

Altra Holdings, Inc.  
Form 10-Q  
November 07, 2012  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 29, 2012

or

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

For the transition period from            to

Commission File Number: 001-33209

**ALTRA HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>61-1478870</b> (I.R.S. Employer Identification No.)
<b>300 Granite Street, Suite 201, Braintree, MA</b> (Address of principal executive offices)	<b>02184</b> (Zip Code)
<b>(781) 917-0600</b> (Registrant's telephone number, including area code)	

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

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

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

Large Accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company.)	Smaller reporting company <input type="checkbox"/>

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

As of October 23, 2012, 26,888,216 shares of Common Stock, \$0.001 par value per share, were outstanding.

**Table of Contents**

***TABLE OF CONTENTS***

	Page #
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (unaudited)</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
Item 4. <u>Controls and Procedures</u>	41
<b><u>PART II - OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	42
Item 1A. <u>Risk Factors</u>	42
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
Item 3. <u>Defaults Upon Senior Securities</u>	42
Item 4. <u>Mine Safety Disclosures</u>	42
Item 5. <u>Other Information</u>	43
Item 6. <u>Exhibits</u>	43
<b><u>SIGNATURES</u></b>	44
<b><u>EXHIBITS</u></b>	
EX-10.2 Amended and Restated Employment Agreement	
EX-31.1 Section 302 Certification of Chief Executive Officer	
EX-31.2 Section 302 Certification of Chief Financial Officer	
EX-32.1 Section 906 Certification of Chief Executive Officer	
EX-32.2 Section 906 Certification of Chief Financial Officer	
EX-101 Certain materials formatted in XBRL	

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements (unaudited)****ALTRA HOLDINGS, INC.****Condensed Consolidated Balance Sheets**

Amounts in thousands, except share amounts

	September 29, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 88,136	\$ 92,515
Trade receivables, less allowance for doubtful accounts of \$1,894 and \$1,092 at September 29, 2012 and December 31, 2011, respectively	94,513	91,859
Inventories	124,336	125,970
Deferred income taxes	5,840	5,856
Income tax receivable	3,013	7,299
Prepaid expenses and other current assets	6,752	7,141
<b>Total current assets</b>	<b>322,590</b>	<b>330,640</b>
Property, plant and equipment, net	136,645	123,464
Intangible assets, net	78,405	77,108
Goodwill	85,027	83,799
Deferred income taxes	1,497	1,614
Other non-current assets, net	8,191	13,360
<b>Total assets</b>	<b>\$ 632,355</b>	<b>\$ 629,985</b>
<b>LIABILITIES, NON-CONTROLLING INTEREST AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 41,495	\$ 52,768
Accrued payroll	20,841	19,734
Accruals and other current liabilities	36,413	28,798
Deferred income taxes	102	118
Current portion of long-term debt	997	688
<b>Total current liabilities</b>	<b>99,848</b>	<b>102,106</b>
Long-term debt - less current portion and net of unaccreted discount	241,614	263,361
Deferred income taxes	36,269	35,798
Pension liabilities	11,213	12,896
Other post retirement benefits	254	296
Long-term taxes payable	1,303	6,227
Other long-term liabilities	743	905
Redeemable non-controlling interest	1,298	
Stockholders' equity:		
Common stock (\$0.001 par value, 90,000,000 shares authorized, 26,718,610 and 26,600,056 issued and outstanding at September 29, 2012 and December 31, 2011, respectively)	27	27
Additional paid-in capital	151,562	150,234

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Retained earnings	110,160	83,211
Accumulated other comprehensive income	(21,936)	(25,076)
Total stockholders' equity	239,813	208,396
Total liabilities, non-controlling interest and stockholders' equity	\$ 632,355	\$ 629,985

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Table of Contents****ALTRA HOLDINGS, INC.****Condensed Consolidated Statement of Comprehensive Income**

Amounts in thousands, except per share data

	Quarter Ended		Year to Date Ended	
	September 29, 2012 (Unaudited)	October 1, 2011 (Unaudited)	September 29, 2012 (Unaudited)	October 1, 2011 (Unaudited)
Net sales	\$ 174,488	\$ 177,853	\$ 554,816	\$ 503,095
Cost of sales	122,477	124,824	390,130	353,821
Gross profit	52,011	53,029	164,686	149,274
Operating expenses:				
Selling, general and administrative expenses	30,785	31,577	94,666	84,005
Research and development expenses	2,823	2,801	8,792	7,544
	33,608	34,378	103,458	91,549
Income from operations	18,403	18,651	61,228	57,725
Other non-operating (income) expense:				
Interest expense, net	6,637	6,698	18,915	18,014
Other non-operating (income) expense, net	402	216	1,834	(668)
	7,039	6,914	20,749	17,346
Income before income taxes	11,364	11,737	40,479	40,379
Provision (benefit) for income taxes	2,846	(403)	10,836	8,600
Net income	8,518	12,140	29,643	31,779
Net loss attributable to non-controlling interest	29		29	
Net income attributable to Altra Holdings, Inc.	\$ 8,547	\$ 12,140	\$ 29,672	\$ 31,779
<b>Other Comprehensive Income</b>				
Foreign currency translation adjustment	6,605	(7,008)	3,140	(1,439)
Total comprehensive income	15,152	5,132	32,812	30,340
Comprehensive loss attributable to non-controlling interest				
Comprehensive income attributable to Altra Holdings, Inc.	\$ 15,152	\$ 5,132	\$ 32,812	\$ 30,340
Weighted average shares, basic	26,675	26,546	26,632	26,508
Weighted average shares, diluted	26,708	26,655	26,737	26,712
Net income per share:				
Basic net income attributable to Altra Holdings, Inc	\$ 0.32	\$ 0.46	\$ 1.11	\$ 1.20
Diluted net income attributable to Altra Holdings, Inc.	\$ 0.32	\$ 0.46	\$ 1.11	\$ 1.19

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Cash dividend declared \$ 0.05 \$ \$ 0.10 \$

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Table of Contents****ALTRA HOLDINGS, INC.****Condensed Consolidated Statements of Cash Flows**

Amounts in thousands

	Year to Date Ended	
	September 29, 2012 (Unaudited)	October 1, 2011 (Unaudited)
<b>Cash flows from operating activities</b>		
Net income	\$ 29,643	\$ 31,779
Adjustments to reconcile net income to net cash flows:		
Depreciation	15,038	13,258
Amortization of intangible assets	5,052	4,568
Amortization of deferred financing costs	1,447	1,372
Loss (gain) on foreign currency, net	44	(324)
Accretion of debt discount, net	2,585	1,887
Stock-based compensation	2,233	1,933
Changes in assets and liabilities:		
Trade receivables	(2,134)	(17,671)
Inventories	3,106	(13,873)
Accounts payable and accrued liabilities	(557)	9,552
Other current assets and liabilities	984	880
Other operating assets and liabilities	(2,948)	(4,254)
Net cash provided by operating activities	54,493	29,107
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(25,162)	(13,840)
Proceeds from sale of Chattanooga Facility		1,484
Acquisition of Lamiflex, net of \$68 cash received	(7,444)	
Acquisition of Bauer, net of \$41 cash received		(69,460)
Net cash used in investing activities	(32,606)	(81,816)
<b>Cash flows from financing activities</b>		
Payment of issuance costs for Convertible Notes		(3,414)
Proceeds from issuance of Convertible Notes		85,000
Purchase of 8 1/8 Senior Secured Notes	(21,000)	(8,230)
Redemption of variable rate demand revenue bonds related to the Chattanooga facility		(2,290)
Redemption of variable rate demand revenue bonds related to the San Marcos facility	(3,000)	
Shares surrendered for tax withholdings	(905)	(914)
Dividend payment	(1,348)	
Payment on mortgages	(736)	(516)
Net payments on capital leases	(303)	(627)
Net cash (used in) provided by financing activities	(27,292)	69,009
Effect of exchange rate changes on cash and cash equivalents	1,026	1,238
Net change in cash and cash equivalents	(4,379)	17,538



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Cash and cash equivalents at beginning of year	92,515	72,723
Cash and cash equivalents at end of period	\$ 88,136	\$ 90,261
Cash paid during the period for:		
Interest	\$ 11,848	\$ 10,462
Income taxes	\$ 8,567	\$ 9,685

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Table of Contents****ALTRA HOLDINGS, INC.****Consolidated Statement of Stockholders Equity**

Amounts in thousands

	Common Stock	Shares	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Redeemable Non- Controlling Interest
Balance at January 1, 2011	\$ 26	26,466	\$ 133,861	\$ 45,536	\$ (14,671)	\$ 164,752	\$
Stock based compensation and vesting of restricted stock		130	1,019			1,019	
Net income				31,779		31,779	
Convertible Notes			24,510			24,510	
Deferred taxes on Convertible Notes			(9,393)			(9,393)	
Deferred financing costs on Convertible Notes			(990)			(990)	
Cumulative foreign currency translation adjustment					(1,439)	(1,439)	
Balance at October 1, 2011	\$ 26	26,596	\$ 149,007	\$ 77,315	\$ (16,110)	\$ 210,238	\$
Balance at January 1, 2012	\$ 27	26,600	\$ 150,234	\$ 83,211	\$ (25,076)	\$ 208,396	\$
Stock based compensation and vesting of restricted stock		119	1,328			1,328	
Net income				29,643		29,643	
Net loss attributable to non-controlling interest							(29)
Fair value of non-controlling interest at acquisition							1,327
Dividends declared				(2,694)		(2,694)	
Cumulative foreign currency translation adjustment					3,140	3,140	
Balance at September 29, 2012	\$ 27	26,719	\$ 151,562	\$ 110,160	\$ (21,936)	\$ 239,813	\$ 1,298

**Table of Contents****ALTRA HOLDINGS, INC.****Notes to Unaudited Condensed Consolidated Interim Financial Statements****Amounts in thousands, unless otherwise noted****1. Organization and Nature of Operations**

Headquartered in Braintree, Massachusetts, Altra Holdings, Inc. (the Company), through its wholly-owned subsidiary Altra Industrial Motion, Inc. (Altra Industrial), is a leading multi-national designer, producer and marketer of a wide range of electro-mechanical power transmission and motion control products. The Company brings together strong brands covering over 50 product lines with production facilities in nine countries and sales coverage in over 70 countries. The Company's leading brands include Boston Gear, Warner Electric, TB Woods, Formsprag Clutch, Ameridrives Couplings, Industrial Clutch, Kilian Manufacturing, Marland Clutch, Nuttall Gear, Stieber Clutch, Wichita Clutch, Twiflex Limited, Bibby Transmissions, Matrix International, Inertia Dynamics, Huco Dynatork, Warner Linear, Bauer Gear Motor, and PowerFlex.

**2. Basis of Presentation**

The Company was formed on November 30, 2004 following acquisitions of The Kilian Company (Kilian) and certain subsidiaries of Colfax Corporation (Colfax). During 2006, the Company acquired Hay Hall Holdings Limited (Hay Hall) and Bear Linear. On April 5, 2007, the Company acquired TB Woods Corporation (TB Woods), and on October 5, 2007, the Company acquired substantially all of the assets of All Power Transmission Manufacturing, Inc. On May 29, 2011, the Company acquired substantially all of the assets of Danfoss Bauer GmbH relating to its gear motor business. On July 11, 2012, the Company acquired 85% of privately held Lamiflex do Brasil Equipamentos Industriais Ltda. (Lamiflex) relating to its high-speed disc couplings business.

**Non-controlling Interest** The Company recorded the redeemable non-controlling interest from its acquisition of an 85% ownership interest of Lamiflex at fair value at the date of acquisition. In connection with this acquisition, the Company entered into put and call option agreements with the minority shareholders for the potential purchase of the non-controlling interest at a future date at a value based on a contractually determined formula. As a result of the option agreements, the non-controlling interest is considered redeemable and is classified as temporary equity on the Company's condensed consolidated balance sheet. The non-controlling interest is reviewed at each subsequent reporting period and adjusted, as needed, to reflect its then redemption value.

The Company's unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of September 29, 2012 and December 31, 2011, results of operations for the quarter and year to date periods ended September 29, 2012 and October 1, 2011, and cash flows for the year to date periods ended September 29, 2012 and October 1, 2011.

The Company follows a four, four, five week calendar per quarter with all quarters consisting of thirteen weeks of operations with the fiscal year end always on December 31.

**3. Fair Value of Financial Instruments**

The carrying values of financial instruments, including accounts receivable, cash equivalents, accounts payable and other accrued liabilities, approximate their fair values due to their short-term maturities. The carrying amount of the 8<sup>1</sup>/<sub>8</sub>% Senior Secured Notes (the Senior Secured Notes) was \$177.0 million and \$198.0 million at September 29, 2012 and December 31, 2011, respectively. The estimated fair value of the Senior Secured Notes at September 29, 2012 and December 31, 2011 was \$189.7 million and \$210.4 million, respectively, based on quoted market prices for such notes (level 2).

The carrying amount of the 2.75% Convertible Senior Notes (the Convertible Notes) was \$85.0 million at each of September 29, 2012 and December 31, 2011. The estimated fair value of the Convertible Notes at September 29, 2012 and December 31, 2011, was \$83.6 million and \$79.1 million, respectively, based on quoted market prices for such notes (level 2).



**Table of Contents**

Included in cash and cash equivalents as of September 29, 2012 and December 31, 2011 were money market fund investments of \$38.1 million and \$48.9 million, respectively, which are reported at fair value based on quoted market prices for such investments (level 1).

