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165,083

166,279

Gearing

47,023

48,783

145,038

147,599

Inter-segment eliminations

(2,017

)

(1,883

)

(5,087

)

(6,079

)

Net sales

$

173,132

$

183,053

$

536,259

$

573,024

Income from operations:

Segment earnings:

Couplings, Clutches & Brakes

$

6,596

$

8,910

$

20,441

$

29,672

Electromagnetic Clutches & Brakes

6,589

4,771

20,120

16,293

Gearing

5,650

6,197

17,280

17,022

Restructuring

(3,397

)

(651

)

(6,591

)

(4,994

)

Corporate expenses (1)

(5,069

)

(2,567

)

(9,729

)

(7,967

)

Income from operations

$

10,369

$

16,660

$

41,521

$

50,026

Other non-operating (income) expense:

Net interest expense

$

2,815

$

2,924

$

8,615

$

8,858

Other non-operating expense (income), net

45

685

(438

)

606

2,860

3,609

8,177

9,464

Income before income taxes

7,509

13,051

33,344

40,562

Provision for income taxes

2,196

2,830

9,872

11,326

Net income

$

5,313

$

10,221

$

23,472

$

29,236

(1) Certain expenses are maintained at the corporate level and not allocated to the segments. These include various administrative expenses related to corporate headquarters, depreciation on capitalized software costs, non-capitalizable software implementation costs and acquisition related expenses.

Selected information by segment (continued)

	Quarter Ended		Year to Date Period Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Depreciation and amortization:				
Couplings, Clutches & Brakes	$4,028	$3,926	$11,485	$ 11,922
Electromagnetic Clutches & Brakes	1,176	1,195	3,501	3,481
Gearing	1,862	1,613	5,261	4,970
Corporate	791	803	2,372	2,296
Total depreciation and amortization	$7,857	$7,537	$22,619	$ 22,669

	September 30, 2016	December 31, 2015
Total assets:		
Couplings, Clutches & Brakes	$329,621	$312,117
Electromagnetic Clutches & Brakes	129,576	125,887
Gearing	133,483	150,860
Corporate (2)	27,778	43,468
Total assets	$620,458	$632,332

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ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

(2) Corporate assets are primarily cash and cash equivalents, tax related asset accounts, certain capitalized software costs, property, plant and equipment and deferred financing costs.

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

	Net Sales			
	Quarter Ended		Year to Date Period Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
North America (primarily U.S.)	$99,995	$108,959	$316,957	$350,753
Europe	54,344	52,757	165,694	164,829
Asia and other	18,793	21,337	53,608	57,442
Total	$173,132	$183,053	$536,259	$573,024

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

Concentrations

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 30 days of billing. An allowance for potential credit losses is maintained, and losses have historically been within management's expectations. While the Company did not have any customers that represented total sales greater than 10% for each of the quarters ended September 30, 2016 and 2015, the Gearing business had one customer that approximated 10% of total sales for that segment during the quarter ended September 30, 2015.

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 cash equivalents are held by well-established financial institutions and invested in AAA rated mutual funds. The Company is exposed to swap counterparty credit risk with well-established financial institutions.

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 unaudited condensed consolidated balance sheet for potential litigation as of September 30, 2016 or December 31, 2015. 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 unaudited condensed 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

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ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

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.

15. Subsequent Events

Dividend

On October 19, 2016, the Company declared a dividend of $0.15 per share for the quarter ended December 31, 2016, payable on January 4, 2017 to shareholders of record as of December 19, 2016.

Share Repurchase Program

On October 19, 2016, our board of directors approved a new share repurchase program authorizing the buyback of up to $30.0 million of the Company's common stock through December 31, 2019. This plan replaces the previous share repurchase program that was initiated in May 2014 and has now been terminated. The Company expects to purchase shares on the open market, through block trades, in privately negotiated transactions, in compliance with SEC Rule 10b-18 (including through Rule 10b5-1 plans), or in any other appropriate manner. The timing of the shares repurchased will be at the discretion of management and will depend on a number of factors, including price, market conditions and regulatory requirements. Shares acquired through the repurchase program will be held as treasury shares and may be used for general corporate purposes. The Company retains the right to limit, terminate or extend the share repurchase program at any time without prior notice. The Company expects to fund any repurchases of its common stock through a combination of cash on hand and cash generated by operations.

