Altra Holdings, Inc.
Form 10-Q
November 04, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 26, 2009

or

o **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)

Delaware	**61-1478870**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
300 Granite Street, Suite 201, Braintree, MA	**02184**
(Address of principal executive offices)	(Zip code)

(781) 917-0600
(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 þ No o

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

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 o Accelerated filer þ Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

As of November 1, 2009, 26,623,171 shares of Common Stock, $.001 par value per share, were outstanding.

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Item 1. ***Financial Statements***

ALTRA HOLDINGS, INC.

Condensed Consolidated Balance Sheets
Amounts in thousands, except share amounts

	September 26, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 71,940	$ 52,073
Trade receivable, less allowance for doubtful accounts of $1,413 and $1,277 at September 26, 2009 and December 31, 2008, respectively	58,605	68,803
Inventories	72,255	98,410
Deferred income taxes	8,032	8,032
Assets held for sale (See Note 8)		4,676
Prepaid expenses and other current assets	10,054	6,514
Total current assets	220,886	238,508
Property, plant and equipment, net	107,769	110,220
Intangible assets, net	76,447	79,339
Goodwill	78,955	77,497
Deferred income taxes	495	495
Other non-current assets, net	6,319	7,525
Total assets	$ 490,871	$ 513,584
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 25,819	$ 33,890
Accrued payroll	13,438	16,775
Accruals and other current liabilities	25,533	18,755
Deferred income taxes	6,906	6,906
Current portion of long-term debt	995	3,391
Total current liabilities	72,691	79,717
Long-term debt less current portion and net of unaccreted discount	231,633	258,132
Deferred income taxes	23,318	23,336
Pension liablities	11,730	11,854
Other post retirement benefits	63	2,270
Long-term taxes payable	9,075	7,976
Other long-term liabilities	2,080	1,434
Commitments and contingencies (See Note 14)		
Stockholders equity:		

Common stock ($0.001 par value, 90,000,000 shares authorized, 25,994,723 and 25,582,543 issued and outstanding at September 26, 2009 and December 31, 2008, respectively)	26	26
Additional paid-in capital	131,618	129,604
Retained earnings	23,625	23,325
Accumulated other comprehensive income	(14,988)	(24,090)
Total stockholders equity	140,281	128,865
Total liabilities and stockholders equity	$ 490,871	$ 513,584

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

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ALTRA HOLDINGS, INC.

Condensed Consolidated Statements of Income
Amounts in thousands, except per share data

	Quarter Ended		Year to Date Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
	(Unaudited)			
Net sales	$ 104,766	$ 159,448	$ 341,183	$ 490,523
Cost of sales	76,194	113,627	250,950	346,517
Gross profit	28,572	45,821	90,233	144,006
Operating expenses:				
Selling, general and administrative expenses	19,290	25,655	60,971	76,816
Research and development expenses	1,508	1,663	4,569	5,160
Other post employment benefit plan settlement gain		(107)	(1,467)	(276)
Restructuring costs	1,006	81	5,360	1,149
Loss on disposal of assets	516		516	
	22,320	27,292	69,949	82,849
Income from operations	6,252	18,529	20,284	61,157
Other non-operarting income and expense:				
Interest expense, net	6,290	7,302	18,879	22,456
Other non-operating (income) expense, net	(371)	(1,408)	1,248	(2,887)
	5,919	5,894	20,127	19,569
Income from continuing operations before income taxes	333	12,635	157	41,588
Provision (benefit) for income taxes	(315)	4,000	(143)	14,127
Net income from continuing operations	648	8,635	300	27,461
Net income (loss) from discontinued operations, net of income taxes of $43 for the year to date period ended September 27, 2008		172		(224)
Net income	$ 648	$ 8,807	$ 300	$ 27,237
Consolidated Statement of Comprehensive Income				
Pension liability adjustment	$	$ 1,500	$	$ 1,500
Foreign currency translation adjustment	847	(6,051)	9,102	(8,353)
Comprehensive income	$ 1,495	$ 4,256	$ 9,402	$ 20,384
Weighted average shares, basic	25,961	25,488	25,940	25,479
Weighted average shares, diluted	26,213	26,157	26,112	26,159
Basic earnings per share:				

Net income from continuing operations	$	0.02	$	0.34	$	0.01	$	1.08
Net income (loss) from discontinued operations				0.01				(0.01)
Net income	$	0.02	$	0.35	$	0.01	$	1.07
Diluted earnings per share:								
Net income from continuing operations	$	0.02	$	0.33	$	0.01	$	1.05
Net income (loss) from discontinued operations				0.01				(0.01)
Net income	$	0.02	$	0.34	$	0.01	$	1.04

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

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ALTRA HOLDINGS, INC.

Condensed Consolidated Statements of Cash Flows
Amounts in thousands

	Year to Date Ended September 26, 2009	September 27, 2008
	(Unaudited)	
Cash flows from operating activities		
Net income	$ 300	$ 27,237
Adjustments to reconcile net income to net cash flows:		
Depreciation	12,547	12,409
Amortization of intangible assets	4,137	4,346
Amortization and write-offs of deferred financing costs	1,560	1,863
Loss (gain) on foreign currency, net	1,092	(1,597)
Accretion of debt discount, net	621	759
Loss on sale of Electronics Division		224
Fixed asset impairment/disposal	2,563	
Loss on sale of fixed assets		193
Other post employment benefit plan settlement gain	(1,467)	(276)
Stock based compensation	2,273	1,516
Changes in assets and liabilities:		
Trade receivables	13,025	(14,905)
Inventories	27,626	(5,871)
Accounts payable and accrued liabilities	(11,929)	5,885
Other current assets and liabilities	71	(383)
Other operating assets and liabilities	(365)	234
Net cash provided by operating activities	52,054	31,634
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,105)	(12,234)
Proceeds from sale of Electronics Division		17,310
Net cash provided by (used in) investing activities	(5,105)	5,076
Cash flows from financing activities		
Payments on Senior Notes	(4,950)	(1,346)
Payments on Senior Secured Notes	(22,200)	(27,500)
Payments on Revolving Credit Agreement	(3,000)	(1,723)
Proceeds from additional borrowings under an existing mortgage	1,467	
Shares repurchased	(259)	
Payment on mortgages	(524)	(228)
Payment on capital leases	(614)	(779)
Net cash used in financing activities	(30,080)	(31,576)