**4. Net Income per Share**

Basic earnings per share is based on the weighted average number of shares of common stock outstanding, and diluted earnings per share is based on the weighted average number of shares of common stock outstanding and all potentially dilutive common stock equivalents outstanding. Common stock equivalents are included in the per share calculations when the effect of their inclusion would be dilutive.

The following is a reconciliation of basic to diluted net income per share:

	Quarter Ended		Year to Date Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net income attributable to Altra Holdings, Inc	\$ 8,547	\$ 12,140	\$ 29,672	\$ 31,779
Shares used in net income per common share - basic	26,675	26,546	26,632	26,508
Incremental shares of unvested restricted common stock	33	109	105	204
Shares used in net income per common share - diluted	26,708	26,655	26,737	26,712
<b>Earnings per share:</b>				
Basic net income attributable to Altra Holdings, Inc.	\$ 0.32	\$ 0.46	\$ 1.11	\$ 1.20
Diluted net income attributable to Altra Holdings, Inc.	\$ 0.32	\$ 0.46	\$ 1.11	\$ 1.19

The Company excluded 3,085,874 shares related to the Convertible Notes (see Note 11) from the above earnings per share calculation as these shares were anti-dilutive.

**5. Acquisitions**

In May 2011, the Company consummated an agreement to acquire substantially all of the assets and liabilities of Danfoss Bauer GmbH relating to its gear motor business ( Bauer ) for cash consideration of 43.1 million (\$62.3 million). This transaction is referred to as the Bauer Acquisition. Following closing, the Company made additional payments in the amount of 4.8 million (\$7.0 million) to reflect an adjustment for working capital and 0.1 million (\$0.2 million) to reflect an adjustment for pension liability.

The closing date of the Bauer Acquisition was May 29, 2011, and as a result, the Company's consolidated financial statements reflect Bauer's results of operations from the beginning of business on May 30, 2011 forward.

In July 2012, the Company consummated an agreement to acquire 85% of privately held Lamiflex do Brasil Equipamentos Industriais Ltda. now known as Lamiflex Do Brasil Equipamentos Industriais S.A. This transaction is known as the Lamiflex Acquisition. The Company acquired 85% of the stock of Lamiflex for 17.4 million Reais (\$8.6 million), which was subject to a reduction of 2.1 million Reais (\$1.1 million) for estimated net debt at closing. The net debt assumed at closing is subject to a final net debt calculation adjustment.

The closing date of the Lamiflex Acquisition was July 11, 2012, and as a result, the Company's consolidated financial statements reflect Lamiflex's results of operations from the beginning of business on July 11, 2012 forward.

**Table of Contents****ALTRA HOLDINGS, INC.****Notes to Unaudited Condensed Consolidated Interim Financial Statements****Amounts in thousands, unless otherwise noted**

The Company is in the process of completing its final purchase price allocation. The Company is still finalizing the valuation of customer relationships, trademarks, deferred tax assets and liabilities and fixed assets. The purchase price is subject to change based on the finalization of certain purchase price adjustments. The Company is still evaluating whether the goodwill created in the Lamiflex Acquisition is tax deductible.

The preliminary value of the acquired assets, assumed liabilities and identified intangibles from the acquisition of Lamiflex, as presented below, are based upon the Company's preliminary estimate of the fair value as of the date of the acquisition. The purchase price allocation was calculated as if the Company had acquired 100% of Lamiflex. The preliminary purchase price allocation as of the acquisition date is as follows:

Total Assumed purchase price, excluding acquisition costs of approximately \$0.4 million	\$ 8,839
Less: Redeemable noncontrolling interest	1,327
<b>Total purchase price paid at closing</b>	<b>7,512</b>
Cash and cash equivalents	68
Trade receivables, net of amounts pledged	639
Inventories	710
Prepaid and other	49
Property, plant and equipment	3,020
Other assets	79
Intangibles assets	5,856
<b>Total assets acquired</b>	<b>\$ 10,421</b>
Accounts payable	537
Accrued expenses and other current liabilities	851
Other liabilities, including long-term debt	964
<b>Total liabilities assumed</b>	<b>\$ 2,352</b>
<b>Net assets acquired</b>	<b>8,069</b>
<b>Excess of purchase price over fair value of net assets acquired</b>	<b>770</b>

The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. The Company expects to develop synergies, such as the ability to cross-sell product and to penetrate into certain geographic areas, as a result of the acquisition of Lamiflex.

The Company recorded a redeemable non-controlling interest from its acquisition of an 85% ownership interest of Lamiflex at fair value at the date of acquisition. In connection with the Lamiflex Acquisition, the Company entered into put and call option agreements with the minority shareholders for the potential purchase of the non-controlling interest at a future date at a value based on a contractually determined formula. As a result of the option agreements, the non-controlling interest is considered redeemable and is classified as temporary equity on the Company's Condensed Consolidated Balance Sheet.

The estimated amounts recorded as intangible assets consist of the following:

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Customer relationships, subject to amortization	\$ 5,496
Trade names and trademarks, not subject to amortization	360
<b>Total intangible assets</b>	<b>\$ 5,856</b>

Customer relationships are subject to amortization which will be straight-lined over their estimated useful lives of 13 years, which represents the anticipated period over which the Company estimates it will benefit from the acquired assets.

**Table of Contents**

The following table sets forth the unaudited pro forma results of operations of the Company for the year to date periods ended September 29, 2012 and October 1, 2011 as if the Company had acquired Bauer and Lamiflex at the beginning of the respective period. The pro forma information contains the actual operating results of the Company, including Bauer and Lamiflex, adjusted to include the pro forma impact of (i) additional depreciation expense as a result of estimated depreciation based on the fair value of fixed assets; (ii) additional expense as a result of the estimated amortization of identifiable intangible assets (iii) additional interest expense associated with the Convertible Notes issued on March 7, 2011 in connection with the Bauer Acquisition; (iv) elimination of certain acquisition related costs; and (v) the elimination of additional expense as a result of fair value adjustment to inventory recorded in connection with the Bauer Acquisition and the Lamiflex Acquisition. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred at the beginning of the period or that may be obtained in the future.

	Quarter to Date Period Ended		Year to Date Period Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Total revenues	\$ 174,488	\$ 180,732	\$ 557,527	\$ 561,434
Net income attributable to Altra Holdings, Inc.	\$ 8,547	\$ 12,634	\$ 29,989	\$ 36,434
Basic earnings per share:				
Net income attributable to Altra Holdings, Inc.	\$ 0.32	\$ 0.48	\$ 1.13	\$ 1.37
Diluted earnings per share:				
Net income attributable to Altra Holdings, Inc.	\$ 0.32	\$ 0.47	\$ 1.12	\$ 1.36

**6. Inventories**

Inventories located at certain subsidiaries are stated at the lower of cost or market, principally using the last-in, first-out ( LIFO ) method. The remaining subsidiaries are stated at the lower of cost or market, using the first-in, first-out ( FIFO ) method. Market is defined as net realizable value. Inventories at September 29, 2012 and December 31, 2011 consisted of the following:

	2012	2011
Raw materials	\$ 45,788	\$ 45,664
Work in process	23,187	23,838
Finished goods	55,361	56,468
Inventories	\$ 124,336	\$ 125,970

Approximately 11% of total inventories were valued using the LIFO method as of September 29, 2012 and December 31, 2011, respectively. The Company recorded a \$0.1 million provision as a component of cost of sales to value the inventory on a LIFO basis for each of the quarters ended September 29, 2012 and October 1, 2011. The Company recorded a \$0.3 million adjustment and \$0.4 million adjustment as a component of cost of sales to value the inventory on a LIFO basis for the year to date periods ended September 29, 2012 and October 1, 2011, respectively.

As part of the Bauer Acquisition, the Company valued the acquired inventory at estimated fair market value less cost to sell. The resulting valuation increased the carrying value of the inventory by \$0.5 million and was included as part of cost of goods sold during the year-to-date period ended October, 1 2011.

As part of the Lamiflex Acquisition, the Company valued the acquired inventory at estimated fair market value less cost to sell. The resulting valuation increased the carrying value of the inventory by \$0.1 million and was included as part of cost of goods sold during the quarter ended September 29, 2012.



**Table of Contents****7. Goodwill and Intangible Assets**

Changes to goodwill from December 31, 2011 through September 29, 2012 were as follows:

	<b>2012</b>
Gross goodwill balance as of January 1	\$ 115,609
Acquisition of Goodwill (Lamiflex)	770
Impact of changes in foreign currency	458
Gross goodwill balance as of September 29	116,837
Accumulated impairment as of January 1	(31,810)
Impairment charge during the period	
Accumulated impairment as of September 29	(31,810)
Net goodwill balance September 29, 2012	\$ 85,027

Goodwill is reviewed for impairment when events or circumstances indicate that the carrying amount of goodwill may not be recovered. As of September 29, 2012, the Company concluded that the European economic downturn was a triggering event to perform a Step 1 goodwill impairment analysis for its Bauer Gear Motor reporting unit, which has significant operations in Europe. The Company performed a Step 1 goodwill impairment analysis and reviewed the difference between the estimated fair value and net book value. If the excess is less than \$1.0 million, the reporting unit could be required to perform a step two goodwill impairment analysis in future periods, if the estimated profitability decreased by 10% when compared to our forecasts. As of September 29, 2012, Bauer Gear Motor had an estimated fair value that was at least \$1.0 million greater than the net book value. As a result, the Company concluded that there was no impairment.

Other intangible assets as of September 29, 2012 and December 31, 2011 consisted of the following:

	<b>September 29, 2012</b>		<b>December 31, 2011</b>	
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Cost</b>	<b>Accumulated Amortization</b>
<b>Other intangible assets</b>				
<b>Intangible assets not subject to amortization:</b>				
Tradenames and trademarks	\$ 34,485	\$	\$ 34,125	\$
<b>Intangible assets subject to amortization:</b>				
Customer relationships	79,808	34,426	74,312	29,704
Product technology and patents	5,646	5,646	5,576	5,316
Impact of changes in foreign currency	(1,462)		(1,885)	
<b>Total intangible assets</b>	<b>\$ 118,477</b>	<b>\$ 40,072</b>	<b>\$ 112,128</b>	<b>\$ 35,020</b>

The Company recorded \$1.8 million and \$1.7 million of amortization expense in each of the quarters ended September 29, 2012 and October 1, 2011, respectively, and recorded \$5.1 million and \$4.6 million of amortization expense in the year to date periods ended September 29, 2012 and October 1, 2011, respectively.

The estimated amortization expense for intangible assets is approximately \$1.8 million for the remainder of 2012, \$7.2 million in each of the next four years and then \$13.3 million thereafter.

**8. Warranty Costs**

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The contractual warranty period generally ranges from three months to two years with a few extending up to thirty-six months based on product and application of the product. Changes in the carrying amount of accrued product warranty costs for each of the year to date periods ended September 29, 2012 and October 1, 2011 are as follows:

	<b>September 29, 2012</b>	<b>October 1, 2011</b>
Balance at beginning of period	\$ 4,898	\$ 3,583
Additional warranty related to Bauer		1,720
Accrued current period warranty expense	750	1,618
Payments	(534)	(1,645)
Balance at end of period	\$ 5,114	\$ 5,276

**Table of Contents****9. Income Taxes**

The estimated effective income tax rates recorded for the quarters ended September 29, 2012 and October 1, 2011, were based upon management's best estimate of the effective tax rate for the entire year.

The 2012 provision for income taxes, as a percentage of income before taxes, was higher than that of 2011, primarily due to favorable discrete tax benefits recognized in the quarter ended October 1, 2011.

The Company and its subsidiaries file a consolidated federal income tax return in the United States as well as consolidated and separate income tax returns in various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in all of these jurisdictions. With the exception of certain foreign jurisdictions, the Company is no longer subject to income tax examinations for the tax years prior to 2007.

Additionally, the Company has indemnification agreements with the sellers of the Colfax, Kilian, Bauer, Lamiflex and Hay Hall entities that provide for reimbursement to the Company for payments made in satisfaction of tax liabilities relating to pre-acquisition periods.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense in the condensed consolidated statements of comprehensive income. At December 31, 2011 and September 29, 2012, the Company had \$2.7 million and \$0.4 million of accrued interest and penalties, respectively. The reduction of interest and penalties by \$2.3 million during the year to date period ended September 29, 2012 was primarily a result of a New York state income tax settlement for which the Company was fully indemnified by the acquired business' former owner.

**10. Pension and Other Employee Benefits*****Defined Benefit (Pension) and Post-retirement Benefit Plans***

The Company sponsors various defined benefit (pension) and post-retirement (medical, dental and life insurance coverage) plans for certain, primarily unionized employees.

The following table represents the components of the net periodic benefit cost associated with the respective plans for the quarter and year to date periods ended September 29, 2012 and October 1, 2011:

	Quarter Ended			
	Pension Benefits		Other Benefits	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Service cost	\$ 25	\$ 25	\$ 1	\$ 1
Interest cost	273	291	3	4
Expected return on plan assets	(268)	(266)	(13)	
Amortization of net gain	25	7		(13)
Net periodic benefit cost (income)	\$ 55	\$ 57	\$ (9)	\$ (8)

**Table of Contents**

	Year to Date Ended			
	Pension Benefits		Other Benefits	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Service cost	\$ 75	\$ 75	\$ 2	\$ 2
Interest cost	819	863	10	12
Expected return on plan assets	(804)	(778)		
Amortization of prior service income			(1)	(1)
Amortization of net gain	74	32	(39)	(39)
Net periodic benefit cost (income)	\$ 164	\$ 192	\$ (28)	\$ (26)

The Company made \$2.0 million in contributions during the year to date period ended September 29, 2012, which consisted of \$1.5 million in required contributions and a supplemental contribution of \$0.5 million.

