

Altra Holdings, Inc.  
Form 10-Q  
November 03, 2010

Table of Contents

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

**FORM 10-Q**

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

**For the quarterly period ended October 2, 2010**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-33209**

**ALTRA HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**61-1478870**

(I.R.S. Employer Identification No.)

**300 Granite Street, Suite 201, Braintree, MA**

(Address of principal executive offices)

**02184**

(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 ☒ No ☐

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

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

Large Accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting  
company ☐

(Do not check if a smaller  
reporting company.)

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

As of November 1, 2010, 26,759,962 shares of Common Stock, \$.001 par value per share, were outstanding.



***TABLE OF CONTENTS***

|                                                                                                      | Page # |
|------------------------------------------------------------------------------------------------------|--------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>                                                          | 1      |
| <u>Item 1. Financial Statements</u>                                                                  | 1      |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 21     |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>                            | 33     |
| <u>Item 4. Controls and Procedures</u>                                                               | 33     |
| <b><u>PART II. OTHER INFORMATION</u></b>                                                             |        |
| <u>Item 1. Legal Proceedings</u>                                                                     | 33     |
| <u>Item 1A. Risk Factors</u>                                                                         | 33     |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 34     |
| <u>Item 3. Defaults Upon Senior Securities</u>                                                       | 34     |
| <u>Item 4. (Removed and Reserved)</u>                                                                | 34     |
| <u>Item 5. Other Information</u>                                                                     | 34     |
| <u>Item 6. Exhibits</u>                                                                              | 34     |
| <b><u>SIGNATURES</u></b>                                                                             | 36     |
| <u>EX-31.1 Section 302 Certification of Chief Executive Officer</u>                                  |        |
| <u>EX-31.2 Section 302 Certification of Chief Financial Officer</u>                                  |        |
| <u>EX-32.1 Section 906 Certification of Chief Executive Officer</u>                                  |        |
| <u>EX-32.2 Section 906 Certification of Chief Financial Officer</u>                                  |        |

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**Table of Contents**

## Item 1. Financial Statements

**ALTRA HOLDINGS, INC.**  
**Condensed Consolidated Balance Sheets**  
**Amounts in thousands, except share amounts**

|                                                                                                                                                                         | October 2,<br>2010 | December 31,<br>2009 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------|
|                                                                                                                                                                         | (Unaudited)        |                      |
| <b>ASSETS</b>                                                                                                                                                           |                    |                      |
| Current assets:                                                                                                                                                         |                    |                      |
| Cash and cash equivalents                                                                                                                                               | \$ 72,161          | \$ 51,497            |
| Trade receivables, less allowance for doubtful accounts of \$1,105 and \$1,434 at October 2, 2010 and December 31, 2009, respectively                                   | 72,124             | 52,855               |
| Inventories                                                                                                                                                             | 80,299             | 71,853               |
| Deferred income taxes                                                                                                                                                   | 9,274              | 9,265                |
| Income tax receivable                                                                                                                                                   |                    | 4,754                |
| Assets held for sale                                                                                                                                                    | 1,484              |                      |
| Prepaid expenses and other current assets                                                                                                                               | 3,940              | 3,647                |
| Total current assets                                                                                                                                                    | 239,282            | 193,871              |
| Property, plant and equipment, net                                                                                                                                      | 104,268            | 105,603              |
| Intangible assets, net                                                                                                                                                  | 70,892             | 74,905               |
| Goodwill                                                                                                                                                                | 78,947             | 78,832               |
| Deferred income taxes                                                                                                                                                   | 650                | 679                  |
| Other non-current assets, net                                                                                                                                           | 11,199             | 11,309               |
| Total assets                                                                                                                                                            | \$ 505,238         | \$ 465,199           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                             |                    |                      |
| Current liabilities:                                                                                                                                                    |                    |                      |
| Accounts payable                                                                                                                                                        | \$ 36,826          | \$ 27,421            |
| Accrued payroll                                                                                                                                                         | 17,353             | 12,133               |
| Accruals and other current liabilities                                                                                                                                  | 30,512             | 19,971               |
| Deferred income taxes                                                                                                                                                   | 7,087              | 7,275                |
| Current portion of long-term debt                                                                                                                                       | 3,356              | 1,059                |
| Total current liabilities                                                                                                                                               | 95,134             | 67,859               |
| Long-term debt less current portion and net of unaccreted discount                                                                                                      | 213,183            | 216,490              |
| Deferred income taxes                                                                                                                                                   | 17,169             | 21,051               |
| Pension liabilities                                                                                                                                                     | 8,358              | 9,862                |
| Long-term taxes payable                                                                                                                                                 | 8,883              | 9,661                |
| Other long-term liabilities                                                                                                                                             | 892                | 1,333                |
| Stockholders' equity:                                                                                                                                                   |                    |                      |
| Common stock (\$0.001 par value, 90,000,000 shares authorized, 26,454,292 and 26,057,993 issued and outstanding at October 2, 2010 and December 31, 2009, respectively) | 26                 | 26                   |

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|                                            |            |            |
|--------------------------------------------|------------|------------|
| Additional paid-in capital                 | 133,368    | 132,552    |
| Retained earnings                          | 40,163     | 21,011     |
| Accumulated other comprehensive income     | (11,938)   | (14,646)   |
| Total stockholders' equity                 | 161,619    | 138,943    |
| Total liabilities and stockholders' equity | \$ 505,238 | \$ 465,199 |

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

**Table of Contents**

**ALTRA HOLDINGS, INC.**  
**Condensed Consolidated Statements of Income**  
**Amounts in thousands, except per share data**

|                                                       | <b>Quarter Ended</b> |                  | <b>Year to Date Ended</b> |                  |
|-------------------------------------------------------|----------------------|------------------|---------------------------|------------------|
|                                                       | <b>October 2,</b>    | <b>September</b> | <b>October 2,</b>         | <b>September</b> |
|                                                       | <b>2010</b>          | <b>26,</b>       | <b>2010</b>               | <b>26,</b>       |
|                                                       | <b>(Unaudited)</b>   |                  | <b>(Unaudited)</b>        |                  |
| Net sales                                             | \$ 128,930           | \$ 104,766       | \$ 389,624                | \$ 341,183       |
| Cost of sales                                         | 90,289               | 76,194           | 273,453                   | 250,950          |
| Gross profit                                          | 38,641               | 28,572           | 116,171                   | 90,233           |
| Operating expenses:                                   |                      |                  |                           |                  |
| Selling, general and administrative expenses          | 22,804               | 19,290           | 65,991                    | 60,971           |
| Research and development expenses                     | 1,746                | 1,508            | 5,156                     | 4,569            |
| Other post employment benefit plan settlement gain    |                      |                  |                           | (1,467)          |
| Restructuring costs                                   | 510                  | 1,006            | 2,198                     | 5,360            |
| Loss on disposal of assets                            |                      | 516              |                           | 516              |
|                                                       | 25,060               | 22,320           | 73,345                    | 69,949           |
| Income from operations                                | 13,581               | 6,252            | 42,826                    | 20,284           |
| Other non-operating income and expense:               |                      |                  |                           |                  |
| Interest expense, net                                 | 4,838                | 6,290            | 14,734                    | 18,879           |
| Other non-operating (income) expense, net             | (272)                | (371)            | 750                       | 1,248            |
|                                                       | 4,566                | 5,919            | 15,484                    | 20,127           |
| Income before income taxes                            | 9,015                | 333              | 27,342                    | 157              |
| Provision (benefit) for income taxes                  | 2,441                | (315)            | 8,190                     | (143)            |
| Net income                                            | \$ 6,574             | \$ 648           | \$ 19,152                 | \$ 300           |
| <b>Consolidated Statement of Comprehensive Income</b> |                      |                  |                           |                  |
| Minimum pension liability adjustment                  | \$ (185)             | \$               | \$ (515)                  | \$               |
| Foreign currency translation adjustment               | 12,066               | 847              | 3,223                     | 9,102            |
| Comprehensive income                                  | \$ 18,455            | \$ 1,495         | \$ 21,860                 | \$ 9,402         |
| Weighted average shares, basic                        | 26,414               | 25,961           | 26,364                    | 25,940           |
| Weighted average shares, diluted                      | 26,495               | 26,213           | 26,477                    | 26,112           |

Net income per share:

|         |    |      |    |      |    |      |    |      |
|---------|----|------|----|------|----|------|----|------|
| Basic   | \$ | 0.25 | \$ | 0.02 | \$ | 0.73 | \$ | 0.01 |
| Diluted | \$ | 0.25 | \$ | 0.02 | \$ | 0.72 | \$ | 0.01 |

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

**Table of Contents**

**ALTRA HOLDINGS, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**Amounts in thousands**

|                                                              | <b>Year to date ended</b>  |                               |
|--------------------------------------------------------------|----------------------------|-------------------------------|
|                                                              | <b>October 2,<br/>2010</b> | <b>September 26,<br/>2009</b> |
|                                                              | <b>(Unaudited)</b>         |                               |
| <b>Cash flows from operating activities</b>                  |                            |                               |
| Net income                                                   | \$ 19,152                  | \$ 300                        |
| Adjustments to reconcile net income to net cash flows:       |                            |                               |
| Depreciation                                                 | 12,315                     | 12,547                        |
| Amortization of intangible assets                            | 3,713                      | 4,137                         |
| Amortization and write-offs of deferred financing costs      | 536                        | 1,560                         |
| Loss on foreign currency, net                                | 270                        | 1,092                         |
| Accretion of debt discount, net                              | 225                        | 621                           |
| Fixed asset impairment/disposal                              | 441                        | 2,563                         |
| Other post employment benefit plan settlement gain           |                            | (1,467)                       |
| Stock-based compensation                                     | 1,670                      | 2,273                         |
| Changes in assets and liabilities:                           |                            |                               |
| Trade receivables                                            | (18,798)                   | 13,025                        |
| Inventories                                                  | (8,687)                    | 27,626                        |
| Accounts payable and accrued liabilities                     | 27,429                     | (11,929)                      |
| Other current assets and liabilities                         | (752)                      | 71                            |
| Other operating assets and liabilities                       | (186)                      | (365)                         |
| Net cash provided by operating activities                    | 37,328                     | 52,054                        |
| <b>Cash flows from investing activities</b>                  |                            |                               |
| Purchase of property, plant and equipment                    | (12,725)                   | (5,105)                       |
| Additional purchase price paid for acquisition               | (1,177)                    |                               |
| Net cash used in investing activities                        | (13,902)                   | (5,105)                       |
| <b>Cash flows from financing activities</b>                  |                            |                               |
| Payment on 11 1/4% Old Senior Notes                          |                            | (4,950)                       |
| Payment on 9% Old Senior Secured Notes                       |                            | (22,200)                      |
| Payments on Old Revolving Credit Agreement                   |                            | (3,000)                       |
| Payment of issuance costs on 8 1/8% Senior Secured Notes     | (265)                      |                               |
| Proceeds from additional borrowings under existing mortgage  |                            | 1,467                         |
| Shares surrendered for tax withholdings                      | (854)                      | (259)                         |
| Payment on mortgages                                         | (481)                      | (524)                         |
| Payment on capital leases                                    | (563)                      | (614)                         |
| Net cash used in financing activities                        | (2,163)                    | (30,080)                      |
| Effect of exchange rate changes on cash and cash equivalents | (599)                      | 2,998                         |