Effect of exchange rate changes on cash and cash equivalents		2,998		(1,119)
Net change in cash and cash equivalents		19,867		4,015
Cash and cash equivalents at beginning of year		52,073		45,807
Cash and cash equivalents at end of period	$	71,940	$	49,822
Cash paid during the period for:				
Interest	$	12,419	$	21,840
Income taxes	$	1,033	$	11,964

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

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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 mechanical power transmission products. The Company brings together strong brands covering over 40 product lines with production facilities in eight countries and sales coverage in over 70 countries. The Company s leading brands include Boston Gear, Warner Electric, TB Wood s, 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, and Warner Linear.

2. Basis of Presentation

The Company was formed on November 30, 2004 following acquisitions of certain subsidiaries of Colfax Corporation (Colfax) and The Kilian Company (Kilian). During 2006, the Company acquired Hay Hall Holdings Limited (Hay Hall) and Bear Linear (Warner Linear). On April 5, 2007, the Company acquired TB Wood s Corporation (TB Wood s), and on October 5, 2007, the Company acquired substantially all of the assets of All Power Transmission Manufacturing, Inc. (All Power). These acquisitions are discussed in detail in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations.

The Company s unaudited consolidated condensed 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, 2008. 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 26, 2009 and December 31, 2008, results of operations for the quarter ended and year to date period ended September 26, 2009 and September 27, 2008, and cash flows for the year to date periods ended September 26, 2009 and September 27, 2008.

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, accounts payable and other accrued liabilities, approximate their fair values due to their short-term maturities. The carrying amount of the 9% Senior Secured Notes was $220.3 million and $242.5 million at September 26, 2009 and December 31, 2008, respectively. The estimated fair value of the 9% Senior Secured Notes at September 26, 2009 and December 31, 2008 was $224.7 million and $232.8 million, respectively, based on quoted market prices for such notes.

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.

ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

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

	Quarter Ended		Year to Date Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Income from continuing operations	$ 648	$ 8,635	$ 300	$ 27,461
Net income (loss) from discontinued operations		172		(224)
Net income	$ 648	$ 8,807	$ 300	$ 27,237
Shares used in net income per common share basic	25,961	25,488	25,940	25,479
Incremental shares of unvested restricted common stock	252	669	172	680
Shares used in net income per common share diluted	26,213	26,157	26,112	26,159
Earnings per share Basic:				
Income from continuing operations	$ 0.02	$ 0.34	$ 0.01	$ 1.08
Net income (loss) from discontinued operations		0.01		$ (0.01)
Net income	$ 0.02	$ 0.35	$ 0.01	$ 1.07
Earnings per share Diluted:				
Income from continuing operations	$ 0.02	$ 0.33	$ 0.01	$ 1.05
Net income (loss) from discontinued operations		0.01		$ (0.01)
Net income	$ 0.02	$ 0.34	$ 0.01	$ 1.04

5. Discontinued Operations

On December 31, 2007, the Company completed the divestiture of the TB Wood s adjustable speed drives business (the Electronics Division) to Vacon PLC (Vacon) for $29.0 million.

In connection with the sale of the Electronics Division, the Company entered into a transition services agreement. Pursuant to the transition services agreement, the Company provided services such as sales support, warehousing, accounting and IT services to Vacon. The Company recorded the income received as an offset to the related expense of providing the service. During the quarter and year to date periods ended September 27, 2008, the Company recorded a reduction of $0.1 million and $0.3 million against cost of sales, respectively, and $0.2 million and $0.9 million as an offset to selling, general and administrative expenses, respectively. No transition services have been provided in 2009. The Company leases building space to Vacon. The Company recorded $0.1 million and $0.5 million of lease income in other income in the condensed consolidated statement of income during the quarter and year to date periods ended September 26, 2009 and September 27, 2008.

Loss from discontinued operations in the year to date period ended September 27, 2008 was comprised of a working capital adjustment, net of taxes.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

6. Inventories

Inventories located at certain subsidiaries acquired in connection with the TB Wood s acquisition 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 26, 2009 and December 31, 2008 consisted of the following:

	September 26, 2009	December 31, 2008
Raw materials	28,946	$ 31,925
Work in process	14,891	21,310
Finished goods	28,418	45,175
Inventories	$ 72,255	$ 98,410

Approximately 13% of total inventories at September 26, 2009 were valued using the LIFO method. The Company recorded a $0.1 million adjustment and $1.2 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 26, 2009 and September 27, 2008, respectively. For the quarter ended September 27, 2008, the Company recorded a $0.4 million adjustment as a component of cost of sales to value the inventory on a LIFO basis.

If the LIFO inventory was accounted for using the FIFO method, the inventory balance at September 26, 2009 would be $1.5 million higher.

7. Goodwill and Intangible Assets

Changes to goodwill from December 31, 2008 through September 26, 2009 were as follows:

Balance December 31, 2008	77,497
Impact of changes in foreign currency	1,458
Balance September 26, 2009	$ 78,955

Other intangible assets as of September 26, 2009 and December 31, 2008 consisted of the following:

	September 26, 2009	December 31, 2008

Other Intangible Assets	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Intangible assets not subject to amortization:				
Tradenames and trademarks	$ 30,730	$	$ 30,730	$
Intangible assets subject to amortization:				
Customer relationships	62,038	18,494	62,038	15,065
Product technology and patents	5,435	3,819	5,435	3,111
Impact of changes in foreign currency	557		(688)	
Total intangible assets	$ 98,760	$ 22,313	$ 97,515	$ 18,176

The Company recorded $1.4 million of amortization expense in the quarters ended September 26, 2009 and September 27, 2008, and $4.1 million and $4.3 million for the year to date periods ended September 26, 2009 and September 27, 2008, respectively.

ALTRA HOLDINGS, INC.

**Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)**

The estimated amortization expense for intangible assets is approximately $1.4 million for the remainder of 2009 and $5.5 million in each of the next four years and then $21.8 million thereafter.

8. Assets Held for Sale

During the fourth quarter of 2007, management entered into a plan to exit its building located in Stratford, Canada. The operations of the facility, which was acquired as part of the TB Wood s acquisition, were integrated into certain of the Company s other existing facilities in 2008.

In the second quarter of 2009, due to real estate market conditions in Stratford, Canada, the Company reevaluated the classification of this building as an asset held for sale and reclassified the building, with a net book value of $1.2 million, to held and used. As a result of the change in classification, the Company recorded a catch-up depreciation adjustment of $0.1 million in the second quarter of 2009.

As of December 31, 2008, management planned to exit two buildings, one in Scotland, Pennsylvania and one in Chattanooga, Tennessee. The two buildings were previously the operating facilities for the Electronics Division which was divested on December 31, 2007. The Company leases the space to Vacon.

In the first quarter of 2009, due to real estate market conditions in Scotland, Pennsylvania and Chattanooga, Tennessee, the Company reevaluated the classification of these buildings as assets held for sale and reclassified the buildings, with a net book value of $3.5 million, to held and used. As a result of the change in classification, the Company recorded a catch-up depreciation adjustment of $0.2 million in the first quarter ended September 26, 2009.

9. Income Taxes

The estimated effective income tax rates recorded for the quarters ended September 26, 2009 and September 27, 2008 were based upon management s best estimate of the effective tax rate for the entire year. During the third quarter of 2009, the Company negotiated an agreement with a foreign taxing authority. The agreement allows the Company to fully deduct certain interest charges that had previously been classified as non-deductible in 2009. The benefit from this deduction resulted in the Company recording a benefit for income taxes in the year and quarter to date period ended September 26, 2009.

The Company and its subsidiaries file consolidated and separate income tax returns in the U.S. federal jurisdiction as well as in various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in all 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 2005. Additionally, the Company has indemnification agreements with the sellers of the Colfax, Kilian and Hay Hall entities, which 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 income. At December 31, 2008 and September 26, 2009, the Company had $2.7 million and $3.4 million of accrued interest and penalties, respectively. The Company accrued $0.4 million of interest and no penalties during the year to date period ended September 26, 2009.

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, active employees. In March 2009, the Company reached a new collective bargaining agreement with the union at its Erie, Pennsylvania facility. One of the provisions of the new agreement eliminates benefits that employees were entitled to receive through the applicable other post employment benefit plan (OPEB). OPEB benefits will no longer be available to retired

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

or active employees. This resulted in an OPEB settlement gain of $1.5 million in the year to date period ended September 26, 2009. In addition, no additional years of credited service will be accrued on the defined benefit pension plan effective February 28, 2009. There was no curtailment gain or loss as a result of the change in the pension plan, the plan had no unrecognized prior service cost and there was no change in the projected benefit obligation.

The following table represents the components of the net periodic benefit cost associated with the respective plans for the quarters and year to date periods ended September 26, 2009 and September 27, 2008:

	Quarter Ended			
	Pension Benefits		Other Benefits	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Service cost	$ 5	$ 16	$ 32	$ 13
Interest cost	267	378	69	50
Expected return on plan assets	(300)	(326)		
Amortization of prior service income			(244)	(244)
Other post employment benefit plan settlement gain				(107)
Amortization of net gain			(33)	(7)
Net periodic benefit cost (income)	$ (28)	$ 68	$ (176)	$ (295)

	Year to Date Ended			
	Pension Benefits		Other Benefits	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Service cost	$ 37	$ 48	$ 38	$ 43
Interest cost	997	1,135	107	154
Expected return on plan assets	(954)	(979)		
Amortization of prior service income			(732)	(731)
Other post employment benefit plan settlement gain			(1,467)	(276)
Amortization of net gain			(47)	(19)
Net periodic benefit cost (income)	$ 80	$ 204	$ (2,101)	$ (829)

ALTRA HOLDINGS, INC.

**Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)**

11. Debt

Outstanding debt obligations at September 26, 2009 and December 31, 2008 were as follows:

	September 26, 2009	December 31, 2008
Senior Revolving Credit Agreement	$	$
TB Wood s Credit Agreement	3,000	6,000
Overdraft agreements		
9% Senior Secured Notes	220,300	242,500
11.25% Senior Notes		4,706
Variable Rate Demand Revenue Bonds	5,300	5,300
Mortgages	3,285	2,257
Capital leases	2,036	2,672
Less: debt discount	(1,293)	(1,912)
Total long-term debt	$ 232,628	$ 261,523

Senior Revolving Credit Agreement

The Company maintains a $30 million revolving borrowings facility with a commercial bank (the Senior Revolving Credit Agreement) through its wholly owned subsidiary Altra Industrial. The Senior Revolving Credit Agreement is subject to certain limitations resulting from the requirement of Altra Industrial to maintain certain levels of collateralized assets, as defined in the Senior Revolving Credit Agreement. Altra Industrial may use up to $10.0 million of its availability under the Senior 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 Senior Revolving Credit Agreement must be repaid in full as of November 30, 2010.

Substantially all of Altra Industrial s assets have been pledged as collateral against outstanding borrowings under the Senior Revolving Credit Agreement. The Senior Revolving Credit Agreement requires Altra Industrial to maintain a minimum fixed charge coverage ratio of 1.20 for all four quarter periods when availability under the line falls below $12.5 million. Altra Industrial s availability under the Senior Revolving Credit Agreement has not dropped below $12.5 million during 2009. The Revolving Credit imposes customary affirmative covenants and restrictions on Altra Industrial.

There were no borrowings under the Senior Revolving Credit Agreement at September 26, 2009 or December 31, 2008. However, the lender had issued $3.2 million and $7.6 million of outstanding letters of credit as of

September 26, 2009 and December 31, 2008, respectively, under the Senior Revolving Credit Agreement.