**11. Debt**

Outstanding debt obligations at September 29, 2012 and December 31, 2011 were as follows:

	September 29, 2012	December 31, 2011
<b>Debt:</b>		
Revolving Credit Agreement	\$	\$
Convertible Notes	85,000	85,000
Senior Secured Notes	177,045	198,045
Variable rate demand revenue bonds		3,000
Mortgages	1,001	1,762
Capital leases and other	1,155	417
Total debt	264,201	288,224
Less: debt discount, net of accretion	(21,590)	(24,175)
Total debt, net of unaccreted discount	\$ 242,611	\$ 264,049
Less current portion of long-term debt	997	688
Total long-term debt	\$ 241,614	\$ 263,361

**Convertible Notes**

On March 7, 2011, the Company issued \$85.0 million of Convertible Notes due on March 1, 2031. Interest on the Convertible Notes is payable semiannually in arrears, on March 1 and September 1 of each year, commencing on September 1, 2011 at an annual rate of 2.75%.

The Company separately accounted for the debt and equity components of the Convertible Notes to reflect the issuer's non-convertible debt borrowing rate, which interest costs are to be recognized in subsequent periods. The note payable principal balance at the date of issuance of \$85.0 million was bifurcated into a debt component of \$60.5 million and an equity component of \$24.5 million. The difference between the note payable principal balance and the value of the debt



**Table of Contents**

component is being accreted to interest expense over the term of the Convertible Notes. The debt component was recognized at the present value of associated cash flows discounted using a 8.25% discount rate, the borrowing rate at the date of issuance for a similar debt instrument without a conversion feature. The Company paid approximately \$3.5 million of issuance costs associated with the Convertible Notes. The Company recorded \$1.0 million of debt issuance costs as an offset to additional paid-in capital. As of September 29, 2012, the Company has amortized \$0.6 million of debt issuance costs. The balance of \$1.9 million of debt issuance costs is classified as other non-current assets on the Condensed Consolidated Balance Sheet and will be amortized over the term of the notes using the effective interest method.

The carrying amount of the equity component and the principal amount of the liability component, the unamortized discount, and the net carrying amount are as follows as of September 29, 2012:

	<b>September 29, 2012</b>
Principal amount of debt	\$ 85,000
Unamortized discount	20,091
<b>Carrying value of debt</b>	<b>\$ 64,909</b>

Interest expense associated with the Convertible Notes consisted of the following for the year to date period ended September 29, 2012:

	<b>September 29, 2012</b>
Contractual coupon rate of interest	\$ 1,753
Accretion of convertible notes discount and amortization of deferred financing costs	2,150
<b>Interest expense for the Convertible Notes</b>	<b>\$ 3,903</b>

The effective interest yield of the Convertible Notes due in 2031 is 8.5% at September 29, 2012 and the cash coupon interest rate is 2.75%.

**Senior Secured Notes**

In November 2009, the Company issued the Senior Secured Notes with a face value of \$210.0 million. Interest on the Senior Secured Notes is payable semi-annually in arrears, on June 1 and December 1 of each year, commencing on June 1, 2010 at an annual rate of 8<sup>1</sup>/<sub>8</sub>%. The effective interest rate of the Senior Secured Notes was approximately 8.75% after consideration of the \$6.7 million of deferred financing costs (included in other non-current assets), which are being amortized over the term using the effective interest method. The principal balance of the Senior Secured Notes matures on December 1, 2016.

During 2011, the Company repurchased \$12.0 million of Senior Secured Notes. The Company repurchased the Senior Secured Notes at a premium of \$0.3 million, which was recorded as part of interest expense in the third and fourth quarters of 2011. Due to the repurchase of the Senior Secured Notes, the Company also wrote-off a proportional amount of the deferred financing fees and original issue discount associated with the Senior Secured Notes totaling \$0.4 million which was also recorded as part of interest expense in the third and fourth quarters of 2011.

During the quarter ended September 29, 2012, the Company repurchased \$21.0 million of Senior Secured Notes at a premium of \$0.6 million, which was recorded as part of interest expense in the quarter ended September 29, 2012. Due to the repurchase of the Senior Secured Notes, the Company also wrote-off a proportional amount of the deferred financing fees and original issue discount associated with the Senior Secured Notes totaling \$0.6 million which was recorded as part of interest expense in the quarter ended September 29, 2012.

## **Table of Contents**

The Senior Secured Notes are guaranteed by the Company's U.S. domestic subsidiaries and are secured by a second priority lien, subject to first priority liens securing the Revolving Credit Agreement, on substantially all of the Company's assets and those of its domestic subsidiaries. The indenture governing the Senior Secured Notes contains covenants which restrict the Company and its subsidiaries. These restrictions limit or prohibit, among other things, the Company's ability to incur additional indebtedness; repay subordinated indebtedness prior to stated maturities; pay cash dividends on or redeem or repurchase stock or make other distributions; make investments or acquisitions; sell certain assets or merge with or into other companies; sell stock in its subsidiaries; and create liens on their assets. There are no financial covenants associated with the Senior Secured Notes.

### ***Revolving Credit Agreement***

Concurrently with the closing of the offering of the Senior Secured Notes, Altra Industrial entered into a new senior secured credit facility (the Revolving Credit Agreement). In 2011, Altra Industrial amended the Revolving Credit Agreement to increase the borrowing base to \$65.0 million (subject to adjustment pursuant to a borrowing base and subject to increase from time to time in accordance with the terms of the amended credit facility) and to extend the term to October 31, 2016. As part of the amendment, additional financing fees of \$0.3 million were capitalized and will be amortized over the life of agreement.

Altra Industrial can borrow up to \$52.5 million under the Revolving Credit Agreement without being required to comply with any financial covenants under the agreement. Altra Industrial may use up to \$30.0 million of its availability under the Revolving Credit Agreement for standby letters of credit issued on its behalf, the issuance of which will reduce the amount of borrowings that would otherwise be available to Altra Industrial. Altra Industrial may re-borrow any amounts paid to reduce the amount of outstanding borrowings; however, all borrowings under the Revolving Credit Agreement must be repaid in full as of October 31, 2016 or the redemption of the Senior Secured Notes, whichever is earlier.

There were no borrowings under the Revolving Credit Agreement at September 29, 2012 and December 31, 2011, however, the lender had issued \$6.5 million of outstanding letters of credit on behalf of Altra Industrial as of both September 29, 2012 and December 31, 2011.

Altra Industrial and all of its domestic subsidiaries are borrowers, (collectively, Borrowers) under the Revolving Credit Agreement. Certain of the Company's existing and subsequently acquired or organized domestic subsidiaries that are not Borrowers do and will guarantee (on a senior secured basis) the Revolving Credit Agreement. Obligations of the other Borrowers under the Revolving Credit Agreement and the guarantees are secured by substantially all of Borrowers' assets and the assets of each of the Company's existing and subsequently acquired or organized domestic subsidiaries that is a guarantor of the Borrower's obligations under the Revolving Credit Agreement (with such subsidiaries being referred to as the U.S. subsidiary guarantors), including but not limited to: (a) a first-priority pledge of all the capital stock of subsidiaries held by Borrowers or any U.S. subsidiary guarantor (which pledge, in the case of any foreign subsidiary, will be limited to 100% of any non-voting stock and 65% of the voting stock of such foreign subsidiary) and (b) perfected first-priority security interests in and mortgages on substantially all tangible and intangible assets of each Borrower and U.S. subsidiary guarantor, including accounts receivable, inventory, equipment, general intangibles, investment property, intellectual property, certain real property, and cash and proceeds of the foregoing (in each case subject to materiality thresholds and other exceptions).

An event of default under the Revolving Credit Agreement would occur in connection with a change of control, among other things, if: (i) Altra Industrial ceases to own or control 100% of each of its borrower subsidiaries, or (ii) a change of control occurs under the Senior Secured Notes, or any other subordinated indebtedness.

An event of default under the Revolving Credit Agreement would also occur if an event of default occurs under the indentures governing the Senior Secured Notes or if there is a default under any other indebtedness of any Borrower involving an aggregate amount of \$10.0 million or more and such default: (i) occurs at final maturity of such debt, (ii) allows the lender thereunder to accelerate such debt or (iii) causes such debt to be required to be repaid prior to its stated maturity. An event of default would also occur under the Revolving Credit Agreement if any of the indebtedness under the Revolving Credit Agreement ceases, with limited exception, to be secured by a full lien on the assets of Borrowers and guarantors.

### ***Variable Rate Demand Revenue Bonds***

In connection with the acquisition of TB Woods, the Company assumed obligations for certain Variable Rate Demand Revenue Bonds outstanding as of the acquisition date. TB Woods had assumed obligations for approximately \$3.0 million and \$2.3 million of Variable Rate Demand Revenue Bonds issued under the authority of the industrial development corporations of the City of San Marcos, Texas and the City of Chattanooga, Tennessee, respectively. The Company sold the Chattanooga facility on April 14, 2011 and redeemed the bonds associated with the facility at the time. The Company redeemed the bonds associated with the San Marcos facility during the quarter ended March 31, 2012. As

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of September 29, 2012, the Variable Rate Demand Revenue Bonds have been paid in full.



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**Table of Contents**

***Mortgage***

In June 2006, the Company entered into a mortgage on its building in Heidelberg, Germany with a local bank. In 2009, the Company refinanced the Heidelberg mortgage and increased the amount borrowed by an additional 1.0 million. The new mortgage is payable in monthly installments and is due in 2015. As of September 29, 2012 and December 31, 2011, the mortgage had a remaining principal of 0.8 million or \$1.0 million, and 1.3 million or \$1.8 million, respectively.

***Capital Leases***

The Company leases certain equipment under capital lease arrangements, whose obligations are included in both short-term and long-term debt. Capital lease obligations amounted to approximately \$0.1 million and \$0.4 million at September 29, 2012 and December 31, 2011, respectively. Assets subject to capital leases are included in property, plant and equipment with the related amortization recorded as depreciation expense.

**12. Stockholders' Equity**

On June 5, 2012, the Company's Board of Directors approved the payment of a quarterly cash dividend of \$0.05 per share. The dividend of \$1.3 million was paid on July 2, 2012 to stockholders of record as of the close of business on June 18, 2012.

On July 24, 2012, the Company's Board of Directors approved the payment of a quarterly cash dividend of \$0.05 per share for the quarter ended September 29, 2012. The dividend of \$1.3 million was paid on October 2, 2012 to shareholders of record as of the close of business on September 18, 2012 and was accrued for in the balance sheet at September 29, 2012.

Future declarations of quarterly cash dividends are subject to approval by the Board of Directors and to the Board's continuing determination that the declaration of dividends are in the best interest of the Company's stockholders and are in compliance with all laws and agreements of the Company applicable to the declaration and payment of cash dividends.

***Stock-Based Compensation***

The Company's Board of Directors established the 2004 Equity Incentive Plan (the "Plan") that provides for various forms of stock-based compensation to independent directors, officers and senior-level employees of the Company. The restricted shares of common stock issued pursuant to the Plan generally vest ratably over a period ranging from immediately to 5 years, provided that the vesting of the restricted shares may accelerate upon the occurrence of certain liquidity events, if approved by the Board of Directors in connection with the transactions. Common stock awarded under the Plan is generally subject to restrictions on transfer, repurchase rights, and other limitations and rights as set forth in the applicable award agreements. The shares are valued based on the share price on the date of grant.

The Plan permits the Company to grant restricted stock, among other things, to key employees and other persons who make significant contributions to the success of the Company. The restrictions and vesting schedule for restricted stock granted under the Plan are determined by the Personnel and Compensation Committee of the Board of Directors. Compensation expense recorded during the year to date periods ended September 29, 2012 and October 1, 2011, was \$2.2 million and \$1.9 million, respectively. Compensation expense recorded during the quarters ended September 29, 2012 and October 1, 2011, was \$0.7 million and \$0.6 million, respectively. Stock-based compensation has been recorded as an adjustment to selling, general and administrative expenses in the accompanying condensed consolidated statements of income. Stock-based compensation expense is recognized on a straight-line basis over the vesting period.

**Table of Contents**

The following table sets forth the activity of the Company's unvested restricted stock grants in the year to date period ended September 29, 2012:

	Shares	Weighted-average grant date fair value
Restricted shares unvested January 1, 2012	211,031	\$ 13.52
Shares granted	130,918	21.17
Shares forfeited	(1,620)	21.94
Shares for which restrictions lapsed	(170,604)	15.36
Restricted shares unvested September 29, 2012	169,725	\$ 18.58

Total remaining unrecognized compensation cost was \$2.9 million as of September 29, 2012, which will be recognized over a weighted average remaining period of three years. The fair market value of the shares for which the restrictions have lapsed during the year to date period ended September 29, 2012 was \$3.0 million. Restricted shares granted are valued based on the fair market value of the stock on the date of grant.

**13. Concentrations of Credit, Segment Data and Workforce**

Financial instruments, which are potentially subject to counter party performance and concentrations of credit risk, consist primarily of trade accounts receivable. The Company manages these risks by conducting credit evaluations of customers prior to delivery or commencement of services. When the Company enters into a sales contract, collateral is normally not required from the customer. Payments are typically due within thirty days of billing. An allowance for potential credit losses is maintained, and losses have historically been within management's expectations. No customer represented greater than 10% of total sales for each of the quarters ended September 29, 2012 and October 1, 2011.