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|                                                |           |    |        |
|------------------------------------------------|-----------|----|--------|
| Net change in cash and cash equivalents        | 20,664    |    | 19,867 |
| Cash and cash equivalents at beginning of year | 51,497    |    | 52,073 |
| Cash and cash equivalents at end of period     | \$ 72,161 | \$ | 71,940 |
| Cash paid during the period for:               |           |    |        |
| Interest                                       | \$ 9,676  | \$ | 12,419 |
| Income taxes                                   | \$ 1,210  | \$ | 1,033  |

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

**Table of Contents**

**ALTRA HOLDINGS, INC.**

**Notes to Unaudited Condensed Consolidated Interim Financial Statements**

**Amounts in thousands, unless otherwise noted**

**1. Organization and Nature of Operations**

Headquartered in Braintree, Massachusetts, Altra Holdings, Inc. (the Company), through its wholly-owned subsidiary Altra Industrial Motion, Inc. (Altra Industrial), is a leading multi-national designer, producer and marketer of a wide range of 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 Woods, Formsprag Clutch, Ameridrives Couplings, Industrial Clutch, Kilian Manufacturing, Marland Clutch, Nuttall Gear, Stieber Clutch, Wichita Clutch, Twiflex Limited, Bibby Transmissions, Matrix International, Inertia Dynamics, Huco Dynatork, and Warner Linear.

**2. Basis of Presentation**

The Company was formed on November 30, 2004 following acquisitions of The Kilian Company (Kilian) and certain subsidiaries of Colfax Corporation (Colfax). During 2006, the Company acquired Hay Hall Holdings Limited (Hay Hall) and Bear Linear (Warner Linear). On April 5, 2007, the Company acquired TB Woods Corporation (TB Woods), and on October 5, 2007, the Company acquired substantially all of the assets of All Power Transmission Manufacturing, Inc. (All Power).

The Company's unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, including necessary to present fairly the Company's financial position as of October 2, 2010 and December 31, 2009, and results of operations and cash flows for the quarters and year to date periods ended October 2, 2010 and September 26, 2009.

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 8 1/8% Senior Secured Notes was \$210.0 million at each of October 2, 2010 and December 31, 2009. The estimated fair value of the 8 1/8% Senior Secured Notes at October 2, 2010 and December 31, 2009 was \$220.5 million and \$215.5 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.

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

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

|                                                        | <b>Quarter Ended</b> |                  | <b>Year to Date Ended</b> |                  |
|--------------------------------------------------------|----------------------|------------------|---------------------------|------------------|
|                                                        | <b>October 2,</b>    | <b>September</b> | <b>October 2,</b>         | <b>September</b> |
|                                                        | <b>2010</b>          | <b>26,</b>       | <b>2010</b>               | <b>26,</b>       |
|                                                        |                      | <b>2009</b>      |                           | <b>2009</b>      |
| Net income                                             | \$ 6,574             | \$ 648           | \$ 19,152                 | \$ 300           |
| Shares used in net income per common share basic       | 26,414               | 25,961           | 26,364                    | 25,940           |
| Incremental shares of unvested restricted common stock | 81                   | 252              | 113                       | 172              |
| Shares used in net income per common share diluted     | 26,495               | 26,213           | 26,477                    | 26,112           |
| Earnings per share:                                    |                      |                  |                           |                  |
| Basic                                                  | \$ 0.25              | \$ 0.02          | \$ 0.73                   | \$ 0.01          |
| Diluted                                                | \$ 0.25              | \$ 0.02          | \$ 0.72                   | \$ 0.01          |

**5. Inventories**

Inventories located at certain subsidiaries acquired in connection with the TB Woods 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 October 2, 2010 and December 31, 2009 consisted of the following:

|                 | <b>October 2,</b> | <b>December 31,</b> |
|-----------------|-------------------|---------------------|
|                 | <b>2010</b>       | <b>2009</b>         |
| Raw materials   | \$ 31,625         | \$ 28,539           |
| Work in process | 15,203            | 13,711              |
| Finished goods  | 33,471            | 29,603              |
| Inventories     | \$ 80,299         | \$ 71,853           |

Approximately 14% of total inventories were valued using the LIFO method as of October 2, 2010 and approximately 13% of total inventories were valued using the LIFO method as of December 31, 2009. The Company recorded a \$0.1 million provision as a component of cost of sales to value the inventory on a LIFO basis for each of the quarters ended October 2, 2010 and September 26, 2009. The Company recorded a \$0.2 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 October 2, 2010 and September 26, 2009, respectively.

Table of Contents**ALTRA HOLDINGS, INC.****Notes to Unaudited Condensed Consolidated Interim Financial Statements****Amounts in thousands, unless otherwise noted****6. Goodwill and Intangible Assets**

Changes to goodwill from December 31, 2009 through October 2, 2010 were as follows:

|                                                       | <b>2010</b> |
|-------------------------------------------------------|-------------|
| Gross goodwill balance as of January 1                | \$ 110,642  |
| Adjustments related to additional purchase price paid | 532         |
| Impact of changes in foreign currency                 | (417)       |
| Gross goodwill balance as of October 2                | 110,757     |
| Accumulated impairment as of January 1                | (31,810)    |
| Impairment charge during the period                   |             |
| Accumulated impairment as of October 2                | (31,810)    |
| Net goodwill balance October 2, 2010                  | \$ 78,947   |

Other intangible assets as of October 2, 2010 and December 31, 2009 consisted of the following:

|                                                | <b>October 2, 2010</b> |                                 | <b>December 31, 2009</b> |                                 |
|------------------------------------------------|------------------------|---------------------------------|--------------------------|---------------------------------|
|                                                | <b>Cost</b>            | <b>Accumulated Amortization</b> | <b>Cost</b>              | <b>Accumulated Amortization</b> |
| <b>Other intangible assets</b>                 |                        |                                 |                          |                                 |
| Intangible assets not subject to amortization: |                        |                                 |                          |                                 |
| Tradenames and trademarks                      | \$ 30,730              | \$                              | \$ 30,730                | \$                              |
| Intangible assets subject to amortization:     |                        |                                 |                          |                                 |
| Customer relationships                         | 62,038                 | 22,732                          | 62,038                   | 19,655                          |
| Product technology and patents                 | 5,435                  | 4,695                           | 5,435                    | 4,059                           |
| Impact of changes in foreign currency          | 116                    |                                 | 416                      |                                 |
| Total intangible assets                        | \$ 98,319              | \$ 27,427                       | \$ 98,619                | \$ 23,714                       |

The Company recorded \$1.4 million of amortization expense in each of the quarters ended October 2, 2010 and September 26, 2009, and recorded \$3.7 million and \$4.1 million of amortization expense in the year to date periods ended October 2, 2010 and September 26, 2009 respectively.

The estimated amortization expense for intangible assets is approximately \$1.4 million for the remainder of 2010, \$5.5 million in each of the next four years and then \$16.6 million thereafter.

**Table of Contents****ALTRA HOLDINGS, INC.****Notes to Unaudited Condensed Consolidated Interim Financial Statements****Amounts in thousands, unless otherwise noted****7. Warranty Costs**

The contractual warranty period generally ranges from three months to thirty-six months based on product and application of the product. Changes in the carrying amount of accrued product warranty costs for each of the year to date periods ended October 2, 2010 and September 26, 2009 are as follows:

|                                         | <b>October 2,<br/>2010</b> | <b>September 26,<br/>2009</b> |
|-----------------------------------------|----------------------------|-------------------------------|
| Balance at beginning of period          | \$ 4,047                   | \$ 4,254                      |
| Accrued current period warranty expense | 1,041                      | 1,100                         |
| Payments                                | (1,186)                    | (1,199)                       |
| Balance at end of period                | \$ 3,902                   | \$ 4,155                      |

**8. Assets Held for Sale**

In June 2010, the Company entered into a purchase and sale agreement for the Company's facility in Chattanooga, Tennessee. The sale contemplated by the June 2010 purchase and sale agreement was never consummated and the agreement was terminated. In October 2010, the Company entered into a new purchase and sale agreement for the facility. The Company recorded a \$0.1 million impairment of the Chattanooga facility in the quarter ended October 2, 2010. The Company estimated the fair value based on the quoted price listed in the purchase and sale agreement (level 2). The building is classified as an asset held for sale and the associated debt of \$2.3 million is classified as current in the condensed consolidated balance sheet.

**9. Income Taxes**

The estimated effective income tax rates recorded for the quarters ended October 2, 2010 and September 26, 2009 were based upon management's best estimate of the effective tax rate for the entire year. The 2010 provision for income taxes, as a percentage of income before taxes, was higher than that of 2009, primarily due to increased overall profitability in 2010 partially offset by favorable discrete tax benefits recognized in the third quarter of 2010. Additionally, during the third quarter of 2009, the Company negotiated an agreement with a foreign taxing authority allowing the Company to fully deduct certain interest charges. The Company recorded a cumulative adjustment for the increased interest deduction during the third quarter of 2009. During 2010, the interest benefit is being recognized ratably throughout the year.

At October 2, 2010, the Company had \$8.9 million of unrecognized tax benefits. We do not expect the amount of unrecognized tax benefits to change significantly over the next 12 months.