Stromag Acquisition

On October 21, 2016, the Company entered into a binding agreement (the “French Agreement”) with GKN Industries, Limited (“GKN”). The French Agreement provides that, subject to completion of certain employee consultation procedures required under applicable law and certain other customary conditions, the parties to the French Agreement will enter into a definitive sale and purchase agreement, attached as an exhibit to the French Agreement (the “Agreed Form Sale and Purchase Agreement”), providing for the sale and transfer of GKN’s Germany-based Stromag AG business (the “Acquired Company”) for a purchase price comprised of the assumption of debt totaling 14 million euros and cash consideration, payable at closing, of approximately 184 million euros, subject to certain adjustments (the “Stromag Acquisition”).

Under the French Agreement, GKN has agreed to promptly commence the employee consultation process required under applicable law to obtain opinions of the Stromag works councils in France. Subject to the conditions set forth in the French Agreement, the parties to the French Agreement will execute and deliver the Agreed Form Sale and Purchase Agreement within two business days following the satisfaction of the employee consultation process requirements.

The French Agreement and the Agreed Form Sale and Purchase Agreement contain representations, warranties, and covenants that we believe are customary for a transaction of this size and type, as well as indemnification provisions subject to specified limitations. The closing of the transaction is subject to several customary closing conditions, including receipt of required regulatory approvals, as well as the aforementioned consultation process with the Stromag works councils, and is expected to take place during the first quarter of 2017. No assurances can be given that the Stromag Acquisition will be timely consummated or consummated at all.

The foregoing summary of the French Agreement and the transactions contemplated thereby is not intended to be complete and is qualified in its entirety by reference to the actual French Agreement, which will be filed as an exhibit to the Company’s Annual Report on Form 10-K for its fiscal year ending December 31, 2016.

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

Amended and Restated Credit Agreement

On October 21, 2016, the Company entered into a First Amendment to the Second Amended and Restated Credit Agreement (the “First Amendment”) by and among the Company and Altra Industrial Motion Netherlands, B.V. (“Altra B.V.”), one of the Company’s foreign subsidiaries (collectively, the “Borrowers”), the Subsidiary Guarantors to the First Amendment, JPMorgan Chase Bank, N.A., as Administrative Agent, as Joint Lead Arranger and Joint Bookrunner, Wells Fargo Bank, N.A., as Joint Lead Arranger and Joint Bookrunner, KeyBank National Association, as Joint Lead Arranger and Joint Bookrunner, and certain lender parties to the First Amendment (collectively, the “Lenders”).

The First Amendment would amend the Company’s Second Amended and Restated Credit Agreement, dated as of October 22, 2015 (the “Credit Agreement”). However, the amendments to the Credit Agreement contained in the First Amendment will not be effective and will not amend the Credit Agreement unless and until certain conditions precedent have been met, including that the Company has provided the Administrative Agent with written notice that the conditions precedent to the closing of the Stromag Acquisition have been satisfied. In the event that the Stromag Acquisition does not occur, or if the other conditions precedent are not satisfied or waived, then the First Amendment shall not become effective.

If it becomes effective, the First Amendment, would increase the revolving credit facility under the Credit Agreement by $75,000,000 (the “Revolver Increase”), so that after giving effect to the Revolver Increase, the aggregate revolving commitments would total $425,000,000. The First Amendment would also reset the possible expansion of additional future loan commitments to $150,000,000. In addition, the First Amendment would increase the multicurrency sublimit to $250 million and adjust certain financial covenants. The Company expects to use the increased facility to finance the Stromag Acquisition. Except as otherwise expressly provided by the First Amendment, all of the respective terms, conditions and provisions of the Credit Agreement and the other loan documents remain the same.

The foregoing summary of the First Amendment and the transactions contemplated thereby is not intended to be complete and is qualified in its entirety by reference to the actual First Amendment, which will be filed as an exhibit to the Company’s Annual Report on Form 10-K for its fiscal year ending December 31, 2016.