The Company is also subject to counter party performance risk of loss in the event of non-performance by counterparties to financial instruments, such as cash and investments. Cash and investments are held by well established financial institutions and invested in AAA rated mutual funds or United States Government Securities.

The Company has six operating segments that are regularly reviewed by its chief operating decision maker. Each of the Company's six operating segments, which are the same as its reporting units, produces mechanical power transmission products. The Company aggregates all of the operating segments into one reportable segment. The six operating segments have similar long-term average gross profit margins. All of the Company's products are sold by one global sales force and the Company has one global marketing function. Strategic markets and industries are determined for the entire company and then targeted by the brands. All of the operating segments have common manufacturing and production processes. Each segment includes machine shops which use similar equipment and manufacturing techniques to produce industrial components that transmit and control motion and power. Each of the segments uses common raw materials, such as aluminum, steel and copper. The Company purchases these materials and negotiates procurement contracts using one global purchasing function.

The Company serves the general industrial market by selling to original equipment manufacturers (OEM) and distributors. Resource allocation decisions such as capital expenditure requirements and headcount requirements are made at a consolidated level and allocated to the individual operating segments.

Discrete financial information is not available by product line at the level necessary for management to assess performance or make resource allocation decisions.

The Company's chief operating decision maker is currently re-evaluating how the Company's business is organized, how financial information is reviewed and, as a result, how many operating segments the Company will have.

**Table of Contents**

Net sales to third parties by geographic region are as follows:

	Quarter Ended		Year to Date Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
The Americas (primarily U.S.)	\$ 112,708	\$ 107,000	\$ 358,719	\$ 336,141
Europe	49,832	59,565	162,356	137,104
Asia and other	11,948	11,288	33,741	29,850
Total	\$ 174,488	\$ 177,853	\$ 554,816	\$ 503,095

Net sales to third parties are attributed to the geographic regions based on the country in which the shipment originates.

The net assets of the Company's foreign subsidiaries at September 29, 2012 and December 31, 2011 were \$116.3 million and \$100.0 million, respectively.

**14. Commitments and Contingencies*****General Litigation***

The Company is involved in various pending legal proceedings arising out of the ordinary course of business. These proceedings primarily involve commercial claims, product liability claims, personal injury claims, and workers' compensation claims. None of these legal proceedings are expected to have a material adverse effect on the results of operations, cash flows, or financial condition of the Company. With respect to these proceedings, management believes that the Company will prevail, has adequate insurance coverage or has established appropriate reserves to cover potential liabilities. Any costs that management estimates may be paid related to these proceedings or claims are accrued when the liability is considered probable and the amount can be reasonably estimated. There can be no assurance, however, as to the ultimate outcome of any of these matters, and if all or substantially all of these legal proceedings were to be determined adversely to the Company, there could be a material adverse effect on the results of operations, cash flows, or financial condition of the Company. We have established loss provisions for matters in which losses are probable and can be reasonably estimated. There were no material amounts accrued in the accompanying consolidated balance sheets for potential litigation as of September 29, 2012 or December 31, 2011. For matters where a reserve has not been established and for which we believe a loss is reasonably possible, as well as for matters where a reserve has been recorded but for which an exposure to loss in excess of the amount accrued is reasonably possible, we believe that such losses, individually and in the aggregate, will not have a material effect on our consolidated financial statements.

The Company also risks exposure to product liability claims in connection with products it has sold and those sold by businesses that the Company acquired. Although in some cases third parties have retained responsibility for product liability claims relating to products manufactured or sold prior to the acquisition of the relevant business and in other cases the persons from whom the Company has acquired a business may be required to indemnify the Company for certain product liability claims subject to certain caps or limitations on indemnification, the Company cannot assure that those third parties will in fact satisfy their obligations with respect to liabilities retained by them or their indemnification obligations. If those third parties become unable to or otherwise do not comply with their respective obligations including indemnity obligations, or if certain product liability claims for which the Company is obligated were not retained by third parties or are not subject to these indemnities, the Company could become subject to significant liabilities or other adverse consequences. Moreover, even in cases where third parties retain responsibility for product liability claims or are required to indemnify the Company, significant claims arising from products that have been acquired could have a material adverse effect on the Company's ability to realize the benefits from an acquisition, could result in the reduction of the value of goodwill that the Company recorded in connection with an acquisition, or could otherwise have a material adverse effect on the Company's business, financial condition, or operations.

**Table of Contents****15. Guarantor Subsidiaries**

All of the Company's direct and indirect 100% owned U.S. domestic subsidiaries are guarantors of the Company's Senior Secured Notes. The following condensed consolidating financial statements present separately the financial position, results of operations, and cash flows for (a) the Company, as parent, (b) the guarantor subsidiaries of the Company consisting of all of the, directly or indirectly, 100% owned U.S. subsidiaries of the Company, (c) the non-guarantor subsidiaries of the Company consisting of all non-domestic subsidiaries of the Company, and (d) eliminations necessary to arrive at the Company's information on a consolidated basis. These statements are presented in accordance with the disclosure requirements under the Securities and Exchange Commission's Regulation S-X, Rule 3-10. Separate financial statements of the guarantor subsidiaries are not presented because their guarantees are full and unconditional and joint and several.

In the preparation of our Form 10-Q for the period ended September 29, 2012, errors were identified in the previously reported guarantor subsidiaries footnote. These changes did not impact the condensed consolidated balance sheet, condensed consolidated statement of comprehensive income, or the condensed consolidated statement of cash flows. The nature of the corrections are (i) to properly account for the non-guarantor subsidiaries that consolidate into the guarantor subsidiaries under the equity method of accounting, including to properly account for certain intercompany loan transactions, (ii) to properly record the impact of certain foreign currency transactions and, (iii) to properly record the tax impact of the above adjustments. The tables below provide disclosure of the changes to the guarantor footnote for the condensed consolidating balance sheet as of December 31, 2011, the unaudited condensed consolidating statement of comprehensive income for the quarter and year to date period ended October 1, 2011, and the unaudited condensed consolidating statement of cash flows for the year to date period ended October 1, 2011.

	<b>Condensed Consolidating Balance Sheet</b>				
	<b>December 31, 2011</b>				
	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Loans receivable from related parties					
As reported	\$ 259,891	\$	\$	\$ (259,891)	\$
As adjusted	256,976			(256,976)	
Investment in subs					
As reported	202,463			(202,463)	
As adjusted	205,378	99,983		(305,361)	
Total assets					
As reported	469,445	386,405	236,489	(462,354)	629,985
As adjusted	469,445	486,388	236,489	(562,337)	629,985
Loans payable to related parties					
As reported		188,595	71,296	(259,891)	
As adjusted		176,878	80,098	(256,976)	
Total current liabilities					
As reported	2,222	245,390	114,385	(259,891)	102,106
As adjusted	2,222	233,673	123,187	(256,976)	102,106
Total stockholders' equity					
As reported	208,396	93,678	108,785	(202,463)	208,396
As adjusted	208,396	205,378	99,983	(305,361)	208,396
Total liabilities and stockholders' equity					
As reported	469,445	386,405	236,489	(462,354)	629,985
As adjusted	\$ 469,445	\$ 486,388	\$ 236,489	\$ (562,337)	\$ 629,985

	<b>Unaudited Condensed Consolidating Statement of Comprehensive Income</b>				
	<b>Quarter Ended October 1, 2011</b>				
	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Interest expense, net					
As reported	\$ 6,395	\$ 253	\$ 50	\$	\$ 6,698
As adjusted	6,450	198	50		6,698
Equity in earnings of subsidiaries					
As reported	11,806			(11,806)	
As adjusted	7,295	2,391		(9,686)	

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Income before income taxes					
As reported	5,411	12,679	5,453	(11,806)	11,737
As adjusted	6,419	9,551	5,453	(9,686)	11,737
Provision (benefit) for income taxes					
As reported	(6,729)	3,264	3,062		(403)
As adjusted	(5,721)	2,256	3,062		(403)
Net income					
As reported	12,140	9,415	2,391	(11,806)	12,140
As adjusted	\$ 12,140	\$ 7,295	\$ 2,391	\$ (9,686)	\$ 12,140

**Table of Contents****Unaudited Condensed Consolidating Statement of Comprehensive Income  
Year to Date Ended October 1, 2011**

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Interest expense, net</b>					
As reported	\$ 17,265	\$ 659	\$ 90	\$	\$ 18,014
As adjusted	17,319	605	90		18,014
<b>Equity in earnings of subsidiaries</b>					
As reported	39,581			(39,581)	
As adjusted	24,639	12,988		(37,627)	
<b>Income before income taxes</b>					
As reported	22,316	39,108	18,536	(39,581)	40,379
As adjusted	23,235	36,235	18,536	(37,627)	40,379
<b>Provision (benefit) for income taxes</b>					
As reported	(9,463)	12,515	5,548		8,600
As adjusted	(8,544)	11,596	5,548		8,600
<b>Net income</b>					
As reported	31,779	26,593	12,988	(39,581)	31,779
As adjusted	\$ 31,779	\$ 24,639	\$ 12,988	\$ (37,627)	\$ 31,779

**Unaudited Condensed Consolidating Statement of Cash Flows  
Year to Date Ended October 1, 2011**

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Net income</b>					
As reported	\$ 31,779	\$ 26,593	\$ 12,988	\$ (39,581)	\$ 31,779
As adjusted	31,779	24,639	12,988	(37,627)	31,779
<b>Undistributed equity in earnings of subsidiaries</b>					
As reported	(39,581)			39,581	
As adjusted	\$ (24,639)	\$ (12,988)	\$	\$ 37,627	\$
<b>Change in cash provided by operating activities</b>					
As reported	(567)	8,642	21,032		29,107
As adjusted	\$ 14,375	\$ (6,300)	\$ 21,032	\$	\$ 29,107
<b>Change in affiliate debt</b>					
As reported	(71,875)	16,442	55,433		
As adjusted	\$ (86,817)	\$ 31,384	\$ 55,433	\$	\$
<b>Change in cash provided by financing activities</b>					
As reported	\$ 567	\$ 13,924	\$ 54,518	\$	\$ 69,009
As adjusted	(14,375)	28,866	54,518		69,009

**Table of Contents****Unaudited Condensed Consolidating Balance Sheet**

September 29, 2012

	Issuer	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$	\$ 37,504	\$ 50,632	\$	\$ 88,136
Trade receivables, less allowance for doubtful accounts		55,258	39,255		94,513
Loans receivable from related parties	245,311			(245,311)	
Inventories		76,583	47,753		124,336
Deferred income taxes		5,325	515		5,840
Income tax receivable		2,832	181		3,013
Prepaid expenses and other current assets		2,866	3,886		6,752
Total current assets	245,311	180,368	142,222	(245,311)	322,590
Property, plant and equipment, net		84,507	52,138		136,645
Intangible assets, net		47,341	31,064		78,405
Goodwill		56,446	28,581		85,027
Deferred income taxes			1,497		1,497
Investment in subsidiaries	234,689	116,302		(350,991)	
Other non-current assets, net	6,225	1,164	802		8,191
Total assets	\$ 486,225	\$ 486,128	\$ 256,304	\$ (596,302)	\$ 632,355
<b>LIABILITIES, NON-CONTROLLING INTEREST, AND STOCKHOLDERS EQUITY</b>					
Current liabilities:					
Accounts payable	\$	\$ 25,939	\$ 15,556	\$	\$ 41,495
Accrued payroll		9,665	11,176		20,841
Accruals and other current liabilities	5,991	17,792	12,630		36,413
Deferred income taxes			102		102
Current portion of long-term debt		109	888		997
Loans payable to related parties		159,911	85,400	(245,311)	
Total current liabilities	5,991	213,416	125,752	(245,311)	99,848
Long-term debt - less current portion and net of unaccreted discount	240,421	44	1,149		241,614
Deferred income taxes		30,072	6,197		36,269
Pension liabilities		5,607	5,606		11,213
Other post employment benefits		254			254
Long-term taxes payable		1,303			1,303
Other long-term liabilities		743			743
Redeemable non-Controlling Interest			1,298		1,298
Total stockholders equity	239,813	234,689	116,302	(350,991)	239,813
Total liabilities, non-controlling interest and stockholders equity	\$ 486,225	\$ 486,128	\$ 256,304	\$ (596,302)	\$ 632,355





**Table of Contents****Condensed Consolidating Balance Sheet****December 31, 2011**

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$	\$ 49,876	\$ 42,639	\$	\$ 92,515
Trade receivables, less allowance for doubtful accounts		52,706	39,153		91,859
Loans receivable from related parties	256,976			(256,976)	
Inventories		76,632	49,338		125,970
Deferred income taxes		5,325	531		5,856
Income tax receivable		6,868	431		7,299
Prepaid expenses and other current assets		3,096	4,045		7,141
<b>Total current assets</b>	<b>256,976</b>	<b>194,503</b>	<b>136,137</b>	<b>(256,976)</b>	<b>330,640</b>
Property, plant and equipment, net		79,576	43,888		123,464
Intangible assets, net		50,329	26,779		77,108
Goodwill		56,446	27,353		83,799
Deferred income taxes			1,614		1,614
Investment in subs	205,378	99,983		(305,361)	
Other non-current assets, net	7,091	5,551	718		13,360
<b>Total assets</b>	<b>\$ 469,445</b>	<b>\$ 486,388</b>	<b>\$ 236,489</b>	<b>\$ (562,337)</b>	<b>\$ 629,985</b>
<b>LIABILITIES, NON-CONTROLLING INTEREST, AND STOCKHOLDERS EQUITY</b>					
Current liabilities:					
Accounts payable	\$	\$ 30,278	\$ 22,490	\$	\$ 52,768
Accrued payroll		9,522	10,212		19,734
Accruals and other current liabilities	2,222	16,645	9,931		28,798
Deferred income taxes			118		118
Current portion of long-term debt		350	338		688
Loans payable to related parties		176,878	80,098	(256,976)	
<b>Total current liabilities</b>	<b>2,222</b>	<b>233,673</b>	<b>123,187</b>	<b>(256,976)</b>	<b>102,106</b>
Long-term debt - less current portion and net of unaccreted discount and premium	258,827	3,060	1,474		263,361
Deferred income taxes		29,595	6,203		35,798
Pension liabilities		7,435	5,461		12,896
Long-term taxes payables		6,227			6,227
Other long-term liabilities		1,020	181		1,201
Redeemable non-Controlling Interest					
<b>Total Stockholders equity</b>	<b>208,396</b>	<b>205,378</b>	<b>99,983</b>	<b>(305,361)</b>	<b>208,396</b>
<b>Total liabilities, non-controlling interest and stockholders equity</b>	<b>\$ 469,445</b>	<b>\$ 486,388</b>	<b>\$ 236,489</b>	<b>\$ (562,337)</b>	<b>\$ 629,985</b>