The interest rate on any outstanding borrowings on the line of credit are the lender s prime rate plus 25 basis points or LIBOR plus 175 basis points. The rate on all outstanding letters of credit are 1.5% and .25% on any unused availability under the Senior Revolving Credit Agreement.

TB Wood s Revolving Credit Agreement

As of September 26, 2009 and December 31, 2008, there were $6.1 million and $6.0 million of outstanding letters of credit under the TB Wood s Credit Agreement, respectively. All borrowing under the TB Wood s Revolving Credit Agreement are due on November 30, 2010. The interest rate on any outstanding

ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

borrowings on the line of credit are the lender s Prime Rate plus 25 basis points or LIBOR plus 175 basis points.

Overdraft Agreements

Certain foreign subsidiaries maintain overdraft agreements with financial institutions. There were no borrowings as of September 26, 2009 or December 31, 2008 under any of the overdraft agreements.

9% Senior Secured Notes

Altra Industrial issued 9% Senior Secured Notes (the Senior Secured Notes), with a face value of $270.0 million. Interest on the Senior Secured Notes is payable semi-annually, in arrears, on June 1 and December 1 of each year. The Senior Secured Notes mature on December 1, 2011 unless previously redeemed by Altra Industrial.

The Senior Secured Notes are guaranteed by Altra Industrial s U.S. domestic subsidiaries and are secured by a second priority lien, subject to first priority liens securing the Senior Revolving Credit Agreement, on substantially all of Altra Industrial s assets. The Senior Secured Notes contain many terms, covenants and conditions, which impose substantial limitations on Altra Industrial.

During the second quarter of 2009, Altra Industrial retired $8.3 million aggregate principal amount of the outstanding Senior Secured Notes at a redemption price of between 94.75% and 97.125% of the principal amount, plus accrued and unpaid interest. In connection with the redemption, Altra Industrial recorded a gain on the extinguishment of debt of $0.4 million, which is recorded as a reduction in interest expense in the condensed consolidated statement of income. In addition, Altra Industrial wrote-off $0.1 million of deferred financing costs and original issue discount/premium which is included in interest expense.

During the third quarter of 2009, Altra Industrial retired $14.0 million aggregate principal amount of the outstanding Senior Secured Notes at a redemption price of between 100.5% and 101.6% of the principal amount, plus accrued and unpaid interest. In connection with the redemption, Altra Industrial recorded a loss on the extinguishment of debt of $0.2 million, which is recorded as interest expense in the condensed consolidated statement of income. In addition, Altra Industrial wrote-off $0.2 million of deferred financing costs and original issue discount/premium included in interest expense.

11.25% Senior Notes

Altra Industrial issued 11.25% Senior Notes (Senior Notes), with a face value of £33 million. Interest on the Senior Notes was payable semi-annually, in arrears, on August 15 and February 15 of each year, at an annual rate of 11.25%.

During the second quarter of 2009, Altra Industrial retired the remaining principal balance of the Senior Notes of £3.3 million or $5.0 million of principal amount, plus accrued and unpaid interest. In connection with the redemption, Altra Industrial incurred $0.2 million of pre-payment premium and wrote-off the entire remaining balance of $0.1 million of deferred financing fees, which is recorded as interest expense in the condensed consolidated statement of income (loss).

Variable Rate Demand Revenue Bonds

In connection with the acquisition of TB Wood s, the Company assumed the obligation to make payments due under certain Variable Rate Demand Revenue Bonds outstanding as of the acquisition date. TB Wood s had assumed obligations with respect to approximately $3.0 million and $2.3 million through the issuance of Variable Rate Demand Revenue Bonds under the authority of the industrial development corporations of the

ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

City of San Marcos, Texas and City of the Chattanooga, Tennessee, respectively. These bonds bear variable interest rates (less than 1% interest on September 26, 2009), and mature in April 2024 and April 2022, respectively. The bonds were issued to finance production facilities for TB Wood s manufacturing operations in San Marcos and Chattanooga, and are secured by letters of credit issued under the terms of the TB Wood s Credit Agreement.

As of December 31, 2008, the Company planned to sell the building in Chattanooga, Tennessee. According to the terms of the indenture and lease, before the Company can acquire the building, free of all encumbrances, the outstanding debt under the Variable Rate Demand Revenue Bonds must be paid in full. As a result, the debt was classified as a current liability on the condensed consolidated balance sheet as of December 31, 2008.

In the first quarter of 2009, due to real estate market conditions in Chattanooga, the Company reevaluated the classification of this building as an asset held for sale and reclassified this building to held and used. As a result of the change in classification, the Company reclassified $2.3 million of debt associated with the Chattanooga property to long-term debt on the Company s condensed consolidated balance sheet.

Mortgage

In June 2006, the Company entered into a mortgage on its building in Heidelberg, Germany with a local bank. In the third quarter of 2009, the Company re-financed the mortgage. The Company borrowed an additional 1.0 million. The new mortgage has an interest rate of 3.5% and is payable in monthly installments over three years. As of September 26, 2009 and December 31, 2008, the mortgage had a remaining principal balance outstanding of 2.2 million, or $3.3 million, and 1.6 million, or $2.3 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.

12. Stockholders Equity

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 of 3.5 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. Shares granted to non-management members of the Board of Directors generally vest immediately.

The Plan permits the Company to grant restricted stock 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 Compensation Committee of the Board of Directors. Compensation expense recorded during the quarters ended September 26, 2009 and September 27, 2008 was $0.7 million and $0.5 million, respectively. Compensation expense for the year to date periods ended September 26, 2009 and September 27, 2008 was $2.3 million and $1.5 million, respectively. Stock based compensation is recorded as an adjustment to selling, general and administrative expenses in the accompanying condensed consolidated statement of income. Stock based compensation expense is recognized on a straight-line basis over the vesting period.