The Company and its subsidiaries file a consolidated federal income tax return in the United States as well as consolidated and separate income tax returns in various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in all of these jurisdictions. With the exception of certain foreign jurisdictions, the Company is no longer subject to income tax examinations for the tax years prior to 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, 2009 and October 2, 2010, the Company had \$3.5 million and \$3.7 million of accrued interest and penalties, respectively. The Company accrued \$0.2 million of interest and no penalties during the year to date period ended October 2, 2010.

During the third quarter 2010, the Company determined that it had not recognized in other comprehensive income the deferred tax impact of the unrealized gains and losses on foreign exchange translation related to an inter-company

loan. As a result, the net deferred tax liability was over-stated and the cumulative foreign currency translation adjustment was under-stated by \$4.0 million at December 31, 2009 and \$4.5 million at July 3, 2010. Additionally, the currency translation adjustment included in the statement of comprehensive income was overstated by \$1.0 million for the year to date period ended September 26, 2009. This non-cash adjustment did not impact any prior statements of operations, and the Company determined that the amounts were not material to total assets, liabilities, and stockholders' equity. The correction of the balances was made in the third quarter 2010 by increasing other comprehensive income by \$4.1 million with an offset to deferred tax which also included the third quarter activity.

Table of Contents**ALTRA HOLDINGS, INC.****Notes to Unaudited Condensed Consolidated Interim Financial Statements****Amounts in thousands, unless otherwise noted****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 eliminated benefits that employees were entitled to receive through the applicable other post employment benefit plan ( OPEB ). This resulted in an OPEB settlement gain of \$1.5 million in the year to date period ended September 26, 2009.

The following table represents the components of the net periodic benefit cost associated with the respective plans for the quarter and the year to date periods ended October 2, 2010 and September 26, 2009:

|                                      | <b>Quarter Ended</b>       |                     |                            |                     |
|--------------------------------------|----------------------------|---------------------|----------------------------|---------------------|
|                                      | <b>Pension Benefits</b>    |                     | <b>Other Benefits</b>      |                     |
|                                      | <b>September</b>           |                     | <b>September</b>           |                     |
|                                      | <b>October 2,<br/>2010</b> | <b>26,<br/>2009</b> | <b>October 2,<br/>2010</b> | <b>26,<br/>2009</b> |
| Service cost                         | \$ 50                      | \$ 5                | \$ 1                       | \$ 32               |
| Interest cost                        | 334                        | 267                 | 4                          | 69                  |
| Expected return on plan assets       | (309)                      | (300)               |                            |                     |
| Amortization of prior service income |                            |                     | (172)                      | (244)               |
| Amortization of net gain             |                            |                     | (40)                       | (33)                |
| Net periodic benefit cost (income)   | \$ 75                      | \$ (28)             | \$ (207)                   | \$ (176)            |

|                                                    | <b>Year to Date Ended</b>  |                     |                            |                     |
|----------------------------------------------------|----------------------------|---------------------|----------------------------|---------------------|
|                                                    | <b>Pension Benefits</b>    |                     | <b>Other Benefits</b>      |                     |
|                                                    | <b>September</b>           |                     | <b>September</b>           |                     |
|                                                    | <b>October 2,<br/>2010</b> | <b>26,<br/>2009</b> | <b>October 2,<br/>2010</b> | <b>26,<br/>2009</b> |
| Service cost                                       | \$ 50                      | \$ 37               | \$ 2                       | \$ 38               |
| Interest cost                                      | 962                        | 997                 | 17                         | 107                 |
| Expected return on plan assets                     | (919)                      | (954)               |                            |                     |
| Amortization of prior service income               |                            |                     | (515)                      | (732)               |
| Other post employment benefit plan settlement gain |                            |                     |                            | (1,467)             |
| Amortization of net gain                           |                            |                     | (121)                      | (47)                |
| Net periodic benefit cost (income)                 | \$ 93                      | \$ 80               | \$ (617)                   | \$ (2,101)          |

There were no required contributions in 2010, however, the Company made \$1.6 million of supplemental payments to the pension plan in the year to date period ended October 2, 2010.

**Table of Contents****ALTRA HOLDINGS, INC.****Notes to Unaudited Condensed Consolidated Interim Financial Statements****Amounts in thousands, unless otherwise noted****11. Debt**

Outstanding debt obligations at October 2, 2010 and December 31, 2009 were as follows:

|                                                  | <b>Amounts in millions</b> |                              |
|--------------------------------------------------|----------------------------|------------------------------|
|                                                  | <b>October 2,<br/>2010</b> | <b>December 31,<br/>2009</b> |
| Debt:                                            |                            |                              |
| Revolving Credit Agreement                       | \$                         | \$                           |
| Senior Secured Notes                             | 210,000                    | 210,000                      |
| Variable rate demand revenue bonds               | 5,300                      | 5,300                        |
| Mortgages                                        | 2,495                      | 3,144                        |
| Capital leases                                   | 1,226                      | 1,821                        |
| Total debt                                       | 219,021                    | 220,265                      |
| Less: debt discount, net of accretion            | (2,482)                    | (2,716)                      |
| Total long-term debt, net of unaccreted discount | \$ 216,539                 | \$ 217,549                   |

***Senior Secured Notes***

In November 2009, the Company issued \$210 million of 8 $\frac{1}{8}$ % Senior Secured Notes (the "Senior Secured Notes") that mature December 2016. The Senior Secured Notes are guaranteed by the Company's U.S. domestic subsidiaries and are secured by a second priority lien, subject to first priority liens securing the new senior secured credit facility ("Revolving Credit Agreement"), on substantially all of the Company's assets and those of its domestic subsidiaries. Interest on the Senior Secured Notes is payable semiannually in arrears, on June 1 and December 1 of each year, commencing on June 1, 2010 at an annual rate of 8 $\frac{1}{8}$ %. The effective interest rate of the Senior Secured Notes is 8.75% after consideration of the \$6.8 million of deferred financing costs. The indenture governing the Senior Secured Notes contains covenants which restrict the Company and our subsidiaries. These restrictions limit or prohibit, among other things, the ability to incur additional indebtedness; repay subordinated indebtedness prior to stated maturities; pay dividends on or redeem or repurchase stock or make other distributions; make investments or acquisitions; sell certain assets or merge with or into other companies; sell stock in our subsidiaries; and create liens on their assets.

***Tender Offer***

The Company used the proceeds of the offering of the Senior Secured Notes to repurchase or redeem the 9% Senior Secured Notes (the "Old Senior Secured Notes"). On November 10, 2009, Altra Industrial commenced a cash tender offer to repurchase any and all of its outstanding Old Senior Secured Notes as of the date thereof at a price equal to \$1,000 per \$1,000 principal amount of notes tendered, plus an early tender premium of \$25.00 per \$1,000 principal amount of notes tendered, payable on notes tendered before the early tender deadline. Holders who tendered their Old Senior Secured Notes also agreed to waive any rights to written notice of redemption. With respect to any Old Senior Secured Notes that were not tendered, Altra Industrial redeemed all Old Senior Secured Notes that remained outstanding after the expiration of the tender offer by issuing a notice of redemption on the early tender deadline. On the early tender deadline, Altra Industrial satisfied and discharged all of its obligations under the indenture governing the Old Senior Secured Notes by depositing funds with the depositary in an amount sufficient to pay and discharge any remaining indebtedness on the Old Senior Secured Notes upon the consummation of the tender offer. On December 10, 2009, Altra Industrial redeemed all of the Old Senior Secured Notes that remained outstanding following the consummation of the tender offer.

***Refinancing Transaction***

Concurrently with the closing of the offering of the Senior Secured Notes, Altra Industrial entered into the Revolving Credit Agreement, which provides for borrowing capacity in an initial amount of up to \$50.0 million (subject to adjustment pursuant to a borrowing base and subject to increase from time to time in accordance with the terms of the credit facility). The Revolving Credit Agreement replaced Altra Industrial's then existing senior secured credit facility (the "Old Revolving Credit Agreement"), and the TB Wood's existing credit facility (the "Old TB Wood's Revolving Credit Agreement"). There were no borrowings under the Revolving Credit Agreement at October 2, 2010, however, the lender had issued \$9.4 million of outstanding letters of credit on behalf of the Company.

**Table of Contents**

**ALTRA HOLDINGS, INC.**

**Notes to Unaudited Condensed Consolidated Interim Financial Statements**

**Amounts in thousands, unless otherwise noted**

Altra Industrial and all of its domestic subsidiaries are borrowers, or Borrowers, under the Revolving Credit Agreement. Certain of our existing and subsequently acquired or organized domestic subsidiaries that are not Borrowers do and will guarantee (on a senior secured basis) the Revolving Credit Agreement. Obligations of the other Borrowers under the Revolving Credit Agreement and the guarantees are secured by substantially all of Borrowers assets and the assets of each of our existing and subsequently acquired or organized domestic subsidiaries that is a guarantor of our obligations under the Revolving Credit Agreement (with such subsidiaries being referred to as the

U.S. subsidiary guarantors), including but not limited to: (a) a first-priority pledge of all the capital stock of subsidiaries held by Borrowers or any U.S. subsidiary guarantor (which pledge, in the case of any foreign subsidiary, will be limited to 100% of any non-voting stock and 65% of the voting stock of such foreign subsidiary) and (b) perfected first-priority security interests in and mortgages on substantially all tangible and intangible assets of each Borrower and U.S. subsidiary guarantor, including accounts receivable, inventory, equipment, general intangibles, investment property, intellectual property, certain real property, and cash and proceeds of the foregoing (in each case subject to materiality thresholds and other exceptions).

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

An event of default under the Revolving Credit Agreement would also occur if an event of default occurs under the indentures governing the Senior Secured Notes or if there is a default under any other indebtedness that any Borrower may have involving an aggregate amount of \$10 million or more and such default: (i) occurs at final maturity of such debt, (ii) allows the lender thereunder to accelerate such debt or (iii) causes such debt to be required to be repaid prior to its stated maturity. An event of default would also occur under the Revolving Credit Agreement if any of the indebtedness under the Revolving Credit Agreement with limited exception ceases to be secured by a full lien on the assets of Borrowers and guarantors.