**Table of Contents****Unaudited Condensed Consolidating Statement of Comprehensive Income**

	Year to Date Ended September 29, 2012				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 366,332	\$ 223,563	\$ (35,079)	\$ 554,816
Cost of sales		266,899	158,310	(35,079)	390,130
Gross profit		99,433	65,253		164,686
Selling, general and administrative expenses		52,775	41,891		94,666
Research and development expenses		4,330	4,462		8,792
Income from operations		42,328	18,900		61,228
Intercompany interest (income) expense, net	(17,014)	16,960	54		
Interest (income) expense, net	17,196	1,642	77		18,915
Other non-operating expense, net		1,108	726		1,834
Equity in earnings of subsidiaries	26,185	13,193		(39,378)	
Income before income taxes	26,003	35,811	18,043	(39,378)	40,479
Provision for income taxes	(3,640)	9,626	4,850		10,836
Net income	29,643	26,185	13,193	(39,378)	29,643
Net loss (income) attributable to non-controlling interest			29		29
Net income attributable to Altra Holdings, Inc.	\$ 29,643	\$ 26,185	\$ 13,222	\$ (39,378)	\$ 29,672
<b>Other comprehensive income</b>					
Foreign currency translation adjustment	3,140	3,140	3,140	(6,280)	3,140
Total comprehensive income	32,783	29,325	16,362	(45,658)	32,812
<b>Comprehensive loss attributable to non-controlling interest</b>					
Comprehensive income attributable to Altra Holdings, Inc.	\$ 32,783	\$ 29,325	\$ 16,362	\$ (45,658)	\$ 32,812

**Table of Contents****Unaudited Condensed Consolidating Statement of Comprehensive Income**

	Issuer	Year to Date Ended October 1, 2011		Eliminations	Consolidated
		Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Net sales	\$	\$ 344,731	\$ 191,944	\$ (33,580)	\$ 503,095
Cost of sales		249,795	137,606	(33,580)	353,821
Gross profit		94,936	54,338		149,274
Selling, general and administrative expenses		51,639	32,366		84,005
Research and development expenses		3,962	3,582		7,544
Income from operations		39,335	18,390		57,725
Intercompany interest expense (income), net	(15,915)	15,915			
Interest expense, net	17,319	605	90		18,014
Other non-operating income, net		(432)	(236)		(668)
Equity in earnings of subsidiaries	24,639	12,988		(37,627)	
Income before income taxes	23,235	36,235	18,536	(37,627)	40,379
Provision (benefit) for income taxes	(8,544)	11,596	5,548		8,600
Net income	31,779	24,639	12,988	(37,627)	31,779
<b>Other comprehensive income</b>					
Foreign currency translation adjustment	(1,439)	(1,439)	(1,439)	2,878	(1,439)
Total comprehensive income	\$ 30,340	\$ 23,200	\$ 11,549	\$ (34,749)	\$ 30,340

**Table of Contents****Unaudited Condensed Consolidating Statement of Comprehensive Income**

	Issuer	Quarter Ended September 29, 2012		Eliminations	Consolidated
		Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Net sales	\$	\$ 113,345	\$ 71,881	\$ (10,738)	\$ 174,488
Cost of sales		82,620	50,595	(10,738)	122,477
Gross profit		30,725	21,286		52,011
Selling, general and administrative expenses		18,149	12,636		30,785
Research and development expenses		1,456	1,367		2,823
Income from operations		11,120	7,283		18,403
Intercompany interest (income) expense, net	(5,479)	5,461	18		
Interest (income) expense, net	5,899	631	107		6,637
Other non-operating expense (income), net		(204)	606		402
Equity in earnings of subsidiaries	7,404	4,816		(12,220)	
Income before income taxes	6,984	10,048	6,552	(12,220)	11,364
Provision (benefit) for income taxes	(1,534)	2,644	1,736		2,846
Net income	8,518	7,404	4,816	(12,220)	8,518
Net loss (income) attributable to non-controlling interest			29		29
Net income attributable to Altra Holdings, Inc.	\$ 8,518	\$ 7,404	\$ 4,845	\$ (12,220)	\$ 8,547
<b>Other comprehensive income</b>					
Foreign currency translation adjustment	6,605	6,605	6,605	(13,210)	6,605
Total comprehensive income	\$ 15,123	\$ 14,009	\$ 11,450	\$ (25,430)	\$ 15,152

	Issuer	Quarter Ended October 1, 2011		Eliminations	Consolidated
		Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Net sales	\$	\$ 110,929	\$ 79,500	\$ (12,576)	\$ 177,853
Cost of sales		80,066	57,334	(12,576)	124,824
Gross profit		30,863	22,166		53,029
Selling, general and administrative expenses		16,595	14,982		31,577
Research and development expenses		1,306	1,495		2,801
Income from operations		12,962	5,689		18,651
Intercompany interest (income) expense, net	(5,574)	5,574			
Interest expense, net	6,450	198	50		6,698
Other non-operating income, net		30	186		216
Equity in earnings of subsidiaries	7,295	2,391		(9,686)	
Income before income taxes	6,419	9,551	5,453	(9,686)	11,737
Provision (benefit) for income taxes	(5,721)	2,256	3,062		(403)
Net income	12,140	7,295	2,391	(9,686)	12,140

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**Other comprehensive income (loss)**

Foreign currency translation adjustment (loss)	(7,008)	(7,008)	(7,008)	14,016	(7,008)
Total comprehensive income (loss)	\$ 5,132	\$ 287	\$ (4,617)	\$ 4,330	\$ 5,132

**Table of Contents****Unaudited Condensed Consolidating Statement of Cash Flows**

	Year to Date Ended September 29, 2012				Consolidated
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
<b>Cash flows from operating activities</b>					
Net income	\$ 29,643	\$ 26,185	\$ 13,193	\$ (39,378)	\$ 29,643
Undistributed equity in earnings of subsidiaries	(26,185)	(13,193)		39,378	
Adjustments to reconcile net income to net cash flows:					
Depreciation		9,264	5,774		15,038
Amortization of intangible assets		3,106	1,946		5,052
Amortization and write-offs of deferred financing costs	1,330	117			1,447
Loss on foreign currency, net			44		44
Accretion of debt discount, net	2,585				2,585
Stock-based compensation		2,233			2,233
Changes in assets and liabilities:					
Trade receivables		(3,353)	1,219		(2,134)
Inventories		49	3,057		3,106
Accounts payable and accrued liabilities	2,423	2,006	(4,986)		(557)
Other current assets and liabilities		707	277		984
Other operating assets and liabilities	(464)	(2,532)	48		(2,948)
Net cash provided by operating activities	9,332	24,589	20,572		54,493
<b>Cash flows used in investing activities</b>					
Purchase of property, plant and equipment		(14,963)	(10,199)		(25,162)
Acquisition of Lamifelix, net of \$68 cash			(7,444)		(7,444)
Net cash used in investing activities		(14,963)	(17,643)		(32,606)
<b>Cash flows from financing activities</b>					
Redemption of variable rate demand revenue bonds related to the San Marcos facility		(3,000)			(3,000)
Purchase of 8 1/8 Senior Secured notes	(21,000)				(21,000)
Shares repurchased for tax withholdings		(905)			(905)
Dividend payment	(1,348)				(1,348)
Payments on mortgages			(736)		(736)
Payments on capital leases		(257)	(46)		(303)
Change in affiliate debt	13,016	(17,836)	4,820		
Net cash provided by (used in) financing activities	(9,332)	(21,998)	4,038		(27,292)
Effect of exchange rate changes on cash and cash equivalents			1,026		1,026
Net change in cash and cash equivalents		(12,372)	7,993		(4,379)
Cash and cash equivalents at beginning of year		49,876	42,639		92,515
Cash and cash equivalents at end of period	\$	\$ 37,504	\$ 50,632	\$	\$ 88,136



**Table of Contents****Unaudited Condensed Consolidating Statement of Cash Flows**

	Year to Date Ended October 1, 2011				Consolidated
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
<b>Cash flows from operating activities</b>					
Net income	\$ 31,779	\$ 24,639	\$ 12,988	\$ (37,627)	\$ 31,779
Undistributed equity in earnings of subsidiaries	(24,639)	(12,988)		37,627	
Adjustments to reconcile net income to net cash flows:					
Depreciation		5,422	7,836		13,258
Amortization of intangible assets		3,089	1,479		4,568
Amortization and write-offs of deferred financing costs	1,037	335			1,372
Gain on foreign currency, net			(324)		(324)
Accretion of debt discount, net	1,887				1,887
Stock-based compensation		1,933			1,933
Changes in assets and liabilities:					
Trade receivables		(9,354)	(8,317)		(17,671)
Inventories		(9,008)	(4,865)		(13,873)
Accounts payable and accrued liabilities	4,311	(3,329)	8,570		9,552
Other current assets and liabilities		(675)	1,555		880
Other operating assets and liabilities		(6,364)	2,110		(4,254)
Net cash provided by operating activities	14,375	(6,300)	21,032		29,107
<b>Cash flows used in investing activities</b>					
Purchase of property, plant and equipment		(5,966)	(7,874)		(13,840)
Acquisition of Bauer net of cash \$41 thousand cash received		(1,146)	(68,314)		(69,460)
Proceeds from sale of Chattanooga		1,484			1,484
Net cash used in investing activities		(5,628)	(76,188)		(81,816)
<b>Cash flows from financing activities</b>					
Proceeds from issuance from Convertible Notes	85,000				85,000
Purchase of 8 1/8 Senior Secured Notes	(8,230)				(8,230)
Payment of issuance costs for Convertible Notes	(3,414)				(3,414)
Shares surrendered for tax withholdings	(914)				(914)
Redemption of variable rate demand revenue bonds related to the Chattanooga facility		(2,290)			(2,290)
Payments on mortgages			(516)		(516)
Payments on capital leases		(228)	(399)		(627)
Change in affiliate debt	(86,817)	31,384	55,433		
Net cash provided by financing activities	(14,375)	28,866	54,518		69,009
Effect of exchange rate changes on cash and cash equivalents			1,238		1,238
Net change in cash and cash equivalents		16,938	600		17,538
Cash and cash equivalents at beginning of year		37,125	35,598		72,723



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Cash and cash equivalents at end of period	\$	\$ 54,063	\$ 36,198	\$	\$ 90,261
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**Table of Contents**

**16. Subsequent Events**

The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

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**Table of Contents**

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

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which reflect the Company's current estimates, expectations and projections about the Company's future results, performance, prospects and opportunities. Forward-looking statements include, among other things, the information concerning the Company's possible future results of operations including revenue, costs of goods sold, gross margin, future profitability, future economic improvement, business and growth strategies, financing plans, the Company's competitive position and the effects of competition, the projected growth of the industries in which we operate, and the Company's ability to consummate strategic acquisitions and other transactions. Forward-looking statements include statements that are not historical facts and can be identified by forward-looking words such as anticipate, believe, could, estimate, expect, intend, plan, may, should, will, would, project, expressions. These forward-looking statements are based upon information currently available to the Company and are subject to a number of risks, uncertainties, and other factors that could cause the Company's actual results, performance, prospects, or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Important factors that could cause the Company's actual results to differ materially from the results referred to in the forward-looking statements the Company makes in this report include:

the Company's access to capital, credit ratings, indebtedness, and ability to raise additional capital and operate under the terms of the Company's debt obligations;

the risks associated with our debt;

the effects of intense competition in the markets in which we operate;

the Company's ability to successfully execute, manage and integrate key acquisitions and mergers, including the Bauer Acquisition and the Lamiflex Acquisition;

the Company's ability to obtain or protect intellectual property rights;

the Company's ability to retain existing customers and our ability to attract new customers for growth of our business;

the effects of the loss or bankruptcy of or default by any significant customer, supplier, or other entity relevant to the Company's operations;

the Company's ability to successfully pursue the Company's development activities and successfully integrate new operations and systems, including the realization of revenues, economies of scale, cost savings, and productivity gains associated with such operations;

the Company's ability to complete cost reduction actions and risks associated with such actions;

the Company's ability to control costs;