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," "forecast" and similar expression 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 effects of intense competition in the markets in which we operate;
- the cyclical nature of the markets in which we operate;
- changes in market conditions in which we operate that would influence the value of the Company's stock;
- the Company's ability to achieve its business plans, including with respect to an uncertain economic environment;
- the risks associated with international operations, including currency risks;
- 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, suppliers, or other entity relevant to the Company's operations;
- 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 Company's risk of loss not covered by insurance;
- the accuracy of estimated forecasts of OEM customers and the impact of the current global and European economic environment on our customers;
- the risks associated with certain minimum purchase agreements we have with suppliers;
- fluctuations in the costs of raw materials used in our products;
- the outcome of litigation to which the Company is a party from time to time, including product liability claims;
- work stoppages and other labor issues;
- changes in employment, environmental, tax and other laws and changes in the enforcement of laws;
- the Company's ability to attract and retain key executives and other personnel;
- 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 obtain or protect intellectual property rights;
- the risks associated with the portion of the Company's total assets comprised of goodwill and indefinite lived intangibles;
- changes in market conditions that would result in the impairment of goodwill or other assets of the Company;
- changes in accounting rules and standards, audits, compliance with the Sarbanes-Oxley Act, and regulatory investigations;

- the effects of changes to critical accounting estimates;

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- 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;
- failure of the Company's operating equipment or information technology infrastructure;
- the Company's ability to implement our Enterprise Resource Planning (ERP) system;
- 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 risks associated with the Company's exposure to variable interest rates and foreign currency exchange rates;
- the risks associated with interest rate swap contracts;
- the risks associated with the potential dilution of our common stock as a result of our convertible bonds;
- the risks associated with the Company's exposure to renewable energy markets;
- the risks related to regulations regarding conflict minerals;
- the risks associated with the global recession and European economic downturn and volatility and disruption in the global financial markets;
- the Company's ability to successfully execute, manage and integrate key acquisitions and mergers, including but not limited to the Svendborg Acquisition, the Guardian Acquisition and the Stromag Acquisition;
- the risks associated with the Company's closure of its manufacturing facility in Changzhou, China;
- the Company's ability to achieve the efficiencies, savings and other benefits anticipated from our cost reduction, margin improvement, restructuring, plant consolidation and other business optimization initiatives;
- the risk associated with the UK vote to leave the European Union; 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 this document.

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, 2015, 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 Industrial Motion Corp. and its subsidiaries should be read together with the audited financial statements of Altra Industrial Motion Corp. and its subsidiaries and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Unless the context requires otherwise, the terms "Altra," "Altra Industrial Motion Corp.," "the Company," "we," "us," and "our" refer to Altra Industrial Motion Corp. and its subsidiaries.

General

We are a leading global designer, producer and marketer of a wide range of electromechanical 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, gear motors, 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.

Business Segments

Segments

During the quarter ended September 30, 2015, the Company realigned its reporting and management structure and corresponding reportable business segments as part of its business simplification efforts. This new structure is better aligned across the Company’s end markets and will better facilitate the Company’s strategic initiatives for growth, procurement and facility consolidation.

The Company currently operates through three business segments that are aligned with key product types and end markets served:

- Couplings, Clutches & Brakes.

Couplings are the interface between two shafts, which enable power to be transmitted from one shaft to the other. Clutches in this segment are devices which use mechanical, hydraulic, pneumatic, or friction type connections to facilitate engaging or disengaging two rotating members. Brakes are combinations of interacting parts that work to slow or stop machinery. Products in this segment are generally used in heavy industrial applications and energy markets.

- Electromagnetic Clutches & Brakes.

Products in this segment include brakes and clutches that are used to electronically slow, stop, engage or disengage equipment utilizing electromagnetic friction type connections. Products in this segment are used in industrial and commercial markets including agricultural machinery, material handling, motion control, and turf & garden.

- Gearing.

Gears are utilized to reduce the speed and increase the torque of an electric motor or engine to the level required to drive a particular piece of equipment. Gears produced by the Company are primarily utilized in industrial applications.

The following tables show the percentage of net sales and operating income generated by each of our three segments for the quarters ended September 30, 2016 and 2015:

	Net Sales Quarter Ended		Net Sales Year to Date Ended	
	September 30,	September 30,	September 30,	September 30,

	2016	2015	2016	2015
Couplings, Clutches & Brakes	45 %	47 %	43 %	47 %
Electromagnetic Clutches & Brakes	29 %	28 %	31 %	29 %
Gearing	26 %	25 %	26 %	24 %

	Operating Income Quarter Ended September 30,		Operating Income Year to Date Ended September 30,	
	2016	2015	2016	2015
Couplings, Clutches & Brakes	35 %	45 %	35 %	47 %
Electromagnetic Clutches & Brakes	35 %	24 %	35 %	26 %
Gearing	30 %	31 %	30 %	27 %

Our Internet address is 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

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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 Quarterly Report on 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.