***Old Revolving Credit Agreement***

Prior to entering into the Revolving Credit Agreement, the Company maintained the Old Revolving Credit Agreement, a \$30 million revolving borrowings facility with a commercial bank, through its wholly owned subsidiary Altra Industrial. The Old Revolving Credit Agreement was subject to certain limitations resulting from the requirement of Altra Industrial to maintain certain levels of collateralized assets, as defined in the Old Revolving Credit Agreement. In connection with the refinancing transaction described above, the Old Revolving Credit Agreement was terminated.

***Old TB Wood's Revolving Credit Agreement***

In connection with the refinancing transaction described above, the Old TB Wood's Revolving Credit Agreement was paid in full and terminated.

***Overdraft Agreements***

Certain of the Company's foreign subsidiaries maintain overdraft agreements with financial institutions. There were no borrowings as of October 2, 2010 or December 31, 2009 under any of the overdraft agreements.

***Old Senior Secured Notes***

On November 30, 2004, Altra Industrial issued the Old Senior Secured Notes, with a face value of \$165.0 million. Interest on the Old Senior Secured Notes is payable semiannually, in arrears, on June 1 and December 1 of each year, beginning June 1, 2005, at an annual rate of 9%.

In connection with the acquisition of TB Wood's on April 5, 2007, Altra Industrial completed a follow-on offering issuing an additional \$105.0 million of the Old Senior Secured Notes. The additional \$105.0 million had the same terms and conditions as the previously issued Old Senior Secured Notes. The effective interest rate on the Old Senior Secured Notes, after the follow-on offering was approximately 9.6% after consideration of the amortization of \$5.6 million net discount and \$6.5 million of deferred financing costs.

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 (loss). In addition, Altra Industrial wrote-off \$0.1 million of deferred financing costs and original issue discount/premium which is included in interest expense.

**Table of Contents**

**ALTRA HOLDINGS, INC.**

**Notes to Unaudited Condensed Consolidated Interim Financial Statements**

**Amounts in thousands, unless otherwise noted**

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.

***Old Senior Notes***

On February 8, 2006, Altra Industrial issued the Old Senior Notes, with a face value of £33 million. Interest on the Old Senior Notes was payable semiannually, in arrears, on August 15 and February 15 of each year, beginning August 15, 2006, at an annual rate of 11.25%. The effective interest rate on the Old Senior Notes was approximately 12.7%, after consideration of the \$0.7 million of deferred financing costs (included in other assets). The Old Senior Notes were to mature on February 13, 2013.

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 the 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.

***Variable Rate Demand Revenue Bonds***

In connection with the acquisition of TB Wood s, the Company assumed obligations for certain Variable Rate Demand Revenue Bonds outstanding as of the acquisition date. TB Wood s had assumed obligations for approximately \$3.0 million and \$2.3 million of Variable Rate Demand Revenue Bonds issued under the authority of the industrial development corporations of the City of San Marcos, Texas and City of Chattanooga, Tennessee, respectively. These bonds bear variable interest rates (less than 1% as of October 2, 2010) and mature in April 2024 and April 2022, respectively. The bonds were issued to finance production facilities for TB Wood s manufacturing operations in those cities, and are secured by letters of credit issued under the terms of the Revolving Credit Agreement. The Chattanooga asset is classified as an asset held for sale at October 2, 2010 and the associated debt is classified as current in the condensed consolidated financial statements.

***Mortgage***

In June 2006, the Company entered into a mortgage on its building in Heidelberg, Germany with a local bank. In 2009, the Company refinanced the Heidelberg mortgage. As of October 2, 2010 the mortgage has a remaining principal of 1.8 million or \$2.5 million, and an interest rate of 3.5% and is payable in monthly installments over 15 years.

***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 ranging from immediately to 5 years, provided that the vesting of the restricted shares may accelerate upon the occurrence of certain liquidity events, if approved by the Board of Directors in connection with the transactions. Common stock awarded under the Plan is generally subject to restrictions on transfer, repurchase rights, and other limitations and rights as set forth in the applicable award agreements. The shares are valued based on the share price on the date of grant.



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

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 Personnel and Compensation Committee of the Board of Directors. Compensation expense recorded during the year to date periods ended October 2, 2010 and September 26, 2009 was \$1.7 million and \$2.3 million, respectively. Compensation expense recorded during the quarter to date periods ended October 2, 2010 and September 26, 2009 was \$0.5 million and \$0.7 million, respectively. Stock-based compensation has been recorded as an adjustment to selling, general and administrative expenses in the accompanying condensed consolidated statements of income. Stock-based compensation expense is recognized on a straight-line basis over the vesting period.

The following table sets forth the activity of the Company's unvested restricted stock grants in the year to date period ended October 2, 2010:

|                                            | <b>Shares</b> | <b>Weighted-average<br/>grant date fair<br/>value</b> |
|--------------------------------------------|---------------|-------------------------------------------------------|
| Restricted shares unvested January 1, 2010 | 560,081       | \$ 6.55                                               |
| Shares granted                             | 209,405       | 10.52                                                 |
| Shares forfeited                           | (4,817)       | 9.55                                                  |
| Shares for which restrictions lapsed       | (461,383)     | 6.05                                                  |
| Restricted shares unvested October 2, 2010 | 303,286       | \$ 10.01                                              |

Total remaining unrecognized compensation cost was \$2.8 million as of October 2, 2010, 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 October 2, 2010 was \$6.0 million. Restricted shares granted are valued based on the fair market value of the stock on the date of grant.

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

Financial instruments, which are potentially subject to counter party performance and concentrations of credit risk, consist primarily of trade accounts receivable. The Company manages these risks by conducting credit evaluations of customers prior to delivery or commencement of services. When the Company enters into a sales contract, collateral is normally not required from the customer. Payments are typically due within thirty days of billing. An allowance for potential credit losses is maintained, and losses have historically been within management's expectations. No customer represented greater than 10% of total sales for the quarters ended October 2, 2010 and September 26, 2009.

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 machine shops which use 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.

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

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

|                                | <b>Net Sales<br/>Quarter Ended</b> |                                   | <b>Net Sales<br/>Year to Date Ended</b> |                                   |
|--------------------------------|------------------------------------|-----------------------------------|-----------------------------------------|-----------------------------------|
|                                | <b>October 2,<br/>2010</b>         | <b>September<br/>26,<br/>2009</b> | <b>October 2,<br/>2010</b>              | <b>September<br/>26,<br/>2009</b> |
| North America (primarily U.S.) | \$ 94,335                          | \$ 74,592                         | \$ 286,716                              | \$ 247,921                        |
| Europe                         | 26,629                             | 23,536                            | 81,204                                  | 75,046                            |
| Asia and other                 | 7,966                              | 6,638                             | 21,704                                  | 18,216                            |
| Total                          | \$ 128,930                         | \$ 104,766                        | \$ 389,624                              | \$ 341,183                        |

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

The net assets of our foreign subsidiaries at October 2, 2010 and December 31, 2009 were \$86.2 million and \$76.8 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 October 2, 2010 and December 31, 2009, there were no product liability claims for which management believed a loss was probable. As a result, no amounts were accrued in the accompanying consolidated balance sheets for product liability losses 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**

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 was \$2.2 million and \$5.4 million for the year to date periods ended October 2, 2010 and September 26, 2009, respectively.

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

The Company's restructuring expense, by major component for the year to date periods ended October 2, 2010 and September 26, 2009, respectively, were as follows:

|                                                           | <b>Year to Date<br/>Ended<br/>October 2, 2010<br/>2009 Altra<br/>Plan</b> | <b>Year to Date<br/>Ended<br/>September 26,<br/>2009<br/>2009 Altra<br/>Plan</b> |
|-----------------------------------------------------------|---------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| Expenses                                                  |                                                                           |                                                                                  |
| Severance                                                 | \$ 1,159                                                                  | \$ 3,159                                                                         |
| Moving and relocation                                     | 413                                                                       |                                                                                  |
| Other cash expenses                                       | 395                                                                       | 154                                                                              |
| Total cash expenses                                       | 1,967                                                                     | 3,313                                                                            |
| Non-cash asset impairment and loss on sale of fixed asset | 231                                                                       | 2,047                                                                            |
| Total restructuring expenses                              | \$ 2,198                                                                  | \$ 5,360                                                                         |

The following is a reconciliation of the accrued restructuring costs between December 31, 2009 and October 2, 2010:

|                                     | <b>2009 Altra Plan</b> |
|-------------------------------------|------------------------|
| Balance at December 31, 2009        | \$ 915                 |
| Cash restructuring expense incurred | 1,967                  |
| Cash payments                       | (2,488)                |
| Balance at October 2, 2010          | \$ 394                 |

The total restructuring reserve as of October 2, 2010 relates to severance costs to be paid to employees and is recorded in accruals and other current liabilities on the condensed consolidated balance sheet. As of October 2, 2010, the Company has incurred \$9.5 million of cumulative expense related to the 2009 Altra Plan. The Company also expects to incur between \$0.3 million and \$0.5 million of additional expenses associated with the consolidation of facilities under the 2009 Altra Plan in the remainder of 2010.

**16. Guarantor Subsidiaries**

The following condensed consolidating financial statements present separately the financial position, results of operations, and cash flows for (a) the Company, as parent, (b) the guarantor subsidiaries of the Company consisting of all of the, directly or indirectly, 100% owned U.S. subsidiaries of the Company, (c) the non-guarantor subsidiaries of the Company consisting of all non-domestic subsidiaries of the Company, and (d) eliminations necessary to arrive at the Company's information on a consolidated basis. These statements are presented in accordance with the disclosure requirements under the Securities and Exchange Commission's Regulation S-X, Rule 3-10. Separate financial

statements of the Guarantor Subsidiaries are not presented because their guarantees are full and unconditional and joint and several.

