foreign currency exchange rate fluctuations decreased sales in 2017 compared to 2016 by approximately $500.

The Company translates all assets and liabilities of its foreign operations, where the U.S. dollar is not the functional currency, at the period-end exchange rate and translate sales and expenses at the average exchange rates in effect during the period. The net effect of these translation adjustments is recorded in the Condensed Consolidated Financial Statements as Comprehensive Income. The translation adjustment was a gain of approximately $1,800 and $400 in the third quarter of 2017 and 2016, respectively. The translation adjustment was a gain of approximately $5,600 and $1,300 for year to date 2017 and 2016, respectively. Translation adjustments are not adjusted for income taxes as they relate to permanent investments in our foreign subsidiaries. Net foreign currency transaction gains and losses included in other income, net amounted to a loss of $109 and a gain of $5 for the third quarter of 2017 and 2016, respectively. For the nine months ended September 30, 2017 and 2016, a loss of $262 and $20 were recognized in other income, respectively. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency net assets would have had an impact of approximately $7,300 on our foreign net assets as of September 30, 2017.

Interest Rates

Interest rates on the Company s Revolving Facility are based on the LIBOR plus a margin of 1.00% to 2.25% (currently 1.75%) or the Prime Rate plus a margin of 0% to 1.25% (currently 0.75%), in each case depending on the Company s ratio of total funded indebtedness to Consolidated EBITDA. The Company uses interest rate derivatives to add stability to interest expense and to manage its exposure to interest rate movements. The Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. During October 2013, the Company entered into two interest rate swaps with a combined notional of $25,000 (representing 50% of the Term Loan balance at that time) that amortize quarterly to a notional of $6,673 at maturity. The notional amount changes over time as loan payments are made. As a requirement of the debt refinance, one of the swaps was liquidated. In February 2017, the Company entered into three interest rate swaps with a combined notional of $40,000 that matures in February 2022.

As of September 30, 2017, the Company had $62,604 outstanding under the Revolving Facility, of which $45,281 is currently being hedged. Refer to Note 6 of the *Notes to Condensed Consolidated Financial Statements* for additional information about our outstanding debt. A hypothetical one percentage point (100 basis points) change in the Base Rate on the $17,323 of unhedged floating rate debt outstanding at September 30, 2017 would not have a material impact on its interest expense for the third quarter 2017 or nine months ending September 30, 2017, respectively.

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Item 4. Controls and Procedures

Conclusion regarding the effectiveness of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (principal accounting officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of September 30, 2017. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on management s evaluation of our disclosure controls and procedures as of September 30, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in internal control over financial reporting

The Company is in the process of implementing a financial reporting system, Hyperion Financial Management (HFM), as part of a multi-year plan to integrate and upgrade our systems and processes. The implementation has occurred in phases throughout 2017 and is expected to be completed during the fourth quarter 2017. Currently the Company is utilizing HFM in parallel with its existing financial reporting process until validation and testing is completed.

As part of the HFM implementation, certain changes to our processes and procedures have and will continue to occur. These changes will result in changes to our internal control over financial reporting. While HFM is designed to strengthen our internal financial controls by automating certain manual processes and standardizing business processes and reporting across our organization, management will continue to evaluate and monitor our internal controls as each of the affected areas evolve.

During the quarter ended September 30, 2017, there have been no other changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company s Form 10-K for the year ended December 31, 2016, except to the extent factual information disclosed elsewhere in this form 10-Q relates to such risk factors. For a full discussion of these risk factors, please refer to Item 1A. Risk Factors in the 2016 Annual Report in Form 10-K.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

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.

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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.
101	The following materials from Allied Motion Technologies Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations and comprehensive income, (iii) condensed consolidated statements of cash flows and (iv) the notes to the consolidated financial statements.

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SIGNATURES

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

DATE:	November 1, 2017	ALLIED MOTION TECHNOLOGIES INC.
		By: /s/ Michael R. Leach Michael R. Leach *Chief Financial Officer*