Foreign currency translation continues to have a negative impact on our performance, and several of our end markets remain weak. Performance in the oil & gas, agriculture, mining and metals end markets, which are some of our largest markets, remains challenging and continues to weigh on our performance. Furthermore, we expect the challenges in our agriculture, oil and gas, mining and metals end markets to continue for some time.

As these conditions persist, we are managing the business to the level of demand we are seeing. We expect ongoing benefits from the restructuring and cost reduction initiatives which include actions taken under the 2015 Altra Plan which we commenced in the quarter ended March 31, 2015 and which has also helped improve the profitability of our Gearing segment. We had completed six facility consolidations by the end of the third quarter, and we are working to complete one additional consolidation during the remainder of the year.

Critical Accounting Policies

The preparation of our unaudited 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 disclosures 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, 2015. During the reporting period, except as otherwise described below, there were no material changes to the critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2015.

Goodwill, Intangibles and other long-lived assets. In connection with our acquisitions, goodwill and intangible assets were identified and recorded at fair value. We recorded intangible assets for customer relationships, trade names and trademarks, product technology, patents and goodwill. In valuing the customer relationships, trade names, and trademarks, we utilized variations of the income approach. The income approach was considered the most appropriate valuation technique because the inherent value of these assets is their ability to generate current and future income. The income approach relies on historical financial and qualitative information, as well as assumptions and estimates for projected financial information. Projected financial information is subject to risk if our estimates are incorrect. The most significant estimate relates to our projected revenues and profitability. If we do not meet the projected revenues and profitability used in the valuation calculations then the intangible assets could be impaired. In determining the value of customer relationships, we reviewed historical customer attrition rates which were determined to be approximately 5% per year. Most of our customers tend to be long-term customers with very little turnover. While we do not typically have long-term contracts with customers, we have established long-term relationships with customers which make it difficult for competitors to displace us. Additionally, we assessed historical revenue growth within our industry and customers' industries in determining the value of customer relationships. The value of our customer relationships intangible asset could become impaired if future results differ significantly from any of the underlying assumptions. This could include a higher customer attrition rate or a change in industry trends such as the use of long-term contracts which we may not be able to obtain successfully. Customer relationships and product technology and patents are considered finite-lived assets, with estimated lives ranging from 8 years to 17 years. The estimated lives were determined by calculating the number of years necessary to obtain 95% of the value of the discounted cash flows of the respective intangible asset.

Goodwill and trade names and trademarks are considered indefinite lived assets. Other intangible assets include trade names and trademarks that identify us and differentiate us from competitors, and therefore competition does not limit the useful life of these assets. Additionally, we believe that our trade names and trademarks will continue to generate product sales for an indefinite period.

Accounting standards require that an annual goodwill impairment assessment be conducted at the reporting unit level using either a quantitative or qualitative approach. The Company has determined that its Couplings, Clutches, and Brakes (CCB) operating segment is comprised of two reporting units which are the Couplings reporting unit and the Heavy Duty and Overrunning Clutches and Brakes reporting unit. The Company has determined that its Gearing operating segment is comprised of two reporting units which are the Domestic Gearing reporting unit and the Bauer Gearing reporting unit. The Company has also determined that the Electromagnetic, Clutches and Brakes (ECB) operating segment comprises a single reporting unit.

As part of the annual goodwill impairment assessment we performed a quantitative assessment and estimated the fair value of each of our five reporting units using an income approach. We forecasted future cash flows by reporting unit for each of the next five years and applied a long term growth rate to the final year of forecasted cash flows. The cash flows were then discounted using our estimated discount rate. The forecasts of revenue and profitability growth for use in the long-range plan and the discount rate were the key assumptions in our goodwill fair value analysis.

As of December 31, 2015, each of our reporting units had estimated fair values that were substantially in excess of the carrying value.