**Table of Contents**

**ALTRA HOLDINGS, INC.**  
**Notes to Unaudited Condensed Consolidated Interim Financial Statements**  
**Amounts in thousands, unless otherwise noted**  
**Unaudited condensed consolidating balance sheet**  
**October 2, 2010**

|                                                            | <b>Issuer</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|------------------------------------------------------------|---------------|-----------------------------------|-------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                              |               |                                   |                                           |                     |                     |
| Current assets:                                            |               |                                   |                                           |                     |                     |
| Cash and cash equivalents                                  | \$            | \$ 39,283                         | \$ 32,878                                 | \$                  | \$ 72,161           |
| Trade receivables, less<br>allowance for doubtful accounts |               | 46,064                            | 26,060                                    |                     | 72,124              |
| Loans receivable from related<br>parties                   | 216,228       |                                   |                                           | (216,228)           |                     |
| Inventories                                                |               | 56,080                            | 24,219                                    |                     | 80,299              |
| Deferred income taxes                                      |               | 9,087                             | 187                                       |                     | 9,274               |
| Income tax receivable                                      |               |                                   |                                           |                     |                     |
| Assets held for sale                                       |               | 1,484                             |                                           |                     | 1,484               |
| Prepaid expenses and other<br>current assets               |               | 2,215                             | 1,725                                     |                     | 3,940               |
| Total current assets                                       | 216,228       | 154,213                           | 85,069                                    | (216,228)           | 239,282             |
| Property, plant and equipment,<br>net                      |               | 74,899                            | 29,369                                    |                     | 104,268             |
| Intangible assets, net                                     |               | 55,346                            | 15,546                                    |                     | 70,892              |
| Goodwill                                                   |               | 58,015                            | 20,932                                    |                     | 78,947              |
| Deferred income taxes                                      |               |                                   | 650                                       |                     | 650                 |
| Investment in subsidiaries                                 | 152,386       |                                   |                                           | (152,386)           |                     |
| Other non-current assets                                   | 6,197         | 4,903                             | 99                                        |                     | 11,199              |
| Total assets                                               | \$ 374,811    | \$ 347,376                        | \$ 151,665                                | \$ (368,614)        | \$ 505,238          |
| <b>LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b>            |               |                                   |                                           |                     |                     |
| Current liabilities:                                       |               |                                   |                                           |                     |                     |
| Accounts payable                                           | \$            | \$ 24,770                         | \$ 12,056                                 | \$                  | \$ 36,826           |
| Accrued payroll                                            |               | 11,223                            | 6,130                                     |                     | 17,353              |
| Accruals and other current<br>liabilities                  | 5,688         | 14,774                            | 6,073                                     |                     | 26,535              |
| Deferred income taxes                                      |               |                                   | 7,087                                     |                     | 7,087               |
| Taxes payable                                              |               | 342                               | 3,635                                     |                     | 3,977               |
| Current portion of long-term<br>debt                       |               | 2,981                             | 375                                       |                     | 3,356               |
| Loans payable to related parties                           |               | 194,882                           | 21,346                                    | (216,228)           |                     |

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|                                                                         |            |            |            |              |            |
|-------------------------------------------------------------------------|------------|------------|------------|--------------|------------|
| Total current liabilities                                               | 5,688      | 248,972    | 56,702     | (216,228)    | 95,134     |
| Long-term debt less current<br>portion and net of unacreted<br>discount | 207,504    | 3,466      | 2,213      |              | 213,183    |
| Deferred income taxes                                                   |            | 13,812     | 3,357      |              | 17,169     |
| Pension liabilities                                                     |            | 5,258      | 3,100      |              | 8,358      |
| Long-term taxes payable                                                 |            | 8,883      |            |              | 8,883      |
| Other long-term liabilities                                             |            | 773        | 119        |              | 892        |
| Total stockholders' equity                                              | 161,619    | 66,212     | 86,174     | (152,386)    | 161,619    |
| Total liabilities and stockholders<br>equity                            | \$ 374,811 | \$ 347,376 | \$ 151,665 | \$ (368,614) | \$ 505,238 |

**Table of Contents**

**ALTRA HOLDINGS, INC.**  
**Notes to Unaudited Condensed Consolidated Interim Financial Statements**  
**Amounts in thousands, unless otherwise noted**  
**Condensed Consolidating Balance Sheet**  
**December 31, 2009**

|                                                            | <b>Issuer</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|------------------------------------------------------------|---------------|-----------------------------------|-------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                              |               |                                   |                                           |                     |                     |
| Current assets:                                            |               |                                   |                                           |                     |                     |
| Cash and cash equivalents                                  | \$ 1          | \$ 19,744                         | \$ 31,752                                 | \$                  | \$ 51,497           |
| Trade receivables, less<br>allowance for doubtful accounts |               | 33,966                            | 18,889                                    |                     | 52,855              |
| Loans receivable from related<br>parties                   | 214,583       |                                   |                                           | (214,583)           |                     |
| Inventories                                                |               | 50,931                            | 20,922                                    |                     | 71,853              |
| Deferred income taxes                                      |               | 9,087                             | 178                                       |                     | 9,265               |
| Assets held for sale                                       |               |                                   |                                           |                     |                     |
| Income tax receivable                                      | 1,192         | 3,308                             | 254                                       |                     | 4,754               |
| Prepaid expenses and other<br>current assets               |               | 2,309                             | 1,338                                     |                     | 3,647               |
| Total current assets                                       | 215,776       | 119,345                           | 73,333                                    | (214,583)           | 193,871             |
| Property, plant and equipment,<br>net                      |               | 74,559                            | 31,044                                    |                     | 105,603             |
| Intangible assets, net                                     |               | 58,392                            | 16,513                                    |                     | 74,905              |
| Goodwill                                                   |               | 58,015                            | 20,817                                    |                     | 78,832              |
| Deferred income taxes                                      |               |                                   | 679                                       |                     | 679                 |
| Investment in subsidiaries                                 | 125,792       |                                   |                                           | (125,792)           |                     |
| Other non-current assets                                   | 6,394         | 4,816                             | 99                                        |                     | 11,309              |
| Total assets                                               | \$ 347,962    | \$ 315,127                        | \$ 142,485                                | \$ (340,375)        | \$ 465,199          |
| <b>LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b>            |               |                                   |                                           |                     |                     |
| Current liabilities:                                       |               |                                   |                                           |                     |                     |
| Accounts payable                                           | \$ 76         | \$ 18,156                         | \$ 9,189                                  | \$                  | \$ 27,421           |
| Accrued payroll                                            |               | 7,415                             | 4,718                                     |                     | 12,133              |
| Accruals and other current<br>liabilities                  | 1,659         | 10,711                            | 7,601                                     |                     | 19,971              |
| Deferred income taxes                                      |               |                                   | 7,275                                     |                     | 7,275               |
| Current portion of long-term<br>debt                       |               | 650                               | 409                                       |                     | 1,059               |
| Loans payable to related parties                           |               | 187,611                           | 26,972                                    | (214,583)           |                     |

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|                                                                                      |            |            |            |              |            |
|--------------------------------------------------------------------------------------|------------|------------|------------|--------------|------------|
| Total current liabilities                                                            | 1,735      | 224,543    | 56,164     | (214,583)    | 67,859     |
| Long-term debt less current<br>portion and net of unaccreted<br>discount and premium | 207,284    | 6,267      | 2,939      |              | 216,490    |
| Deferred income taxes                                                                |            | 17,876     | 3,175      |              | 21,051     |
| Pension liabilities                                                                  |            | 6,633      | 3,229      |              | 9,862      |
| Long-term taxes payables                                                             |            | 9,661      |            |              | 9,661      |
| Other long-term liabilities                                                          |            | 1,177      | 156        |              | 1,333      |
| Total stockholders' equity                                                           | 138,943    | 48,970     | 76,822     | (125,792)    | 138,943    |
| Total liabilities and stockholders<br>equity                                         | \$ 347,962 | \$ 315,127 | \$ 142,485 | \$ (340,375) | \$ 465,199 |

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

| <b>Year to Date Ended October 2, 2010</b>       |               |                                   |                                       |                     |                     |
|-------------------------------------------------|---------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
|                                                 | <b>Issuer</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Net sales                                       | \$            | \$ 293,134                        | \$ 125,836                            | \$ (29,346)         | \$ 389,624          |
| Cost of sales                                   |               | 215,547                           | 87,252                                | (29,346)            | 273,453             |
| Gross profit                                    |               | 77,587                            | 38,584                                |                     | 116,171             |
| Selling, general and<br>administrative expenses | 46            | 44,916                            | 21,029                                |                     | 65,991              |
| Research and development<br>expenses            |               | 3,091                             | 2,065                                 |                     | 5,156               |
| Restructuring costs                             |               | 1,207                             | 991                                   |                     | 2,198               |
| Income (loss) from operations                   | (46)          | 28,373                            | 14,499                                |                     | 42,826              |
| Interest expense, net                           | 13,526        | 1,083                             | 125                                   |                     | 14,734              |
| Other non-operating expense,<br>net             |               | 764                               | (14)                                  |                     | 750                 |
| Equity in earnings of<br>subsidiaries           | 26,594        |                                   |                                       | (26,594)            |                     |
| Income before income taxes                      | 13,022        | 26,526                            | 14,388                                | (26,594)            | 27,342              |
| Provision (benefit) for income<br>taxes         | (6,130)       | 9,284                             | 5,036                                 |                     | 8,190               |
| Net income                                      | \$ 19,152     | \$ 17,242                         | \$ 9,352                              | \$ (26,594)         | \$ 19,152           |

**Unaudited Condensed Consolidating Statement of Income**

| <b>Year to Date Ended September 26, 2009</b>     |               |                                   |                                       |                     |                     |
|--------------------------------------------------|---------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
|                                                  | <b>Issuer</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| 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<br>administrative expenses  |               | 38,145                            | 22,826                                |                     | 60,971              |
| Research and development<br>expenses             |               | 2,872                             | 1,697                                 |                     | 4,569               |
| Other post employment benefit<br>plan settlement |               | (1,467)                           |                                       |                     | (1,467)             |
| Restructuring costs                              |               | 3,122                             | 2,238                                 |                     | 5,360               |
| Loss on disposal of assets                       |               | 120                               | 396                                   |                     | 516                 |

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|                                      |        |          |          |          |        |        |
|--------------------------------------|--------|----------|----------|----------|--------|--------|
| 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 (loss)                    | \$ 300 | \$ (880) | \$ 1,180 | \$ (300) | \$ 300 |        |