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

The following table sets forth the activity of the Company s unvested restricted stock grants in the year to date period ended September 26, 2009:

	Shares	Weighted-Average Grant Date Fair Value
Restricted shares unvested December 31, 2008	797,714	$ 5.53
Shares granted	284,941	$ 6.96
Forfeitures	(13,649)	$ 7.34
Shares for which restrictions lapsed	(440,558)	$ 5.35
Restricted shares unvested September 26, 2009	628,448	$ 6.26

Total remaining unrecognized compensation cost was approximately $3.0 million as of September 26, 2009, which will be recognized over a weighted average remaining period of three years. The fair market value of the shares in which the restrictions have lapsed during the year to date period ended September 26, 2009 was $3.9 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 the quarters ended September 26, 2009 and September 27, 2008.

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 international or well established financial institutions.

The Company has five operating segments that are regularly reviewed by our chief operating decision maker. Each of these operating segments represents a unit that produces mechanical power transmission products. The Company aggregates all of the operating segments into one reportable segment. The five operating segments have similar long-term average gross profit margins. All of our products are sold by one global sales force and we have one global marketing function. Strategic markets and industries are determined for the entire company and then targeted by the brands. All of our operating segments have common manufacturing and production processes. Each segment includes a machine shop which uses similar equipment and manufacturing techniques. Each of our segments uses common raw materials, such as aluminum, steel and copper. The materials are purchased and procurement contracts are negotiated by one global purchasing function.

We serve the general industrial market by selling to original equipment manufacturers (OEM) and distributors. Our OEM and distributor customers serve the general industrial market. 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.

ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

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

	Net Sales			
	Quarter Ended		Year To Date Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
North America (primarily U.S.)	$ 74,592	$ 110,793	$ 247,921	$ 347,190
Europe	23,536	40,028	75,046	121,289
Asia and other	6,638	8,627	18,216	22,044
Total	$ 104,766	$ 159,448	$ 341,183	$ 490,523

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

The net assets of foreign subsidiaries at September 26, 2009 and December 31, 2008 were $74.7 million and $73.5 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. 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. As of September 26, 2009 and December 31, 2008, there were no such claims for which management believed a loss was probable. As a result, no amounts were accrued in the accompanying consolidated balance sheets for losses related to such claims at those dates.

The Company is indemnified under the terms of certain acquisition agreements for certain pre-existing matters up to agreed upon limits.

15. Restructuring, Asset Impairment and Transition Expenses

During 2007, the Company adopted two restructuring programs. The first was intended to improve operational efficiency by reducing headcount, consolidating operating facilities and relocating manufacturing to lower cost areas (the Altra Plan). The second was related to the acquisition of TB Wood s and was intended to reduce duplicate staffing and consolidate facilities (the TB Wood s Plan). The TB Wood s Plan was initially formulated at the time of the TB Wood s acquisition and therefore the associated accrual was recorded as part of purchase accounting.

ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

The Company has not incurred any additional expenses related to either the Altra Plan or the TB Wood s Plan in 2009. The Company s restructuring expense, by major component for the year to date period ended September 27, 2008 were as follows:

	Altra Plan	TB Wood s Plan	Total
Expenses			
Other cash expenses	$	$	$
Moving and relocation	467	84	551
Severance	411		411
Total cash expenses	878	84	962
Non-cash asset impairment and loss on sale of fixed asset	187		187
Total restructuring expenses	$ 1,065	$ 84	$ 1,149

In March 2009, the Company adopted a new restructuring plan (2009 Altra Plan) to improve the utilization of the manufacturing infrastructure and to realign the business with the current economic conditions. The 2009 Altra Plan is intended to improve operational efficiency by reducing headcount and consolidating facilities. The Company s total restructuring expense for the quarter ended September 26, 2009 was $1.0 million.

On April 7, 2009, the Company announced that it would be closing its facility in Mt. Pleasant, Michigan and relocating the manufacturing to certain of the Company s other facilities. In connection with this decision, the Company completed an impairment analysis. The facility which had a carrying value of $1.4 million was written down to the fair value of $0.7 million, resulting in an impairment charge of $0.7 million. The Company estimated the fair value using observable inputs (level 2) by reviewing sale prices of comparable buildings in the Mt. Pleasant, Michigan area. The relocation is expected to be completed by the end of 2009.

On July 7, 2009, the Company announced that it would be closing its manufacturing facility in South Beloit, Illinois and relocating the manufacturing operations to certain of the Company s other facilities. In connection with this decision, the Company completed an impairment analysis. The facility which had a carrying value of $2.1 million was written down to the fair value of $1.5 million, resulting in an impairment charge of $0.6 million. The Company estimated the fair value using observable inputs (level 2). The Company reviewed sale prices of comparable buildings in the South Beloit, Illinois area. The relocation is expected to be completed by the first quarter of 2010. In September 2009, the Company negotiated a plant closing agreement with the local union at the South Beloit facility. The Company has agreed to pay approximately $0.7 million in severance and performance bonuses to those employees who remain employed through their termination date. The Company expects to pay these amounts in the fourth quarter of 2009 through the first quarter of 2010.

The Company expects to move a majority of the assets at this location to certain other locations. As a result, the Company does not expect to have a significant impairment on these assets.

ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

The expenses for the year to date period ended September 26, 2009 are classified by major component as follows:

2009 Altra Plan	September 27, 2009 Year to Date Period Ended	September 27, 2009 Quarter to Date Period Ended
Expenses:		
Other cash expenses	$ 154	$ 107
Severance	3,159	476
Total cash expenses	3,313	583
Non-cash asset impairment and other non-cash charges	2,047	423
Total restructuring expenses	$ 5,360	$ 1,006

The following is a reconciliation of the accrued restructuring costs between December 31, 2008 and September 26, 2009:

	All Plans
Balance at December 31, 2008	$ 1,321
Cash restructuring expense incurred	3,328
Cash payments	(3,785)
Balance at September 26, 2009	$ 864

16. Guarantor Subsidiaries

The Company has filed a Registration Statement on Form S-3 with the Securities and Exchange Commission to allow it to issue debt securities that may be fully and unconditionally guaranteed by each of the Company s, directly or indirectly, 100% owned U.S. domestic subsidiaries as of the date of issuance. 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. domestic 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.

ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

Unaudited condensed consolidating balance sheet
September 26, 2009

	Issuer	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
		ASSETS			
Current assets:					
Cash and cash equivalents	$ 1	$ 35,614	$ 36,325	$	$ 71,940
Trade receivables, less allowance for doubtful accounts		36,552	22,053		58,605
Loans receivable from related parties		39,408		(39,408)	
Inventories		50,154	22,101		72,255
Deferred income taxes		8,032			8,032
Assets held for sale					
Prepaid expenses and other current assets	1,194	5,694	3,166		10,054
Total current assets	1,195	175,454	83,645	(39,408)	220,886
Property, plant and equipment, net		75,615	32,154		107,769
Intangible assets, net		59,397	17,050		76,447
Goodwill		58,015	20,940		78,955
Deferred income taxes			495		495
Investment in subs	139,086			(139,086)	
Other non-current assets		6,207	112		6,319
Total assets	$ 140,281	$ 374,688	$ 154,396	$ (178,494)	$ 490,871
		LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:					
Accounts payable	$	$ 17,663	$ 8,156	$	$ 25,819
Accrued payroll		7,799	5,639		13,438
Accruals and other current liabilities		16,282	9,251		25,533
Deferred income taxes			6,906		6,906
Current portion of long-term debt		641	354		995
Loans payable to related parties			39,408	(39,408)	
Total current liabilities		42,385	69,714	(39,408)	72,691
		228,453	3,180		231,633

Long-term debt less current portion and net of unacreted discount and premium					
Deferred income taxes		20,822	2,496		23,318
Pension liablities		8,702	3,028		11,730
Other post retirement benefits		63			63
Long-term taxes payables		9,075			9,075
Other long-term liabilities		788	1,292		2,080
Total stockholders equity	140,281	64,400	74,686	(139,086)	140,281
Total liabilities and stockholders equity	$ 140,281	$ 374,688	$ 154,396	$ (178,494)	$ 490,871

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

Unaudited Condensed Consolidating Balance Sheet
December 31, 2008

	Issuer	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 1	$ 24,432	$ 27,640	$	$ 52,073
Trade receivables, less allowance for doubtful accounts		41,051	27,752		68,803
Loans receivable from related parties		37,649		(37,649)	
Inventories		71,304	27,106		98,410
Deferred income taxes		7,923	109		8,032
Assets held for sale		3,515	1,161		4,676
Prepaid expenses and other current assets	1,192	6,164	(842)		6,514
Total current assets	1,193	192,038	82,926	(37,649)	238,508
Property, plant and equipment, net		77,424	32,796		110,220
Intangible assets, net		62,481	16,858		79,339
Goodwill		58,016	19,481		77,497
Deferred income taxes			495		495
Investment in subs	127,672			(127,672)	
Other non-current assets		7,489	36		7,525
Total assets	$ 128,865	$ 397,448	$ 152,592	$ (165,321)	$ 513,584
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable	$	$ 22,105	$ 11,785	$	$ 33,890
Accrued payroll		9,610	7,165		16,775
Accruals and other current liabilities		12,478	6,277		18,755
Deferred income taxes			6,906		6,906
Current portion of long-term debt		2,925	466		3,391
Loans payable to related parties			37,649	(37,649)	
Total current liabilities		47,118	70,248	(37,649)	79,717
Long-term debt less current portion and net of unacreted discount and		255,933	2,199		258,132

premium					
Deferred income taxes		20,822	2,514		23,336
Pension liablities		8,922	2,932		11,854
Other post retirement benefits		2,270			2,270
Long-term taxes payables		7,976			7,976
Other long-term liabilities		241	1,193		1,434
Total stockholders equity	128,865	54,166	73,506	(127,672)	128,865
Total liabilities and stockholders equity	$ 128,865	$ 397,448	$ 152,592	$ (165,321)	$ 513,584

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

Unaudited Condensed Consolidating Statement of Income

	Year to Date Period Ended September 26, 2009				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 252,335	$ 110,847	$ (21,999)	$ 341,183
Cost of sales		192,110	80,839	(21,999)	250,950
Gross profit		60,225	30,008		90,233
Selling, general and administrative expenses		38,145	22,826		60,971
Research and development expenses		2,872	1,697		4,569
Other post employment benefit plan settlement gain		(1,467)			(1,467)
Restructuring costs		3,122	2,238		5,360
Loss on disposal of assets		120	396		516
Income from operations		17,433	2,851		20,284
Interest expense, net		18,806	73		18,879
Other non-operating expense, net		576	672		1,248
Equity in earnings of subsidiaries	300			(300)	
Income (loss) before income taxes	300	(1,949)	2,106	(300)	157
Provision (benefit) for income taxes		(1,069)	926		(143)
Net income	300	(880)	1,180	(300)	300

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

Unaudited Condensed Consolidating Statement of Income

	Quarter Ended September 26, 2009				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 75,377	$ 37,206	$ (7,817)	$ 104,766
Cost of sales		56,971	27,040	(7,817)	76,194
Gross profit		18,406	10,166		28,572
Selling, general and administrative expenses		11,885	7,405		19,290
Research and development expenses		909	599		1,508
Restructuring costs		983	23		1,006
Loss on disposal of assets		120	396		516
Income (loss) from operations		4,509	1,743		6,252
Interest expense (income), net		6,290			6,290
Other non-operating expense, net		180	(551)		(371)
Equity in earnings of subsidiaries	648			(648)	
Income (loss) before income taxes	648	(1,961)	2,294	(648)	333
Provision (benefit) for income taxes		(1,310)	995		(315)
Net income (loss)	648	(651)	1,299	(648)	648

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

Unaudited Condensed Consolidating Statement of Income

	Year to Date Period Ended September 27, 2008				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 353,805	$ 176,919	$ (40,201)	$ 490,523
Cost of sales		262,405	124,313	(40,201)	346,517
Gross profit		91,400	52,606		144,006
Selling, general and administrative expenses		48,034	28,782		76,816
Research and development expenses		3,050	2,110		5,160
Other post employment benefit plan settlement gain		(276)			(276)
Restructuring costs		555	594		1,149
Income from operations		40,037	21,120		61,157
Interest expense, net		22,270	186		22,456
Other non-operating (income) expense, net		(1,455)	(1,432)		(2,887)
Equity in earnings of subsidiaries	27,237			(27,237)	
Income from continuing operations before income taxes	27,237	19,222	22,366	(27,237)	41,588
Provision (benefit) for income taxes		6,523	7,604		14,127
Income from continuing operations	27,237	12,699	14,762	(27,237)	27,461
Net loss from discountinued operations		(224)			(224)
Net income	27,237	12,475	14,762	(27,237)	27,237