Management believes the preparation of revenue and profitability growth rates for use in the long-range plan and the discount rate requires significant use of judgment. If any of our operating segments do not meet our forecasted revenue and/or profitability estimates, we could be required to perform an interim goodwill impairment analysis in future periods. In addition, if our discount rate increases, we could be required to perform an interim goodwill impairment analysis. Given the substantial excess fair value, we believe that a significant change in key valuation assumptions, including a decrease in revenues or profitability, or an increase in the discount rate, would not result in an indication of impairment.

Based on the above procedures, we did not identify any reporting unit that would be required to perform a step 2 goodwill impairment analysis as of December 31, 2015.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230): Classification of certain cash receipts and cash payments (a consensus of the emerging issues task force) (“ASU 2016-15”). This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This guidance will be effective for the Company on January 1, 2018. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 is intended to provide more decision-useful information about expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The main provisions include presenting financial assets measured at amortized cost at the amount expected to be collected, which is net of an allowance for credit losses, and recording credit losses related to available-for-sale securities through an allowance for credit losses. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2019, and must be applied using a modified retrospective approach with earlier adoption permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). The updated guidance revises aspects of stock-based compensation guidance which include income tax consequences, classification of awards as equity or liabilities, and classification on the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In February 2015, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). The ASU requires management to recognize lease assets and lease liabilities by lessees for all operating leases. The ASU is effective for periods beginning after December 15, 2018 and interim periods therein on a modified retrospective basis. We are currently evaluating the impact this guidance will have on our financial statements.

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 provides a single principles-based, five-step model to be applied to all contracts with customers. The five steps are to (i) identify the contracts with the customer, (ii) identify the performance obligations in the contact, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when each performance obligation is satisfied. Revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. In July 2015, the FASB agreed to delay the effective date of ASU

2014-09 for one year and to permit early adoption by entities as of the original effective dates. Considering the one year deferral, ASU 2014-09 will be effective for the Company beginning on January 1, 2018 and the standard allows for either full retrospective adoption or modified retrospective adoption. The Company is continuing to evaluate the impact that the adoption of this guidance will have on our financial condition, results of operations and the presentation of our financial statements.

Results of Operations

(Amounts in thousands, unless otherwise noted)

	Quarter Ended		Year to Date Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net sales	$173,132	$ 183,053	$536,259	$ 573,024
Cost of sales	118,957	127,253	369,254	398,765
Gross profit	54,175	55,800	167,005	174,259
Gross profit percentage	31.3 %	30.5 %	31.1 %	30.4 %
Selling, general and administrative expenses	36,142	34,279	105,548	105,733
Research and development expenses	4,267	4,210	13,345	13,506
Restructuring costs	3,397	651	6,591	4,994
Income from operations	10,369	16,660	41,521	50,026
Interest expense, net	2,815	2,924	8,615	8,858
Other non-operating income (loss), net	45	685	(438)	606
Income before income taxes	7,509	13,051	33,344	40,562
Provision for income taxes	2,196	2,830	9,872	11,326
Net income	5,313	10,221	23,472	29,236
Net loss attributable to non-controlling interest	—	—	—	63
Net income attributable to Altra Industrial Motion Corp.	$5,313	$ 10,221	$23,472	$ 29,299

Quarter Ended September 30, 2016 compared with Quarter Ended September 30, 2015

(Amounts in thousands, unless otherwise noted)

Amounts in thousands, except percentage data	Quarter-Ended			
	September 30, 2016	September 30, 2015	Change	%
Net sales	$173,132	$ 183,053	(9,921)	(5.4)%

The decrease in sales during the quarter ended September 30, 2016 was due to the effect of foreign exchange rates, and lower sales levels in several end markets. Of the decrease in sales, approximately $2.8 million relates to the impact of changes to foreign exchange rates primarily for the Chinese Renminbi and British Pound compared to the prior year. In addition, $4.3 million relates to decreased sales in various end markets, primarily oil and gas, and mining in our Couplings, Clutches and Brakes business segment and agriculture in our Electromagnetic Clutches and Brakes business segment.

Amounts in thousands, except percentage data	Quarter Ended			
	September 30, 2016	September 30, 2015	Change	%
Gross Profit	$54,175	$ 55,800	(1,625)	(2.9)%
Gross Profit as a percent of sales	31.3 %	30.5 %		

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Gross profit as a percentage of sales increased during the quarter ended September 30, 2016. The increase is due to improvements realized from our consolidation and cost saving efforts, partially offset by unfavorable product mix and redundant labor costs associated with ongoing consolidation activities. We expect the gross profit as a percentage of sales will remain relatively consistent for the remainder of 2016.