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

|                                                 |               | <b>Quarter Ended October 2, 2010</b> |                                       |                     |                     |
|-------------------------------------------------|---------------|--------------------------------------|---------------------------------------|---------------------|---------------------|
|                                                 | <b>Issuer</b> | <b>Guarantor<br/>Subsidiaries</b>    | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Net sales                                       | \$            | \$ 96,652                            | \$ 42,156                             | \$ (9,878)          | \$ 128,930          |
| Cost of sales                                   |               | 70,207                               | 29,960                                | (9,878)             | 90,289              |
| Gross profit                                    |               | 26,445                               | 12,196                                |                     | 38,641              |
| Selling, general and<br>administrative expenses |               | 15,702                               | 7,102                                 |                     | 22,804              |
| Research and development<br>expenses            |               | 1,043                                | 703                                   |                     | 1,746               |
| Restructuring costs                             |               | 229                                  | 281                                   |                     | 510                 |
| Income from operations                          |               | 9,471                                | 4,110                                 |                     | 13,581              |
| Interest expense, net                           | 4,465         | 359                                  | 14                                    |                     | 4,838               |
| Other non-operating<br>(income) expense, net    |               | 638                                  | (910)                                 |                     | (272)               |
| Equity in earnings of<br>subsidiaries           | 8,762         |                                      |                                       | (8,762)             |                     |
| Income before income taxes                      | 4,297         | 8,474                                | 5,006                                 | (8,762)             | 9,015               |
| Provision (benefit) for income<br>taxes         | (2,277)       | 2,966                                | 1,752                                 |                     | 2,441               |
| Net income                                      | \$ 6,574      | \$ 5,508                             | \$ 3,254                              | \$ (8,762)          | \$ 6,574            |

**Unaudited Condensed Consolidating Statement of Income**

|                                                 |               | <b>Quarter Ended September 26, 2009</b> |                                       |                     |                     |
|-------------------------------------------------|---------------|-----------------------------------------|---------------------------------------|---------------------|---------------------|
|                                                 | <b>Issuer</b> | <b>Guarantor<br/>Subsidiaries</b>       | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| 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<br>administrative expenses |               | 11,885                                  | 7,405                                 |                     | 19,290              |
| Research and development<br>expenses            |               | 909                                     | 599                                   |                     | 1,508               |
| Restructuring costs                             |               | 983                                     | 23                                    |                     | 1,006               |
| Loss on disposal of assets                      |               | 120                                     | 396                                   |                     | 516                 |
| Income from operations                          |               | 4,509                                   | 1,743                                 |                     | 6,252               |
| Interest expense, net                           |               | 6,290                                   |                                       |                     | 6,290               |

|                                              |        |          |          |          |        |       |
|----------------------------------------------|--------|----------|----------|----------|--------|-------|
| Other non-operating<br>(income) expense, net |        | 180      |          | (551)    |        | (371) |
| Equity in earnings of<br>subsidiaries        | 648    |          |          |          | (648)  |       |
| Income (loss) before income<br>taxes         | 648    | (1,961)  |          | 2,294    | (648)  | 333   |
| Provision (benefit) for income<br>taxes      |        | (1,310)  |          | 995      |        | (315) |
| Net income (loss)                            | \$ 648 | \$ (651) | \$ 1,299 | \$ (648) | \$ 648 |       |

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

|                                                        | <b>Year to Date Ended October 2, 2010</b> |                                   |                                       |                     |                     |          |
|--------------------------------------------------------|-------------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|----------|
|                                                        | <b>Issuer</b>                             | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |          |
| <b>Cash flows from operating activities</b>            |                                           |                                   |                                       |                     |                     |          |
| Net income                                             | \$ 19,152                                 | \$ 17,242                         | \$ 9,352                              | \$ (26,594)         | \$ 19,152           |          |
| Undistributed equity in earnings of subsidiaries       | (26,594)                                  |                                   |                                       | 26,594              |                     |          |
| Adjustments to reconcile net income to net cash flows: |                                           |                                   |                                       |                     |                     |          |
| Depreciation                                           |                                           | 9,521                             | 2,794                                 |                     |                     | 12,315   |
| Amortization of intangible assets                      |                                           | 3,046                             | 667                                   |                     |                     | 3,713    |
| Amortization and write-offs of deferred loan costs     | 536                                       |                                   |                                       |                     |                     | 536      |
| Loss on foreign currency, net                          |                                           |                                   | 270                                   |                     |                     | 270      |
| Accretion of debt discount                             | 225                                       |                                   |                                       |                     |                     | 225      |
| Loss on disposal of assets                             |                                           | 92                                | 349                                   |                     |                     | 441      |
| Stock-based compensation                               |                                           | 1,670                             |                                       |                     |                     | 1,670    |
| Changes in assets and liabilities:                     |                                           |                                   |                                       |                     |                     |          |
| Trade receivables                                      |                                           | (11,409)                          | (7,389)                               |                     |                     | (18,798) |
| Inventories                                            |                                           | (5,148)                           | (3,539)                               |                     |                     | (8,687)  |
| Accounts payable and accrued liabilities               | 5,145                                     | 15,287                            | 6,997                                 |                     |                     | 27,429   |
| Other current assets and liabilities                   |                                           | (352)                             | (400)                                 |                     |                     | (752)    |
| Other operating assets and liabilities                 |                                           | (86)                              | (100)                                 |                     |                     | (186)    |
| Net cash provided by operating activities              | (1,536)                                   | 29,863                            | 9,001                                 |                     |                     | 37,328   |
| <b>Cash flows used in investing activities</b>         |                                           |                                   |                                       |                     |                     |          |
| Purchase of fixed assets                               |                                           | (10,570)                          | (2,155)                               |                     |                     | (12,725) |
| Contingent consideration payment                       |                                           | (645)                             | (532)                                 |                     |                     | (1,177)  |
| Net cash used in investing activities                  |                                           | (11,215)                          | (2,687)                               |                     |                     | (13,902) |

**Cash flows from financing activities**

|                                                              |       |           |           |    |           |
|--------------------------------------------------------------|-------|-----------|-----------|----|-----------|
| Payment of debt issuance costs                               | (265) |           |           |    | (265)     |
| Shares surrendered for tax withholdings                      | (854) |           |           |    | (854)     |
| Payments on mortgages                                        |       |           | (481)     |    | (481)     |
| Change in affiliate debt                                     | 2,654 | 1,361     | (4,015)   |    |           |
| Payment on capital leases                                    |       | (470)     | (93)      |    | (563)     |
| Net cash provided by (used in) financing activities          | 1,535 | 891       | (4,589)   |    | (2,163)   |
| Effect of exchange rate changes on cash and cash equivalents |       |           | (599)     |    | (599)     |
| Net change in cash and cash equivalents                      | (1)   | 19,539    | 1,126     |    | 20,664    |
| Cash and cash equivalents at beginning of year               | 1     | 19,744    | 31,752    |    | 51,497    |
| Cash and cash equivalents at end of period                   | \$    | \$ 39,283 | \$ 32,878 | \$ | \$ 72,161 |

**Table of Contents****ALTRA HOLDINGS, INC.****Notes to Unaudited Condensed Consolidated Interim Financial Statements****Amounts in thousands, unless otherwise noted****Unaudited Condensed Consolidating Statement of Cash Flows****Year to Date Ended September 26, 2009**

|                                                               | <b>Issuer</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------------|---------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| <b>Cash flows from operating activities</b>                   |               |                                   |                                       |                     |                     |
| Net income (loss)                                             | \$ 300        | \$ (880)                          | \$ 1,180                              | \$ (300)            | \$ 300              |
| Undistributed equity in earnings of subsidiaries              | (300)         |                                   |                                       | 300                 |                     |
| Adjustments to reconcile net income (loss) to net cash flows: |               |                                   |                                       |                     |                     |
| Depreciation                                                  |               | 9,065                             | 3,482                                 |                     | 12,547              |
| Amortization of intangibles and deferred loan costs           |               | 4,659                             | 1,038                                 |                     | 5,697               |
| Gain on foreign currency, net                                 |               | 270                               | 822                                   |                     | 1,092               |
| Accretion of debt discount and premium, net                   |               | 621                               |                                       |                     | 621                 |
| Fixed asset impairment/disposal                               |               | 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 provided by operating activities                     |               | 38,685                            | 13,369                                |                     | 52,054              |
| <b>Cash flows from investing activities</b>                   |               |                                   |                                       |                     |                     |
| Purchase of fixed assets                                      |               | (4,224)                           | (881)                                 |                     | (5,105)             |
| Net cash used in investing activities                         |               | (4,224)                           | (881)                                 |                     | (5,105)             |
| <b>Cash flows from financing activities</b>                   |               |                                   |                                       |                     |                     |

|                                                                |       |           |           |         |       |          |
|----------------------------------------------------------------|-------|-----------|-----------|---------|-------|----------|
| Payments on 11 1/4% Senior Notes                               |       | (4,950)   |           |         |       | (4,950)  |
| Payments on 9% Senior Secured Notes                            |       | (22,200)  |           |         |       | (22,200) |
| Payments on Revolving Credit Agreement                         |       | (3,000)   |           |         |       | (3,000)  |
| Proceeds from additional borrowings under an existing mortgage |       |           |           | 1,467   |       | 1,467    |
| Shares surrendered for tax withholdings                        | (259) |           |           |         |       | (259)    |
| Net payments to Parent                                         |       | (259)     |           |         | 259   |          |
| Payments on capital leases                                     |       | (478)     |           | (136)   |       | (614)    |
| Payments on mortgages                                          |       |           |           | (524)   |       | (524)    |
| Change in affiliate debt                                       | 259   | 7,608     | (7,608)   |         | (259) |          |
| Net cash used in 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   |

### 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 the date the financial statements were issued.

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which reflect the Company's current estimates, expectations and projections about the Company's future results, performance, prospects and opportunities. Forward-looking statements include, among other things, the information concerning the Company's possible future results of operations including revenue, costs of goods sold, 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;

the Company's ability to implement the 2009 Altra Plan to improve operational efficiency;

the Company's ability to manage expenses associated with the consolidation of facilities;

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;

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 could result in the impairment of goodwill or other assets of the Company;

changes in market conditions in which we operate that could 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;

**Table of Contents**

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, 2009.