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

Unaudited Condensed Consolidating Statement of Income

	Quarter Ended September 27, 2008				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 113,469	$ 59,203	$ (13,224)	$ 159,448
Cost of sales		84,460	42,391	(13,224)	113,627
Gross profit		29,009	16,812		45,821
Selling, general and administrative expenses		16,268	9,387		25,655
Research and development expenses		955	708		1,663
Other post employment benefit plan settlement		(107)			(107)
Restructuring costs		(228)	309		81
Income from operations		12,121	6,408		18,529
Interest expense, net		7,289	13		7,302
Other non-operating (income) expense, net		1,319	(2,727)		(1,408)
Equity in earnings of subsidiaries	8,807			(8,807)	
Income from continuing operations before income taxes	8,807	3,513	9,122	(8,807)	12,635
Provision (benefit) for income taxes		766	3,234		4,000
Net income from continuing operations	8,807	2,747	5,888	(8,807)	8,635
Net income from discontinued operations		172			172
Net income	8,807	2,919	5,888	(8,807)	8,807

ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

Unaudited Condensed Consolidating Statement of Cash Flows

	Year to Date Period Ended September 26, 2009				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 300	$ (880)	$ 1,180	$ (300)	$ 300
Undistributed equity in earnings of subsidiaries	$ (300)	$	$	$ 300	
Adjustments to reconcile net income to net cash flows:					
Depreciation		9,065	3,482		12,547
Amortization of intangible assets		3,099	1,038		4,137
Amortization and write-offs of deferred loan costs		1,560			1,560
Loss on foreign currency, net		270	822		1,092
Accretion of debt discount and premium, net		621			621
Fixed asset impairment		1,703	860		2,563
Other post employment benefit plan settlement gain		(1,467)			(1,467)
Stock based compensation		2,273			2,273
Changes in assets and liabilities:					
Trade receivables		5,950	7,075		13,025
Inventories		21,150	6,476		27,626
Accounts payable and accrued liabilities		(4,927)	(7,002)		(11,929)
Other current assets and liabilities		472	(401)		71
Other operating assets and liabilities		(204)	(161)		(365)
Net cash (used in) provided by operating activities		38,685	13,369		52,054
Cash flows from investing activities					
Purchase of fixed assets		(4,224)	(881)		(5,105)
Net cash used in investing activities		(4,224)	(881)		(5,105)
Cash flows from financing activities					
Payments on Senior Notes		(4,950)			(4,950)
Payments on Senior Secured Notes		(22,200)			(22,200)
			1,467		1,467

Proceeds from additional borrowings under an existing mortgage					
Payments on revolving credit agreement		(3,000)			(3,000)
Shares repurchased	(259)				(259)
Net payments to Parent		(259)		259	
Payments on mortgages			(524)		(524)
Change in affiliate debt	259	7,608	(7,608)	(259)	
Payment on capital leases		(478)	(136)		(614)
Net cash (used in) provided by financing activities		(23,279)	(6,801)		(30,080)
Effect of exchange rate changes on cash and cash equivalents			2,998		2,998
Net change in cash and cash equivalents		11,182	8,685		19,867
Cash and cash equivalents at beginning of year	1	24,432	27,640		52,073
Cash and cash equivalents at end of period	$ 1	$ 35,614	$ 36,325	$	$ 71,940

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

Unaudited Condensed Consolidating Statement of Cash Flows

	Year to Date Period Ended September 27, 2008				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 27,237	$ 12,475	$ 14,762	$ (27,237)	$ 27,237
Undistributed equity in earnings of subsidiaries	$ (27,237)	$	$	$ 27,237	
Adjustments to reconcile net income to net cash flows:					
Depreciation		8,123	4,286		12,409
Amortization of intangible assets		3,106	1,240		4,346
Amortization and write-offs of deferred loan costs		1,863			1,863
Loss on foreign currency, net		(516)	(1,081)		(1,597)
Accretion of debt discount and premium, net		759			759
Loss on sale of fixed assets		193			193
Other post employment benefit plan settlement gain		(276)			(276)
Loss on sale of Electronics Division		224			224
Stock based compensation		1,516			1,516
Changes in assets and liabilities:					
Trade receivables		(3,754)	(11,151)		(14,905)
Inventories		(3,673)	(2,198)		(5,871)
Accounts payable and accrued liabilities		947	4,938		5,885
Other current assets and liabilities	(2)	(856)	475		(383)
Other operating assets and liabilities		16	218		234
Net cash (used in) provided by operating activities	(2)	20,147	11,489		31,634
Cash flows from investing activities					
Purchase of fixed assets		(8,831)	(3,403)		(12,234)
Proceeds from the sale of Electronics		17,310			17,310
Net cash (used in) provided by investing activities		8,479	(3,403)		5,076

Cash flows from financing activities					
Payments on Senior Notes		(1,346)			(1,346)
Payments on Senior Secured Notes		(27,500)			(27,500)
Payments on revolving credit agreement		(1,723)			(1,723)
Payments received from Parent Company		11,898		(11,898)	
Payments on mortgages			(228)		(228)
Change in affiliate debt	(11,898)	11,631	(11,631)	11,898	
Payment on capital leases		(456)	(323)		(779)
Net cash (used in) provided by financing activities	(11,898)	(7,496)	(12,182)		(31,576)
Effect of exchange rate changes on cash and cash equivalents			(1,119)		(1,119)
Net change in cash and cash equivalents	(11,900)	21,130	(5,215)		4,015
Cash and cash equivalents at beginning of year	11,901	(492)	29,827		41,236
Cash and cash equivalents at end of period	$ 1	$ 20,638	$ 24,612	$	$ 45,251

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted (Continued)

17. 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. The Company evaluated subsequent events through November 3, 2009 (the date the financial statements were issued).