Amounts in thousands, except percentage data	Quarter Ended			
	September 30,	September 30,		
	2016	2015	Change	%
Selling, general and administrative expense ("SG&A")	$36,142	$ 34,279	$1,863	5.4%
SG&A as a percent of sales	20.9 %	18.7 %		

The increase in SG&A as a percent of sales relates primarily to the impact of acquisition costs of $1.1 million during the period ended September 30, 2016 not present during the same period in the prior year.

Amounts in thousands, except percentage data	Quarter Ended			
	September 30,	September 30,		
	2016	2015	Change	%
Research and development expenses ("R&D")	$4,267	$ 4,210	57	1.4%

R&D remained consistent compared to the prior year. We continue to expect R&D expenses to approximate 2.0% - 2.5% of sales in future periods.

Amounts in thousands, except percentage data	Quarter Ended			
	September 30,	September 30,		
	2016	2015	Change	%
Restructuring Costs	$3,397	$ 651	2,746	421.8%

During the quarter ended March 31, 2015, the Company adopted a restructuring plan ("2015 Altra Plan") in response to weak demand and to make certain adjustments to improve business effectiveness, reduce the number of facilities and streamline the Company's cost structure. The actions taken pursuant to the 2015 Altra Plan included reducing headcount and limiting discretionary spending to improve profitability. Approximately $3.0 million, $0.2 million, and $0.1 million were related to the Couplings, Clutches and Brakes segment, Electromagnetic Clutches and Brakes segment, and Corporate business segments, respectively. The Company expects to incur approximately $7.0 - $9.0 million in additional expenses associated with the 2015 Altra Plan through 2018. We expect to realize cost savings of approximately $0.5 million related to these actions during the remainder of 2016.

Amounts in thousands, except percentage data	Quarter Ended September 30, 2016	September 30, 2015	Change	%
Interest Expense, net	$2,815	$ 2,924	(109)	(3.7)%

Net interest expense remained relatively consistent between 2015 and 2016.

Amounts in thousands, except percentage data	Quarter Ended September 30, 2016	September 30, 2015	Change	%
Other non-operating income, net	$45	$ 685	(640)	(93.4)%

Other non-operating expense in each period in the chart above relates primarily to foreign currency transaction gains and losses arising from changes in exchange rates related to the Euro, British Pound, and Chinese Renminbi.

Amounts in thousands, except percentage data	Quarter Ended September 30, 2016	September 30, 2015	Change	%
Provision for income taxes	2,196	2,830	$ (634)	(22.4)%
Provision for income taxes as a % of income before income taxes	29.2 %	21.7 %		

The provision for income tax, as a percentage of income before taxes, during the quarter ended September 30, 2016 was higher than that of the quarter ended September 30, 2015. The Company benefited from a foreign tax credit of approximately $0.9 million during the quarter ended September 30, 2015 that was not present in the current quarter ended September 30, 2016.

Year to Date Ended September 30, 2016 compared with Year to Date Ended September 30, 2015

(Amounts in thousands, unless otherwise noted)

Amounts in thousands, except percentage data	Year to Date Ended September 30,	September 30,		
	2016	2015	Change	%
Net sales	536,259	573,024	$(36,765)	(6.4)%

The decrease in sales during the year to date period ended September 30, 2016 was due to weaker foreign exchange rates, and lower sales levels in several end markets. Of the decrease in sales, approximately $6.8 million relates to the impact of changes to foreign exchange rates primarily attributed to the Euro, British Pound, and Chinese Renminbi compared to the prior year. In addition, $29.8 million relates to decreases in sales in the oil & gas, mining, and agriculture end markets.

Amounts in thousands, except percentage data	Year to Date Ended September 30,	September 30,		
	2016	2015	Change	%
Gross Profit	167,005	174,259	(7,254)	(4.2)%
Gross Profit as a percent of sales	31.1 %	30.4 %		

Gross profit as a percentage of sales increased slightly during the year to date period ended September 30, 2016. The increase is due to improvements realized from our consolidation and cost saving efforts, partially offset by unfavorable product mix and redundant labor costs associated with ongoing consolidation activities.

Amounts in thousands, except percentage data	Year to Date Ended September 30,	September 30,	
	2016	2015	Change