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failure of the Company's operating equipment or information technology infrastructure;

the Company's ability to achieve its business plans, including with respect to an uncertain economic environment;

the effects of unanticipated deficiencies, if any, in the disclosure controls and internal controls of Bauer;

changes in employment, environmental, tax and other laws and changes in the enforcement of laws;

the accuracy of estimated forecasts of OEM customers and the impact of the current global and European economic environments on our customers;

fluctuations in the costs of raw materials used in our products;

the Company's ability to attract and retain key executives and other personnel;

work stoppages and other labor issues;

changes in the Company's pension and retirement liabilities;

the Company's risk of loss not covered by insurance;

the outcome of litigation to which the Company is a party from time to time, including product liability claims;

changes in accounting rules and standards, audits, compliance with the Sarbanes-Oxley Act, and regulatory investigations;

**Table of Contents**

changes in market conditions that would result in the impairment of goodwill or other assets of the Company;

changes in market conditions in which we operate that would influence the value of the Company's stock;

the effects of changes to critical accounting estimates;

changes in volatility of the Company's stock price and the risk of litigation following a decline in the price of the Company's stock;

the cyclical nature of the markets in which we operate;

the risks associated with the global recession and European economic downturn and volatility and disruption in the global and European financial markets;

political and economic conditions nationally, regionally, and in the markets in which we operate;

natural disasters, war, civil unrest, terrorism, fire, floods, tornadoes, earthquakes, hurricanes, or other matters beyond the Company's control;

the risks associated with international operations, including currency risks;

the risks associated with the Company's investment in a new manufacturing facility in China; and

other factors, risks, and uncertainties referenced in the Company's filings with the Securities and Exchange Commission, including the Risk Factors set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

**ALL FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE OF THIS REPORT. EXCEPT AS REQUIRED BY LAW, WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE OR RELEASE ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS TO REFLECT ANY EVENTS OR CIRCUMSTANCES AFTER THE DATE OF THIS REPORT OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO US OR ANY PERSON ACTING ON THE COMPANY'S BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS CONTAINED OR REFERRED TO IN THIS SECTION AND IN OUR RISK FACTORS SET FORTH IN PART I, ITEM 1A OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011, AND IN OTHER REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BY THE COMPANY.**

*The following discussion of the financial condition and results of operations of Altra Holdings, Inc. and its subsidiaries should be read together with the audited financial statements of Altra Holdings, Inc. and its subsidiaries and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. Unless the context requires otherwise, the terms "Altra Holdings," "the Company," "we," "us," and "our" refer to Altra Holdings, Inc. and its subsidiaries.*



## **Table of Contents**

### **General**

Altra Holdings, Inc. is the parent company of Altra Industrial Motion, Inc. ( Altra Industrial ), and owns 100% of Altra Industrial 's outstanding capital stock. Altra Industrial, directly or indirectly, owns 100% of the capital stock of its 57 subsidiaries. The following chart illustrates a summary of our corporate structure:

Although we were incorporated in Delaware in 2004, much of our current business has its roots with the prior acquisition by Colfax Corporation, or Colfax, of a series of power transmission businesses. In December 1996, Colfax acquired the electro-mechanical power transmission group of Zurn Technologies, Inc. Colfax subsequently acquired Industrial Clutch Corp. in May 1997, Nuttall Gear Corp. in July 1997 and the Boston Gear and Delroyd Worm Gear brands in August 1997 as part of Colfax 's acquisition of Imo Industries, Inc. In February 2000, Colfax acquired Warner Electric, Inc., which sold products under the Warner Electric, Formsprag Clutch, Stieber, and Wichita Clutch brands. Colfax formed Power Transmission Holding LLC, or PTH , in June 2004 to serve as a holding company for all of these power transmission businesses. Boston Gear was established in 1877, Warner Electric, Inc. in 1927, and Wichita Clutch in 1949.

On November 30, 2004, we acquired our original core business through the acquisition of PTH from Colfax. We refer to this transaction as the PTH Acquisition.

On October 22, 2004, The Kilian Company, or Kilian, a company formed at the direction of Genstar Capital, then the largest stockholder of Altra Holdings, acquired Kilian Manufacturing Corporation from Timken U.S. Corporation. At the completion of the PTH Acquisition, (i) all of the outstanding shares of Kilian capital stock were exchanged for shares of our capital stock and (ii) Kilian and its subsidiaries were transferred to Altra Industrial.

On February 10, 2006, we purchased all of the outstanding share capital of Hay Hall Holdings Limited, or Hay Hall. Hay Hall was a UK-based holding company established in 1996 that was focused primarily on the manufacture of couplings and clutch brakes.

On May 18, 2006, we acquired substantially all of the assets of Bear Linear Inc., or Warner Linear. Warner Linear manufactures high value-added linear actuators which are electromechanical power transmission devices designed to move and position loads linearly for mobile off-highway and industrial applications.

On April 5, 2007, we acquired all of the outstanding shares of TB Wood 's Corporation, or TB Wood 's. TB Wood 's is an established designer, manufacturer and marketer of mechanical and electronic industrial power transmission products with a history dating back to 1857.

**Table of Contents**

On October 5, 2007, we acquired substantially all of the assets of All Power Transmission Manufacturing, Inc., a manufacturer of universal joints.

On December 31, 2007, we sold the TB Wood's adjustable speed drives business, or Electronics Division. We sold the Electronics Division in order to continue our strategic focus on our core electro-mechanical power transmission business.

On May 29, 2011, we acquired substantially all of the assets and liabilities of Danfoss Bauer GmbH relating to its gearmotor business ( Bauer ). Bauer is a European manufacturer of high-quality gearmotors, offering engineered solutions to a variety of industries, including material handling, metals, food processing and energy. We refer to this transaction as the Bauer Acquisition.

On July 11, 2012, we acquired 85% of privately held Lamiflex do Brasil Equipamentos Industriais Ltda., now known as Lamiflex Do Brasil Equipamentos Industriais S.A. ( Lamiflex ). Lamiflex is the premier Brazilian manufacturer of high-speed disc couplings, providing engineered solutions to a variety of industries, including oil and gas, power generation, metals and mining.

We are a leading global designer, producer and marketer of a wide range of electro-mechanical power transmission and motion control products with a presence in over 70 countries. Our global sales and marketing network includes over 1,000 direct OEM customers and over 3,000 distributor outlets. Our product portfolio includes industrial clutches and brakes, enclosed gear drives, open gearing, couplings, engineered bearing assemblies, linear components and other related products. Our products serve a wide variety of end markets including energy, general industrial, material handling, mining, transportation and turf and garden. We primarily sell our products to a wide range of OEMs and through long-standing relationships with industrial distributors such as Motion Industries, Applied Industrial Technologies, Kaman Industrial Technologies and W.W. Grainger.

While the power transmission industry has undergone some consolidation, we estimate that in 2012 the top five broad-based electro-mechanical power transmission companies represented approximately 20% of the U.S. power transmission market. The remainder of the power transmission industry remains fragmented with many small and family-owned companies that cater to a specific market niche often due to their narrow product offerings. We believe that consolidation in our industry will continue because of the increasing demand for global distribution channels, broader product mixes and better brand recognition to compete in this industry.

Our products, principal brands and markets and sample applications are set forth below:

<b>Products</b>	<b>Principal Brands</b>	<b>Principal Markets</b>	<b>Sample Applications</b>
Clutches and Brakes	Warner Electric, Wichita Clutch, Formsprag Clutch, Stieber Clutch, Matrix, Inertia Dynamics, Twiflex, Industrial Clutch, Marland Clutch	Aerospace, energy, material handling, metals, turf and garden, mining	Elevators, forklifts, lawn mowers, oil well draw works, punch presses, conveyors
Gearing	Boston Gear, Nuttall Gear, Delroyd, Bauer Gear Motor	Food processing, material handling, metals, transportation	Conveyors, ethanol mixers, packaging machinery, metal processing equipment
Engineered Couplings	Ameridrives, Bibby Transmissions, TB Wood's, PowerFlex	Energy, metals, plastics, chemical	Extruders, turbines, steel strip mills, pumps
Engineered Bearing Assemblies	Kilian	Aerospace, material handling, transportation	Cargo rollers, seat storage systems, conveyors
Power Transmission Components	Warner Electric, Boston Gear, Huco Dynatork, Warner Linear, Matrix, TB Wood's	Material handling, metals, turf and garden	Conveyors, lawn mowers, machine tools
Engineered Belted Drives	TB Wood's	Aggregate, HVAC, material handling	Pumps, sand and gravel conveyors, industrial fans





## **Table of Contents**

Our Internet address is [www.altramotion.com](http://www.altramotion.com). By following the link [Investor Relations](#) and then [SEC filings](#) on our Internet website, we make available, free of charge, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act ) as soon as reasonably practicable after such forms are filed with or furnished to the Securities and Exchange Commission. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this Form 10-Q.

### **Business Outlook**

Our future financial performance depends, in large part, on conditions in the markets that we serve and on the U.S., European and global economies in general. In the remainder of 2012, we expect to continue to focus on the execution of our long-term growth strategy, and will also continue to focus on maintaining a reduced cost base. Among other items, we expect our strategic initiatives during the remainder of 2012 will continue to include investing in organic growth, seeking strategic acquisitions, targeting key underpenetrated geographic regions, entering new high-growth markets, enhancing our efficiency and productivity through the Altra Business System and focusing on the development of our people and processes.

In July 2012, we acquired Brazil-based Lamiflex. We believe the Lamiflex acquisition will create business opportunities for us in certain previously underpenetrated geographic regions and will provide us with a platform from which we can further execute our acquisition strategy.

As a result of continued sluggish demand in Europe and general global economic conditions, we have begun to take actions to improve profitability in the coming quarters. We are currently evaluating restructuring activities primarily within Europe to improve operational efficiency. We expect to have formalized a restructuring plan by the end of 2012.

These actions, which we expect to accelerate during the next few quarters, include reducing headcount, limiting discretionary spending, moving certain product line manufacturing to low-cost countries and raising pricing in certain end markets. We expect sales and profitability growth to continue to moderate as a result of moderating economic conditions in North America and Asia and continued weakness in Europe. Given that our Senior Secured Notes become callable December 1, 2012, and the current conditions in the credit markets, we currently are evaluating potential refinancing options.

### **Critical Accounting Policies**

The preparation of our condensed consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect our reported amounts of assets, revenues and expenses, as well as related disclosure of contingent assets and liabilities. We base our estimates on past experiences and other assumptions we believe to be appropriate, and we evaluate these estimates on an on-going basis. See the discussion of critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2011.

### *Business Combinations*

Business combinations are accounted for at fair value. Acquisition costs are generally expensed as incurred and recorded in selling, general and administrative expenses; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally affect income tax expense. The accounting for business combinations requires estimates and judgment as to expectations for future cash flows of the acquired business, and the allocation of those cash flows to identifiable intangible assets, in determining the estimated fair value for assets and liabilities acquired. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill, or require acceleration of the amortization expense of finite-lived intangible assets.

**Table of Contents****Results of Operations**

(In thousands, except per share data)	Quarter Ended		Year to Date Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net sales	\$ 174,488	\$ 177,853	\$ 554,816	\$ 503,095
Cost of sales	122,477	124,824	390,130	353,821
Gross profit	52,011	53,029	164,686	149,274
Gross profit percentage	29.81%	29.82%	29.68%	29.67%
Selling, general and administrative expenses	30,785	31,577	94,666	84,005
Research and development expenses	2,823	2,801	8,792	7,544
Income from operations	18,403	18,651	61,228	57,725
Interest expense, net	6,637	6,698	18,915	18,014
Other non-operating (income) expense, net	402	216	1,834	(668)
Income before income taxes	11,364	11,737	40,479	40,379
Provision for income taxes	2,846	(403)	10,836	8,600
Net income	\$ 8,518	\$ 12,140	\$ 29,643	\$ 31,779

**Quarter Ended September 29, 2012 compared with Quarter Ended October 1, 2011***(Amounts in thousands, unless otherwise noted)*

	September 29, 2012	Quarter Ended October 1, 2011	Change	%
Net sales	\$ 174,488	\$ 177,853	\$ (3,365)	-1.9%

The decrease in sales during the quarter ended September 29, 2012 was due to the negative impact of foreign exchange rate changes of \$5.6 million primarily related to the Euro and British Pound Sterling rates compared to 2011 and a decrease in our European sales due to the softening of the European economy. The negative impact of foreign exchange was offset by an increase in sales due to the acquisition of Lamiflex of \$1.4 million and the Company's performance in North America and Asia. We expect to see a continued softening in our order rates in the remainder of 2012, particularly in Europe.

	September 29, 2012	Quarter Ended October 1, 2011	Change	%
Gross Profit	\$ 52,011	\$ 53,029	\$ (1,018)	-1.9%
Gross Profit as a percent of sales	29.8%	29.8%		

Gross profit as a percentage of sales remained consistent with prior year despite a decrease in sales, primarily due to the price increases implemented during the past twelve months, low cost country sourcing and productivity improvements. We expect our full year 2012 gross profit as a percentage of sales to continue to be consistent with 2011.



**Table of Contents**

	September 29, 2012	Quarter Ended October 1, 2011	Change	%
<i>Selling, general and administrative expense ( SG&amp;A )</i>	\$ 30,785	\$ 31,577	\$ (792)	-2.5%
<i>SG&amp;A as a percent of sales</i>	17.6%	17.8%		

The decrease in SG&A is due primarily to the impact of the change in foreign exchange rates, particularly the Euro. In addition, in the quarter to date period ended October 1, 2011, we incurred one-time acquisition related expense of \$0.7 million related to the acquisition of Bauer. SG&A as a percentage of sales decreased when compared to 2011 due to the profit improvement plans in place at our Bauer business and a decrease in certain employee benefit costs.