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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, and gross margin, 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, project, and similar 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 Corporation s actual results to differ materially from the results referred to in the forward-looking statements the Corporation makes in this report include:

- the Company s access to capital, credit ratings, indebtedness, and ability to raise additional financings and operate under the terms of the Company s debt obligations;
- the risks associated with our debt leverage;
- 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;
- 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, suppliers, 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;
- 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;

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 economic environment 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;

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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;

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 price;

the cyclical nature of the markets in which we operate;

the risks associated with the global recession and volatility and disruption in the global 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; 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, 2008.

YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON ANY FORWARD-LOOKING STATEMENTS, ALL OF WHICH SPEAK ONLY AS OF THE DATE OF THIS QUARTERLY 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 QUARTERLY 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, 2008, AND IN OTHER REPORTS FILED WITH THE SEC BY THE COMPANY.

The following discussion of the financial condition and results of operations of Altra Holdings, Inc. should be read together with the audited financial statements of Altra Holdings, Inc. and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

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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 48 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 MPT 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, 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 our wholly owned subsidiary.

On February 10, 2006, we purchased all of the outstanding share capital of Hay Hall Holdings Limited, or Hay Hall. Hay Hall is a UK-based holding company established in 1996 that is focused primarily on the manufacture of couplings and clutch brakes. Hay Hall consists of five main businesses that are niche focused and have strong brand names and established reputations within their primary markets.

Through Hay Hall, we acquired 15 strong brands in complementary product lines, improved customer leverage, and expanded geographic presence in over 11 countries. Hay Hall s product offerings diversified our revenue base and strengthened our key product areas, such as electric clutches, brakes, and couplings. Matrix International, Inertia Dynamics, and Twiflex, three Hay Hall businesses, combined with Warner Electric, Wichita Clutch, Formsprag Clutch, and Stieber, make the consolidated company one of the largest individual manufacturers of industrial clutches and brakes in the world.

On May 18, 2006, we acquired substantially all of the assets of Bear Linear. Bear 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. Bear Linear s product design and engineering expertise, coupled with our sourcing alliance with a low cost country manufacturer, were critical components in our strategic expansion within the motion control market.

On April 5, 2007, the Company acquired all of the outstanding shares of 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.

On October 5, 2007, we acquired substantially all of the assets of All Power Transmission Manufacturing, Inc., or All Power.

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

The subsidiaries of Altra Industrial design, produce and market a wide range of mechanical power transmission (MPT) and motion control products. The business conducted at our subsidiaries is organized into five operating segments; Electromagnetic Clutches & Brakes, Heavy Duty Clutches & Brakes, Overrunning Clutches & Engineered Bearing Assemblies, Engineered Couplings and Gearing & Belted Drives. We have a presence in over 70 countries. Our global sales and marketing network includes over 1,000 direct original equipment manufacturers (OEM) and over 3,000 distributor outlets. We are headquartered in Braintree, Massachusetts.

Our operating segments, principal brands and principal markets are set forth below:

Operating Segment	**Principal Brands**	**Principal Markets**
Heavy Duty Clutches & Brakes	Wichita Clutch	Energy
	Twiflex	Metals
	Industrial Clutch	Marine
Electromagnetic Clutches & Brakes	Warner Electric	Turf and Garden
	Matrix International	Forklift
	Inertia Dynamics	Elevator
	Warner Linear	Material Handling
Overrunning Clutches & Bearings	Formsprag	Aerospace
	Stieber	Mining
	Kilian	Material Handling
	Marland Clutch	Transportation
Engineered Couplings	TB Wood s	Energy
	Ameridrives	Metals
	Bibby Transmission	Petro/Chem
	Huco Dynatork	Medical
	All Power Transmission	Military and Defense
Gearing & Belted Drives	Boston Gear	Food Processing
	TB Wood s	Material Handling
	Nuttall/Delroyd	Energy
	Centric Clutch	Aggregate

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 SEC. 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. and global economies in general. During November and December 2008, we saw a significant change in economic conditions both in North America and internationally as most of our end markets experienced dramatic downturns. During the fourth quarter of 2008, we began to see several of our distributors and OEM customers implement inventory reduction programs which continued throughout the first two quarters of 2009. Beginning in the third quarter of 2009, it appeared that inventory reduction efforts by our customers began to come to an end as sales to our largest distribution customers improved during the third quarter. However, we continue to expect weakness in order rates for the remainder of 2009 as compared with 2008.

In response to the continued challenging economic conditions of 2009, we have taken and continue to take swift and aggressive actions to reduce our expenses and maximize near-term profitability. Our cost-reduction initiatives are centered on three areas: workforce cutbacks, plant consolidations and procurement and other cost reductions. In February 2009, the Company s discretionary 401(k) match was suspended and a temporary reduction in executive compensation was initiated. On June 1, 2009, the Company announced the temporary suspension of all Company contributions to the 401(k) plan. We also have announced a general hiring freeze, a freeze of all non-union employee salaries and reduced work schedules. During the year to date period ended September 26, 2009, we incurred $5.4 million of restructuring expense including a $2.0 million non-cash charge primarily related to impairment charges at the Mount Pleasant and South Beloit facilities that are expected to close in 2009 and in the first quarter of 2010, respectively. The remaining expense relates mainly to severance. We expect to incur between an additional $2.5 and $3.5 million of expenses associated with workforce reduction and consolidation of facilities in 2009 and between $1.3 million and $1.9 million of such additional expenses in 2010. Beginning in 2010, we expect to see annualized savings from the headcount reductions and consolidation of facilities of approximately $30 million. We expect savings in 2009 to be $17.9 million. Including procurement and other cost reduction efforts, annualized savings would be approximately $77 million (approximately $60 million in 2009). We estimate that once volume returns to prior year levels, between $10 and $12 million of these savings will be permanent in nature.

We will continue our strong focus on working capital management and cash flow generation with the intent of improving our liquidity by reducing inventory and