**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, 2009, 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. and its subsidiaries should be read together with the audited financial statements of Altra Holdings, Inc. and its subsidiaries and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Unless the context requires otherwise, the terms Altra Holdings, the Company, we, us, and our refer to Altra Holdings, Inc. and its subsidiaries.*

**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:

## **Table of Contents**

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, then the largest stockholder of Altra Holdings, acquired Kilian Manufacturing Corporation from Timken U.S. Corporation. At the completion of the PTH Acquisition, (i) all of the outstanding shares of Kilian capital stock were exchanged for shares of our capital stock and (ii) Kilian and its subsidiaries were transferred to Altra Industrial.

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

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

On April 5, 2007, the Company acquired all of the outstanding shares of TB Woods Corporation, or TB Woods. TB Woods 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, a manufacturer of universal joints.

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

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

While the power transmission industry has undergone some consolidation, we estimate that in 2009 the top five broad-based MPT companies represented approximately 21% of the U.S. power transmission market. The remainder of the power transmission industry remains fragmented with many small and family-owned companies that cater to a specific market niche often due to their narrow product offerings. We believe that consolidation in our industry will continue because of the increasing demand for global distribution channels, broader product mixes and better brand recognition to compete in this industry.

**Table of Contents**

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

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

Our Internet address is [www.altramotion.com](http://www.altramotion.com). By following the link Investor Relations and then SEC filings on our Internet website, we make available, free of charge, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act ) as soon as reasonably practicable after such forms are filed with or furnished to the 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. In the last quarter of 2010, we expect to continue to focus on the execution of our long-term growth strategy, and will also continue to focus on executing on plant consolidations and maintaining a reduced cost base. Among other items, we expect our growth initiatives in 2010 will continue to include investing in organic growth, seeking strategic acquisitions, targeting key underpenetrated geographic regions, entering new high-growth markets, enhancing our efficiency and productivity through the Altra Business System and focusing on the development of our people and processes.

During 2010, while it appears that inventory reduction efforts previously executed by our customers have declined significantly, it does not appear that our customers are building inventory. As a result, we believe the majority of our sales increase was due to improvement in end market demand.

**Critical Accounting Policies**

The preparation of our condensed consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect our reported amounts of assets, revenues and expenses, as well as related disclosure of contingent assets and liabilities. We base our estimates on past experiences and other assumptions we believe to be appropriate, and we evaluate these estimates on an on-going basis. Management believes there have been no significant changes in our critical accounting policies since December 31, 2009. See the discussion of critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2009.



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

|                                                    | <b>Quarter Ended</b> |                  | <b>Year to Date Ended</b> |                  |
|----------------------------------------------------|----------------------|------------------|---------------------------|------------------|
|                                                    | <b>October 2,</b>    | <b>September</b> | <b>October 2,</b>         | <b>September</b> |
| (In thousands, except per share data)              | <b>2010</b>          | <b>26,</b>       | <b>2010</b>               | <b>26,</b>       |
|                                                    |                      | <b>2009</b>      |                           | <b>2009</b>      |
| Net sales                                          | \$ 128,930           | \$ 104,766       | \$ 389,624                | \$ 341,183       |
| Cost of sales                                      | 90,289               | 76,194           | 273,453                   | 250,950          |
| Gross profit                                       | 38,641               | 28,572           | 116,171                   | 90,233           |
| <i>Gross profit percentage</i>                     | 29.97%               | 27.27%           | 29.82%                    | 26.45%           |
| Selling, general and administrative expenses       | 22,804               | 19,290           | 65,991                    | 60,971           |
| Research and development expenses                  | 1,746                | 1,508            | 5,156                     | 4,569            |
| Other post employment benefit plan settlement gain |                      |                  |                           | (1,467)          |
| Restructuring costs                                | 510                  | 1,006            | 2,198                     | 5,360            |
| Loss on disposal of assets                         |                      | 516              |                           | 516              |
| Income from operations                             | 13,581               | 6,252            | 42,826                    | 20,284           |
| Interest expense, net                              | 4,838                | 6,290            | 14,734                    | 18,879           |
| Other non-operating (income) expense, net          | (272)                | (371)            | 750                       | 1,248            |
| Income before income taxes                         | 9,015                | 333              | 27,342                    | 157              |
| Provision (benefit) for income taxes               | 2,441                | (315)            | 8,190                     | (143)            |
| Net income                                         | \$ 6,574             | \$ 648           | \$ 19,152                 | \$ 300           |

***Quarter Ended October 2, 2010 compared with Quarter Ended September 26, 2009***  
***(Amounts in thousands unless otherwise noted)***

|                  | <b>October 2,</b> | <b>Quarter Ended</b> |               |          |
|------------------|-------------------|----------------------|---------------|----------|
|                  | <b>2010</b>       | <b>September 26,</b> | <b>Change</b> | <b>%</b> |
|                  |                   | <b>2009</b>          |               |          |
| <i>Net sales</i> | \$ 128,930        | \$ 104,766           | \$ 24,164     | 23.1%    |

The majority of the increase in sales during the third quarter of 2010 is due to improvements in the end markets we serve. We expect that demand at our early-cycle markets will remain strong and that we will continue to see improvement from most of our late-cycle markets during the remainder of 2010. Had the 2010 foreign exchange rates remained constant when compared to 2009, sales would have increased \$25.6 million or 24.5%. We expect to see continued increases in sales in 2010 compared to 2009, and expect the run rate for the fourth quarter of 2010 to be consistent with the third quarter 2010.

|                                           | <b>October 2,</b> | <b>Quarter Ended</b> |               |          |
|-------------------------------------------|-------------------|----------------------|---------------|----------|
|                                           | <b>2010</b>       | <b>September 26,</b> | <b>Change</b> | <b>%</b> |
|                                           |                   | <b>2009</b>          |               |          |
| <i>Gross Profit</i>                       | \$ 38,641         | \$ 28,572            | \$ 10,069     | 35.2%    |
| <i>Gross Profit as a percent of sales</i> | 30.0%             | 27.3%                |               |          |

The increase in gross profit as a percentage of sales was primarily due to cost saving measures put into place in 2009, productivity improvements we have implemented, as well as better overhead absorption as a result of higher production levels. Had the 2010 foreign exchange rates remained constant when compared to 2009, gross profit would have increased \$10.5 million or 36.7%. We expect our full year 2010 gross profit as a percentage of sales to increase when compared to 2009.

**Table of Contents**

|                                                    | <b>October 2,<br/>2010</b> | <b>Quarter Ended<br/>September<br/>26,<br/>2009</b> | <b>Change</b> | <b>%</b> |
|----------------------------------------------------|----------------------------|-----------------------------------------------------|---------------|----------|
| <i>Selling, general and administrative expense</i> |                            |                                                     |               |          |
| ( SG&A )                                           | \$ 22,804                  | \$ 19,290                                           | \$ 3,514      | 18.2%    |
| <i>SG&amp;A as a percent of sales</i>              | 17.7%                      | 18.4%                                               |               |          |

SG&A increased due to the reinstatement of certain employee benefits that were temporarily suspended during 2009 and the unfavorable impact of changes in foreign currency exchange rates. However due to our cost reduction efforts in 2009 that were focused on headcount reductions and the elimination of non-critical expenses, SG&A as a percentage of sales decreased in the third quarter of 2010 when compared to 2009. During the remainder of 2010, we expect to maintain our SG&A costs through plant consolidations, as well as a focus on maintaining our reduced cost base, offset by the reintroduction of certain temporarily suspended employee benefits.

|                               | <b>October 2,<br/>2010</b> | <b>Quarter Ended<br/>September<br/>26,<br/>2009</b> | <b>Change</b> | <b>%</b> |
|-------------------------------|----------------------------|-----------------------------------------------------|---------------|----------|
| <i>Restructuring expenses</i> | \$ 510                     | \$ 1,006                                            | \$ (496)      | -49.3%   |

In March 2009, we adopted a new restructuring plan (the 2009 Altra Plan ) to continue to improve the utilization of our manufacturing infrastructure and to realign our business with the current economic conditions. We expect the 2009 Altra Plan to improve operational efficiency by consolidating certain facilities. During the third quarter 2010, we recorded \$0.5 million of restructuring expenses, of which \$0.2 million was related to severance, and \$0.3 million was related to other restructuring charges, (primarily moving and relocation costs). We expect to incur between \$0.3 million and \$0.5 million of additional expenses associated with the consolidation of facilities in 2010.

|                              | <b>October 2,<br/>2010</b> | <b>Quarter Ended<br/>September<br/>26,<br/>2009</b> | <b>Change</b> | <b>%</b> |
|------------------------------|----------------------------|-----------------------------------------------------|---------------|----------|
| <i>Interest Expense, net</i> | \$ 4,838                   | \$ 6,290                                            | \$ (1,452)    | -23.1%   |

Net interest expense decreased due to the lower average outstanding balance of debt in 2010 resulting in a reduction of interest expense and due to the impact of a lower interest rate as a result of our refinancing in late 2009.

|                                        | <b>October 2,<br/>2010</b> | <b>Quarter Ended<br/>September<br/>26,<br/>2009</b> | <b>Change</b> | <b>%</b> |
|----------------------------------------|----------------------------|-----------------------------------------------------|---------------|----------|
| <i>Other non-operating income, net</i> | \$ (272)                   | \$ (371)                                            | \$ 99         | -26.7%   |

**Table of Contents**

Other non-operating income in each period relates primarily to changes in foreign currency, primarily the British Pound Sterling and Euro.

|                                                                                                      | <b>October 2,<br/>2010</b> | <b>Quarter Ended<br/>September<br/>26,<br/>2009</b> | <b>Change</b> | <b>%</b> |
|------------------------------------------------------------------------------------------------------|----------------------------|-----------------------------------------------------|---------------|----------|
| <i>Provision (benefit) for income taxes</i>                                                          | \$ 2,441                   | \$ (315)                                            | \$ 2,756      | -874.9%  |
| <i>Provision (benefit) for income taxes as a % of<br/>income from operations before income taxes</i> | 27.1%                      | -94.6%                                              |               |          |

The 2010 provision for income taxes, as a percentage of income before taxes, was higher than that of 2009, primarily due to increased overall profitability in 2010. Additionally, during the third quarter of 2009, the Company negotiated an agreement with a foreign taxing authority allowing the Company to fully deduct certain interest charges. The Company recorded a cumulative adjustment for the increased interest deduction during the third quarter of 2009. During 2010, the interest benefit is being recognized ratably throughout the year.