	September 29, 2012	Quarter Ended October 1, 2011	Change	%
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<i>Research and development expenses ( R&amp;D )</i>	\$ 2,823	\$ 2,801	\$ 22	0.8%
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R&D expenses as a percentage of sales remained consistent with prior year. We do not forecast significant variances in future periods.

	September 29, 2012	Quarter Ended October 1, 2011	Change	%
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<i>Interest Expense, net</i>	\$ 6,637	\$ 6,698	\$ (61)	-0.9%
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Net interest expense is consistent with the quarter ended October 1, 2011. In both 2011 and 2012, we redeemed a portion of our Senior Secured Notes. As a result of the redemption we recorded a write off of deferred financing costs and the original issue discount of \$0.7 million and \$0.3 million in the quarters ended September 29, 2012 and October 1, 2011, respectively. As a result of our Senior Secured Notes becoming callable on December 1, 2012 and the prevailing credit markets, we are currently evaluating refinancing alternatives.

	September 29, 2012	Quarter Ended October 1, 2011	Change	%
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<i>Other non-operating expense, net</i>	\$ 402	\$ 216	\$ 186	86.1%
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The increase in other non-operating expense is due to changes in foreign currency, primarily the British Pound Sterling and Euro from the prior year period.

**Table of Contents**

	Quarter Ended			
	September 29, 2012	October 1, 2011	Change	%
<i>Provision for income taxes</i>	\$ 2,846	\$ (403)	\$ 3,249	-806.2%
<i>Provision for income taxes as a % of income before income taxes</i>	25.0%	-3.4%		

The prior year period provision for income taxes, as a percentage of income before taxes, was significantly higher than that of the quarter ended September 29, 2012 primarily due to the 2011 recognition of benefits of certain significant discrete items described below. During the quarter ended October 1, 2011 the Company recognized a tax benefit for the reduction of the Company's reserve for uncertain tax positions due to a favorable New Jersey Supreme Court ruling in a case that did not involve the Company. The reserve amount released in the quarter ended October 1, 2011 as the result of the ruling consisted of approximately \$2.3 million of tax, \$1.8 million accrued interest and \$0.5 million of penalties. In addition, during the quarter ended October 1, 2011, the Company reversed \$1.4 million of deferred tax assets related to the federal benefit of the accrued state reserve. The net benefit to the Company was approximately \$3.2 million. Finally, during the quarter ended October 1, 2011, the Company released \$0.7 million of a valuation allowance against state income tax attributes. This amount was fully recognized in the Company's effective rate for the quarter ended October 1, 2011. In the quarter ended September 29, 2012, there was a favorable benefit recorded related to the change in tax rates in certain jurisdictions of \$0.4 million.

***Year to Date Period Ended September 29, 2012 compared with the Year to Date Period Ended October 1, 2011****(Amounts in thousands unless otherwise noted)*

	Year to Date Period Ended			
	September 29, 2012	October 1, 2011	Change	%
<i>Net sales</i>	\$ 554,816	\$ 503,095	\$ 51,721	10.3%

Sales increased during the year to date period ended September 29, 2012 primarily due to the acquisition of Bauer. Of the increase in sales, approximately \$39.5 million are additional sales related to the acquisition of Bauer and modest increases in sales in North America and the rest of the world, partially offset by the impact related to the economic downturn in Europe and \$9.3 million related to the negative impact of foreign exchange rate changes primarily attributed to the Euro and British Pound Sterling rates compared to 2011. We expect to see a continued softening in our order rates in the remainder of 2012, particularly in Europe.

	Year to Date Period Ended			
	September 29, 2012	October 1, 2011	Change	%
<i>Gross Profit</i>	\$ 164,686	\$ 149,274	\$ 15,412	10.3%
<i>Gross Profit as a percent of sales</i>	29.7%	29.7%		

The increase in gross profit during the year to date period ended September 29, 2012 is due primarily to the acquisition of Bauer. Of the increase in gross profit, approximately \$10.6 million is related to the acquisition of Bauer. In addition, price increases implemented during the past twelve months, profit improvements within Bauer, productivity improvements and low cost country sourcing have resulted in gross profit margins staying consistent with prior year. These factors are offset by the negative impact of foreign exchange rate changes primarily related to the Euro and British Pound Sterling compared to 2011 of \$2.9 million.

**Table of Contents**

	September 29, 2012	Year to Date Period Ended October 1, 2011	Change	%
<i>Selling, general and administrative expense ( SG&amp;A )</i>	\$ 94,666	\$ 84,005	\$ 10,661	12.7%
<i>SG&amp;A as a percent of sales</i>	17.1%	16.7%		

Of the increase in SG&A, \$10.1 million was due to the acquisitions of Bauer and Lamiflex. The increased costs associated with wage increases were offset by the favorable effect of foreign exchange of \$1.8 million and a decrease in acquisition related expense of \$2.3 million. SG&A as a percentage of sales increased as a result of the acquisition of Bauer. We expect increases to our SG&A costs for the remainder of 2012, however, we have begun to take actions in Europe to improve profitability in the coming quarters. These actions, which we expect to accelerate during the next few quarters, include reducing headcount and limiting discretionary spending.

	September 29, 2012	Year to Date Period Ended October 1, 2011	Change	%
<i>Research and development expenses ( R&amp;D )</i>	\$ 8,792	\$ 7,544	\$ 1,248	16.5%

R&D expenses increased on an absolute dollar basis but represented approximately 1.5% of sales in both periods. \$1.0 million of the increase in R&D expense in 2012 is related to the fully year effect of the acquisition of Bauer, which occurred in May 2011. Increased R&D activities as well as headcount additions also contributed to the increase in R&D expense. We do not forecast significant variances in future periods.

	September 29, 2012	Year to Date Period Ended October 1, 2011	Change	%
<i>Interest Expense, net</i>	\$ 18,915	\$ 18,014	\$ 901	5.0%

Net interest expense increased due to the additional premium paid related to the redemption of Senior Secured Notes in July 2012, offset by lower expense on the Senior Secured Notes, as a result of lower outstanding average borrowings. As a result of our Senior Secured Notes becoming callable on December, 1, 2012 and prevailing conditions in credit markets, we are currently are evaluating refinancing.

	September 29, 2012	Year to Date Period Ended October 1, 2011	Change	%
<i>Other non-operating (income)expense, net</i>	\$ 1,834	\$ (668)	\$ 2,502	-374.6%

Other non-operating expense (income) in the year to date period ended September 29, 2012 related primarily to the settlement of a tax matter with the State of New York for which we were entitled to be fully indemnified. The settlement was for less than the indemnification receivable we had recorded, resulting in a reversal of part of the receivable amounting to an expense of \$0.9 million. We recorded an offsetting benefit in the 2012 tax provision as a result of the settlement. The remainder of expense in 2012, and income in 2011, relates to changes in foreign currency, primarily the British Pound Sterling and Euro.

**Table of Contents**

	September 29, 2012	October 1, 2011	Change	%
<i>Provision for income taxes</i>	\$ 10,836	\$ 8,600	\$ 2,236	26.0%
<i>from operations before income taxes</i>	26.8%	21.3%		

The 2012 provision for income taxes, as a percentage of income before taxes, was higher than that of 2011 primarily due to 2011 favorable discrete items including a third quarter tax benefit for the reduction of the Company's reserve for uncertain tax positions due to a favorable New Jersey Supreme Court ruling in a case that did not involve the Company. The reserve amount released as a result of the ruling consisted of approximately \$2.3 million of tax, \$1.8 million accrued interest and \$0.5 million of penalties. In addition, during the quarter ended October 1, 2011, the Company reversed \$1.4 million of deferred tax assets related to the federal benefit of the accrued state reserve. The net benefit to the Company was approximately \$3.2 million. Finally, during the quarter ended October 1, 2011 the Company released \$0.7 million of a valuation allowance against state income tax attributes. This amount was fully recognized in the Company's effective rate for the quarter ended October 1, 2011.

Certain discrete tax items that occurred in the quarter ended June 30, 2012 partially offsetting the 2011 discrete tax items. During the quarter ended June 30, 2012, the Company settled a tax matter with the State of New York for which the Company was fully indemnified. Upon completion of the settlement, the Company released its reserve for tax, interest and penalties related to the unrecognized tax benefit. In addition, the Company recognized the completion of the 2010 limited scope audit, and the substantial completion of the 2007 audit by the Internal Revenue Service during the quarter ended June 30, 2012. During the quarter ended September 29, 2012, there was a benefit recorded related to the change in tax rates in certain jurisdictions of \$0.4 million.

**Liquidity and Capital Resources***Overview*

We finance our capital and working capital requirements through a combination of cash flows from operating activities and borrowings under our senior secured revolving credit facility ( *Revolving Credit Agreement* ). We expect that our primary ongoing requirements for cash will be for working capital, debt service, capital expenditures, acquisitions, pension plan funding, and paying dividends to our stockholders. In the event additional funds are needed, we could borrow additional funds under our Revolving Credit Agreement, attempt to secure new debt, attempt to refinance our 8 <sup>1</sup>/<sub>8</sub> % Senior Notes due December 2016 (the *Senior Secured Notes* ), or attempt to raise capital in the equity markets. Presently, we have capacity under our Revolving Credit Agreement to borrow \$65.0 million, based on monthly asset collateral calculations, including letters of credit of which we currently have \$6.5 million outstanding. Of this total capacity, we can currently borrow up to \$52.5 million without being required to comply with any financial covenants under the agreement. In order to refinance the existing Senior Secured Notes, we would incur a pre-payment premium. There can be no assurance however that additional debt financing will be available on commercially acceptable terms, or at all. Similarly, there can be no assurance that equity financing will be available on commercially acceptable terms, or at all.

Given that our Senior Secured Notes become callable December 1, 2012, and the current conditions in the credit markets, we currently are evaluating refinancing options.



**Table of Contents****Borrowings**

	September 29, 2012	December 31, 2011
Debt:		
Revolving Credit Agreement	\$	\$
Convertible Notes	85.0	85.0
Senior Secured Notes	177.0	198.0
Variable rate demand revenue bonds		3.0
Mortgages	1.0	1.8
Capital leases and other	1.2	0.4
 Total Debt	 \$ 264.2	 \$ 288.2

**Convertible Senior Notes**

In March 2011, the Company issued Convertible Senior Notes (the "Convertible Notes") due on March 1, 2031. The Convertible Notes are unsecured obligations and are guaranteed by each of the Company's existing and future domestic subsidiaries. Interest on the Convertible Notes is payable semi-annually in arrears, on March 1 and September 1 of each year, commencing on September 1, 2011 at an annual rate of 2.75%. Proceeds from the offering were \$81.6 million, net of fees and expenses, which were capitalized. The proceeds from the offering were used to fund the Bauer Acquisition, as well as bolster the Company's cash position.

We were in compliance in all material respects with all covenants of the indenture governing the Convertible Notes at September 29, 2012.

**Senior Secured Notes**

In November 2009, the Company issued \$210.0 million of 8<sup>1</sup>/<sub>8</sub>% Senior Secured Notes. We used the proceeds of the offering of the Senior Secured Notes to repurchase or redeem Altra Industrial's 9% Senior Secured Notes issued in November 2004.

During 2011, the Company repurchased \$12.0 million of Senior Secured Notes. The Company repurchased the Senior Secured Notes at a premium of \$0.3 million, which was recorded as part of interest expense in the third and fourth quarters of 2011. Due to the repurchase of the Senior Secured Notes, the Company also wrote-off a proportional amount of the deferred financing fees and original issue discount associated with the Senior Secured Notes totaling \$0.4 million which was also recorded as part of interest expense in the third and fourth quarters of 2011.

During the quarter ended September 29, 2012, the Company repurchased \$21.0 million of Senior Secured Notes at a premium of \$0.6 million, which was recorded as part of interest expense in the quarter ended September 29, 2012. Due to the repurchase of the Senior Secured Notes, the Company also wrote-off a proportional amount of the deferred financing fees and original issue discount associated with the Senior Secured Notes totaling \$0.6 million which was recorded as part of interest expense in the quarter ended September 29, 2012.

The Senior Secured Notes are guaranteed by the Company's U.S. domestic subsidiaries and are secured by a second priority lien, subject to first priority liens securing our Revolving Credit Agreement, on substantially all of our assets and those of our domestic subsidiaries. Interest on the Senior Secured Notes is payable in arrears, semi-annually on June 1 and December 1 of each year, commencing on June 1, 2010. The indenture governing the Senior Secured Notes contains covenants which restrict the Company and its subsidiaries. These restrictions limit or prohibit, among other things, the ability to incur additional indebtedness; repay subordinated indebtedness prior to stated maturities; pay dividends on or redeem or repurchase stock or make other distributions; make investments or acquisitions; sell certain assets or merge with or into other companies; sell stock in our subsidiaries; and create liens on their assets.

We were in compliance in all material respects with all covenants of the indenture governing the Senior Secured Notes at September 29, 2012.

**Table of Contents****Revolving Credit Agreement**

Concurrently with the closing of the offering of the Senior Secured Notes, Altra Industrial entered into the Revolving Credit Agreement. In November 2011, Altra Industrial amended the Revolving Credit Agreement to increase the borrowing capacity to \$65.0 million (subject to adjustment pursuant to a borrowing base calculation and subject to increase from time to time in accordance with the terms of the amended credit facility) and to extend the term to October 31, 2016.

Altra Industrial and all of its domestic subsidiaries are borrowers, or Borrowers, under the Revolving Credit Agreement. Certain of our existing and subsequently acquired or organized domestic subsidiaries that are not Borrowers do and will guarantee (on a senior secured basis) the Revolving Credit Agreement. Obligations of the other Borrowers under the Revolving Credit Agreement and the guarantees are secured by substantially all of Borrowers' assets and the assets of each of our existing and subsequently acquired or organized domestic subsidiaries that is a guarantor of our obligations under the Revolving Credit Agreement (with such subsidiaries being referred to as the U.S. subsidiary guarantors), including but not limited to: (a) a first-priority pledge of all the capital stock of subsidiaries held by Borrowers or any U.S. subsidiary guarantor (which pledge, in the case of any foreign subsidiary, will be limited to 100% of any non-voting stock and 65% of the voting stock of such foreign subsidiary) and (b) perfected first-priority security interests in and mortgages on substantially all tangible and intangible assets of each Borrower and U.S. subsidiary guarantor, including accounts receivable, inventory, equipment, general intangibles, investment property, intellectual property, certain real property, cash and proceeds of the foregoing (in each case subject to materiality thresholds and other exceptions).

An event of default under the Revolving Credit Agreement would occur in connection with a change of control, among other things, if: (i) Altra Industrial ceases to own or control 100% of each of its Borrower subsidiaries, or (ii) a change of control occurs under the Senior Secured Notes, or any other subordinated indebtedness.

An event of default under the Revolving Credit Agreement would also occur if an event of default occurs under the indentures governing the Senior Secured Notes or if there is a default under any other indebtedness that any Borrower may have involving an aggregate amount of \$10.0 million or more and such default: (i) occurs at final maturity of such debt, (ii) allows the lender there under to accelerate such debt or (iii) causes such debt to be required to be repaid prior to its stated maturity. An event of default would also occur under the Revolving Credit Agreement if any of the indebtedness under the Revolving Credit Agreement ceases with limited exception to be secured by a full lien of the assets of Borrowers and guarantors.

As of September 29, 2012, we were in compliance in all material respects with all covenant requirements associated with our Revolving Credit Agreement. As of September 29, 2012, we had no borrowings and \$6.5 million in letters of credit outstanding under the Revolving Credit Agreement.

**Cash and Cash Equivalents**

The following is a summary of our cash balances and cash flows (in thousands) as of and for the year to date periods ended September 29, 2012 and October 1, 2011, respectively,

	2012	2011
Cash flows from operating activities	\$ 54,493	\$ 29,107
Cash flows from investing activities	(32,606)	(81,816)
Cash flows from financing activities	(27,292)	(69,009)
Effect of exchange rate on cash and cash equivalents	1,026	1,238
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 88,136</b>	<b>\$ 90,261</b>

The primary sources of funds provided by operating activities of \$54.5 million for the year to date period ended September 29, 2012 resulted from cash provided from net income of \$29.6 million. The net impact of the add-back of non-cash depreciation, amortization, stock-based compensation, accretion of debt discount, deferred financing costs, and non-cash loss on foreign currency was \$26.4 million. This amount was offset by a net increase in current assets and liabilities of \$1.5 million.

The net increase in cash flows from operations is primarily related to a decrease in accounts receivable and inventory. Due to the focus on the integration of Bauer, and the inclusion of an additional \$18.4 million of accounts receivables, the cash collection of those receivables in 2011

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was not as timely as it has been since. Inventory balances have decreased due to planned inventory management efforts that have positively impacted our inventory levels. While a variety of factors can influence our ability to project future cash flow, we expect to see positive cash flows from operating activities during the remainder of 2012 due to a decrease in working capital, specifically accounts receivable and inventory.

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## **Table of Contents**

The change in net cash used in investing activities was primarily due to the acquisition of Bauer in May 2011. The increase in capital expenditures relates to additional expenditures for our implementation of SAP of \$3.2 million as well as to fund our plant construction in ChangZhou, China of \$5.6 million. We expect to incur between \$5 million and \$10 million of additional capital expenses in the remainder of 2012 related to our construction project in ChangZhou, continued implementation of our ERP system, and purchases of machinery and equipment for production expansion and maintenance of our current manufacturing facilities.

The change in net cash used in by financing activities was primarily due to the issuance of \$85.0 million of Convertible Notes in March 2011. The cash used in financing activities in the year to date period ended September 29, 2012 was used to purchase \$21.0 million of 8 1/8 Senior Secured Notes, to redeem \$3.0 million in variable rate demand revenue bonds related to our San Marcos facility, to make payments of capital lease obligations of \$0.3 million, \$0.7 million of payments on mortgages, and to repurchase \$0.9 million of shares in lieu of tax withholdings, and to make \$1.3 million of dividend payments

We intend to use our remaining existing cash and cash equivalents and cash flow from operations to provide for our working capital needs, to fund potential future acquisitions, debt service, and capital expenditures, for pension funding, to repay our debt, and to pay dividends to our stockholders. In July 2012, we redeemed \$21.0 million of Senior Secured Notes. We believe our future operating cash flows will be sufficient to meet our future operating and investing cash needs. Furthermore, the existing cash balances and the availability of additional borrowings under our Revolving Credit Agreement provide additional potential sources of liquidity should they be required. As a result of continued sluggish demand in Europe and general global economic conditions, we have begun to take actions to improve profitability in the coming quarters. We are currently evaluating restructuring activities, primarily within Europe to improve operational efficiency. We expect to have formalized a restructuring plan by the end of 2012.

### ***Contractual Obligations***

There were no significant changes in our contractual obligations subsequent to December 31, 2011.

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

We are exposed to various market risk factors such as fluctuating interest rates, changes in foreign currency rates, and changes in commodity prices. At present, we do not utilize derivative instruments to manage these risks. During the reporting period, there have been no material changes to the quantitative and qualitative disclosures regarding our market risk set forth in our Annual Report on Form 10-K for the year ended December 31, 2011.

### **Item 4. Controls and Procedures**

#### ***Disclosure Controls and Procedures***

As of September 29, 2012, our management, under the supervision and with the participation of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed under the Exchange Act, such as this Form 10-Q, is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including the principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of September 29, 2012, our disclosure controls and procedures are effective at a reasonable assurance level.

#### ***Changes in Internal Control Over Financial Reporting***

With the exception of changes resulting from the Lamiflex Acquisition that occurred on July 11, 2012, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our fiscal quarter ended September 29, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**Table of Contents**

***Note Regarding Acquisition***

In making its assessment of disclosure controls and procedures and of changes in internal control over financial reporting as of September 29, 2012, management has excluded the operations of Lamiflex. The Company is currently assessing the control environment of this acquired business.

The Company's consolidated financial statements reflect Lamiflex's results of operations from the beginning of business on July 11, 2012 forward. The acquired business' total revenue was less than 1% of the Company's total revenue at September 29, 2012.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are, from time to time, party to various legal proceedings arising out of our business. During the reporting period, there have been no material changes to the description of legal proceedings set forth in our Annual Report on Form 10-K for the year ended December 31, 2011.

**Item 1A. Risk Factors**

The reader should carefully consider the Risk Factors described in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission. Those risk factors described below, elsewhere in this report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2011 are not the only ones we face, but are considered to be the most material. These risk factors could cause our actual results to differ materially from those stated in forward looking statements contained in this Form 10-Q and elsewhere. All risk factors stated in our Annual Report on Form 10-K for the year ended December 31, 2011, and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012 are incorporated herein by reference.

During the reporting period, except for below, there have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2011 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012.

***We may be subject to work stoppages at our facilities, or our customers may be subjected to work stoppages, which could seriously impact our operations and the profitability of our business.***

As of December 31, 2011, we had approximately 3,466 full time employees, of whom approximately 51% were employed outside the United States. Approximately 169 of our North American employees, and 503 of our European employees are represented by labor unions. In addition, our employees in Europe are generally represented by local and national social works councils that hold discussions with employer industry associations regarding wage and work issues every two to three years. Our European facilities, particularly those in France and Germany, may participate in such discussions and be subject to any agreements reached with employees. Additionally, approximately 59 employees in the TB Wood's production facilities in Mexico are unionized under collective bargaining agreements that are subject to annual renewals.

We are a party to four U.S. collective bargaining agreements. The agreements will expire on, July 2013, October 2013, June 2014, and October 2014, respectively. We have entered into a plant closing agreement with labor union employees at our South Beloit manufacturing facility. We expect the facility to close on or before the July 2013 expiry of the relevant collective bargaining agreement. We may be unable to renew these agreements on terms that are satisfactory to us, if at all. In addition, one of our four U.S. collective bargaining agreements contains provisions for additional, potentially significant, lump-sum severance payments to all employees covered by the agreements who are terminated as the result of a plant closing and one of our collective bargaining agreements contains provisions restricting our ability to terminate or relocate operations.

If our unionized workers or those represented by a works council were to engage in a strike, work stoppage or other slowdown in the future, we could experience a significant disruption of our operations. Such disruption could interfere with our ability to deliver products on a timely basis and could have other negative effects, including decreased productivity and increased labor costs. In addition, if a greater percentage of our work force becomes unionized, our business and financial results could be materially adversely affected. Many of our direct and indirect customers have unionized work forces. Strikes, work stoppages or slowdowns experienced by these customers or their suppliers could result in slowdowns or closures of assembly plants where our products are used and could cause cancellation of purchase orders with us or otherwise result in reduced revenues from these customers.

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Recently, employees at our Kilian manufacturing plant in Toronto, Canada voted in favor of the certification of a union at that facility. As a result of this vote, we have engaged in the process of negotiating a new collective bargaining agreement and we believe we have reached an agreement in principal with the union. If further negotiations are required, however, such negotiations could divert management attention and result in increased operating expenses and lower net income. Furthermore, if we are unable to negotiate and finalize an acceptable collective bargaining agreement, our operating expenses could increase significantly as a result of work stoppages, including strikes. Any of these matters could adversely affect our financial condition, results of operations and cash flows.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes our share repurchase activity by month for the quarter ended September 29, 2012.

Approximate Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under The Plans or Programs
<i>July 1, 2012 to July 28, 2012</i>		\$		\$
<i>July 29, 2012 to August 25, 2012</i>	404,701	\$ 17.26		\$
<i>August 26, 2012 to September 29, 2012</i>	11,764	\$ 18.41		\$

(1) We repurchased these shares of common stock in connection with the vesting of certain stock awards to cover minimum statutory withholding taxes.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not Applicable.

**Table of Contents****Item 5. Other Information**

Effective November 5, 2012, we have entered into an amended and restated employment agreement with Christian Storch, our Chief Financial Officer. Mr. Storch's previous employment agreement was scheduled to expire in December 2012. Mr. Storch's amended and restated employment agreement was approved by our Board of Directors on November 5, 2012 and has an effective date of November 5, 2012. Under the terms of his employment agreement, Mr. Storch has a one-year employment term, following which the agreement automatically renews for successive one-year terms unless either we or Mr. Storch terminates the agreement upon 6 months prior notice to such renewal date. Pursuant to his employment agreement, Mr. Storch will continue to receive his current base salary of \$371,527 per year for his services. Mr. Storch's employment agreement contains usual and customary restrictive covenants, including 12 month non-competition provisions and non-solicitation/no hire of employees or customers provisions, non-disclosure of proprietary information provisions and non-disparagement provisions. In the event of a termination without cause or departure for good reason, Mr. Storch is entitled to severance equal to 12 months salary, continuation of medical and dental benefits for the 12-month period following the date of termination, and an amount equal to his pro-rated bonus for the year of termination. In addition, upon such termination, fifty percent (50%) of Mr. Storch's unvested restricted stock received from our equity incentive plan shall automatically vest. Under the agreement, Mr. Storch is also eligible to participate in all compensation or employee benefit plans or programs and to receive all benefits and perquisites for which salaried employees of the Company generally are eligible under any current or future plan or program on the same basis as other senior executives of the Company.

The foregoing summary is qualified in its entirety by reference to Mr. Storch's employment agreement, which is being filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q and is incorporated by reference herein.

**Item 6. Exhibits**

The following exhibits are filed as part of this report:

Exhibit	Description
3.1(1)	Second Amended and Restated Certificate of Incorporation of the Registrant.
3.2(2)	Second Amended and Restated Bylaws of the Registrant.
10.2*	Amended and Restated Employment Agreement, dated as of November 5, 2012, among Altra Industrial Motion, Inc., Altra Holdings, Inc. and Christian Storch.
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101***	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 29, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Statement of Earnings, (ii) the Unaudited Condensed Consolidated Balance Sheet, (iii) the Unaudited Condensed Consolidated Statement of Cash Flows, and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.

\* Filed herewith.

\*\* Furnished herewith.

\*\*\* As provided in Rule 406T of Regulation S-T, this information is furnished herewith and not filed for purposes of sections 11 and 12 of the Securities Act of 1933, as amended, or section 18 of the Securities Exchange Act of 1934, as amended. Management contract or compensatory plan or arrangement.

- (1) Incorporated by reference to Altra Holdings, Inc.'s Registration Statement on Form S-1A, as amended, filed with the Securities and Exchange Commission on December 4, 2006.
- (2) Incorporated by reference to Altra Holdings, Inc.'s Current Report on form 8-K filed on October 27, 2008.





**Table of Contents**

**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.

ALTRA HOLDINGS, INC.

November 7, 2012

By: /s/ Carl R. Christenson  
Name: Carl R. Christenson  
Title: President and Chief Executive Officer

November 7, 2012

By: /s/ Christian Storch  
Name: Christian Storch  
Title: Vice President and Chief Financial Officer

November 7, 2012

By: /s/ Todd B. Patriacca  
Name: Todd B. Patriacca  
Title: Vice President of Finance, Corporate Controller and Treasurer

**Table of Contents**

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