In addition, the Company recorded discrete tax benefits in the third quarter of 2010 for a reduction in deferred tax liabilities due to a decrease in the tax rate in certain foreign jurisdictions and a reduction in the unrecognized tax benefits due to expiration of certain statute of limitations. Collectively, the impact of these discrete items decreased the Company's effective tax rate by 6.0%.

***Year to Date Period Ended October 2, 2010 compared with the Year to Date Period Ended September 26, 2009  
(Amounts in thousands unless otherwise noted)***

|                  | <b>October 2,<br/>2010</b> | <b>Year to Date Period Ended<br/>September 26,<br/>2009</b> | <b>Change</b> | <b>%</b> |
|------------------|----------------------------|-------------------------------------------------------------|---------------|----------|
| <i>Net sales</i> | \$ 389,624                 | \$ 341,183                                                  | \$ 48,441     | 14.2%    |

The majority of the increase in sales during 2010 is due to improvements in the end markets we serve. We expect that demand at our early-cycle markets will remain strong and that we will continue to see improvement from most of our late-cycle markets during the remainder of 2010. Had the 2010 foreign exchange rates remained constant when compared to 2009, sales would have increased \$47.3 million or 13.9%. We expect to see continued increases in sales for the rest of 2010 compared to 2009, consistent with the third quarter 2010 run rate.

|                                           | <b>October 2,<br/>2010</b> | <b>Year to Date Period Ended<br/>September<br/>26,<br/>2009</b> | <b>Change</b> | <b>%</b> |
|-------------------------------------------|----------------------------|-----------------------------------------------------------------|---------------|----------|
| <i>Gross Profit</i>                       | \$ 116,171                 | \$ 90,233                                                       | \$ 25,938     | 28.7%    |
| <i>Gross Profit as a percent of sales</i> | 29.8%                      | 26.4%                                                           |               |          |

**Table of Contents**

The increase in gross profit as a percentage of sales was primarily due to our cost saving measures put into place in 2009 and productivity improvements we have implemented, as well as better overhead absorption as a result of higher production levels. In 2009, we recorded a \$2.2 million adjustment to inventory due to the economic downturn. Had the 2010 foreign exchange rates remained constant when compared to 2009, gross profit would have increased \$25.7 million or 28.4%. We expect our full year 2010 gross profit as a percentage of sales to increase when compared to 2009.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <b>Year to Date Period Ended</b> |                  |               |          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|------------------|---------------|----------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <b>October 2,</b>                | <b>September</b> |               |          |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <b>2010</b>                      | <b>26,</b>       | <b>Change</b> | <b>%</b> |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                  | <b>2009</b>      |               |          |
| <i>Selling, general and administrative expense</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                  |                  |               |          |
| ( SG&A )                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | \$ 65,991                        | \$ 60,971        | \$ 5,020      | 8.2%     |
| SG&A as a percent of sales                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 16.9%                            | 17.9%            |               |          |
| SG&A increased due to the reinstatement of certain employee benefits that were temporarily suspended during 2009 and the unfavorable impact of changes in foreign currency exchange rates. However, due to our cost reduction efforts in 2009 that were focused on headcount reductions and the elimination of non-critical expenses, SG&A as a percentage of sales decreased in the year to date period ended October 2, 2010 when compared to the year to date period ended September 26, 2009. During the remainder of 2010, we expect to maintain our SG&A costs through plant consolidations, as well as a focus on maintaining our reduced cost base, offset by the reintroduction of certain temporarily suspended employee benefits. |                                  |                  |               |          |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>Year to Date Period Ended</b> |                  |               |          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|------------------|---------------|----------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>October 2,</b>                | <b>September</b> |               |          |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>2010</b>                      | <b>26,</b>       | <b>Change</b> | <b>%</b> |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                  | <b>2009</b>      |               |          |
| <i>Restructuring expenses</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | \$ 2,198                         | \$ 5,360         | \$ (3,162)    | -59.0%   |
| In March 2009, we adopted the 2009 Altra Plan to continue to improve the utilization of our manufacturing infrastructure and to realign our business with the current economic conditions. We expect the 2009 Altra Plan to improve operational efficiency by consolidating certain facilities. During the year to date period ending October 2, 2010, we recorded \$2.2 million of restructuring expenses, of which \$1.2 million was related to severance, \$0.8 million was related to other restructuring charges, (primarily moving and relocation costs) and \$0.2 million related to non-cash impairment charges. We expect to incur between \$0.3 million and \$0.5 million of additional expenses associated with consolidation of facilities in the remainder of 2010. |                                  |                  |               |          |

|                              | <b>Year to Date Period Ended</b> |                  |               |          |
|------------------------------|----------------------------------|------------------|---------------|----------|
|                              | <b>October 2,</b>                | <b>September</b> |               |          |
|                              | <b>2010</b>                      | <b>26,</b>       | <b>Change</b> | <b>%</b> |
|                              |                                  | <b>2009</b>      |               |          |
| <i>Interest Expense, net</i> | \$ 14,734                        | \$ 18,879        | \$ (4,145)    | -22.0%   |

**Table of Contents**

Net interest expense decreased due to the lower average outstanding balance of debt in 2010 resulting in a reduction of interest expense and due to the impact of a lower interest rate as a result of our refinancing in late 2009.

|                                                                                                                                          | Year to Date Period Ended |           |          |      |
|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------|----------|------|
|                                                                                                                                          | October 2,                | September |          |      |
|                                                                                                                                          | 2010                      | 26,       | Change   | %    |
|                                                                                                                                          |                           | 2009      |          |      |
| <i>Other non-operating loss</i>                                                                                                          | \$ 750                    | \$ 1,248  | \$ (498) | -40% |
| Other non-operating loss in each period primarily relates to changes in foreign currency, primarily the British Pound Sterling and Euro. |                           |           |          |      |

|                                                                                                  | Year to Date Period Ended |           |          |        |
|--------------------------------------------------------------------------------------------------|---------------------------|-----------|----------|--------|
|                                                                                                  | October 2,                | September |          |        |
|                                                                                                  | 2010                      | 26,       | Change   | %      |
|                                                                                                  |                           | 2009      |          |        |
| <i>Provision (benefit) for income taxes</i>                                                      | \$ 8,190                  | \$ (143)  | \$ 8,333 | -5827% |
| <i>Provision (benefit) for income taxes as a % of income from operations before income taxes</i> | 30.0%                     | -91.1%    |          |        |

The 2010 provision for income taxes, as a percentage of income before taxes, was higher than that of 2009, primarily due to increased profitability in 2010. Additionally, during the third quarter of 2009, the Company negotiated an agreement with a foreign taxing authority allowing the Company to fully deduct certain interest charges. The effect of the tax benefit on the rate in 2009 is greater than 2010 due to lower pre-tax income in 2009. In 2009, the Company also benefitted from the research and development tax credit in the United States which expired at the end of 2009. In addition, the Company recorded discrete tax benefits in the third quarter of 2010 for a reduction in deferred tax liabilities due to a decrease in the tax rate in certain foreign jurisdictions, a reduction in the unrecognized tax benefits due to expiration of certain statute of limitations and, a reversal of a valuation allowance. Collectively, the impact of these discrete items decreased the Company's effective tax rate by 5.0%.

**Liquidity and Capital Resources*****Overview***

We finance our capital and working capital requirements through a combination of cash flows from operating activities and borrowings under our senior secured revolving credit facility ( "Revolving Credit Agreement" ). We expect that our primary ongoing requirements for cash will be for working capital, debt service, capital expenditures, acquisitions and pension plan funding. In the event additional funds are needed, we could borrow additional funds under our Revolving Credit Agreement, or attempt to raise capital in the equity and debt markets. Presently, we have capacity under our Revolving Credit Agreement to borrow up to approximately \$50.0 million, based on monthly asset collateral calculations, including letters of credit of which we currently have \$9.4 million outstanding. Of this total capacity, we can currently borrow up to an additional \$28.1 million without being required to comply with any financial covenants under the agreement. There can be no assurance however that additional debt financing will be available on commercially acceptable terms, if at all. Similarly, there can be no assurance that equity financing will be available on commercially acceptable terms, if at all.

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

|                                    | <b>Amounts in millions</b> |                              |
|------------------------------------|----------------------------|------------------------------|
|                                    | <b>October 2,<br/>2010</b> | <b>December 31,<br/>2009</b> |
| Debt:                              |                            |                              |
| Revolving Credit Agreement         | \$                         | \$                           |
| Senior Secured Notes               | 210.0                      | 210.0                        |
| Variable rate demand revenue bonds | 5.3                        | 5.3                          |
| Mortgages                          | 2.5                        | 3.1                          |
| Capital leases                     | 1.2                        | 1.8                          |
| Total Debt                         | \$ 219.0                   | \$ 220.2                     |

***Senior Secured Notes***

In November 2009, the Company issued \$210 million of 8<sup>1</sup>/<sub>8</sub>% Senior Secured Notes (the "Senior Secured Notes"). The Senior Secured Notes are guaranteed by the Company's U.S. domestic subsidiaries and are secured by a second priority lien, subject to first priority liens securing our Revolving Credit Agreement, on substantially all of our assets and those of our domestic subsidiaries. Interest on the Senior Secured Notes is payable in arrears, semiannually on June 1 and December 1 of each year, commencing on June 1, 2010. The indenture governing the Senior Secured Notes contains covenants which restrict the Company and our subsidiaries. These restrictions limit or prohibit, among other things, the ability to incur additional indebtedness; repay subordinated indebtedness prior to stated maturities; pay dividends on or redeem or repurchase stock or make other distributions; make investments or acquisitions; sell certain assets or merge with or into other companies; sell stock in our subsidiaries; and create liens on their assets. We were in compliance in all material respects with all covenants of the indenture governing the Senior Secured Notes at October 2, 2010.

***Exchange Offer***

On June 28, 2010, the Company commenced an exchange offer to exchange registered notes in denominations of \$2,000 and integral multiples of \$1,000 principal amount of 8 1/8% Senior Secured Notes due 2016, which have been registered under the Securities Act of 1933, as amended (the "Registered Senior Secured Notes"), for Senior Secured Notes in denominations of \$2,000 and integral multiples of \$1,000 principal amount of unregistered Senior Secured Notes that were issued in the November, 2009 issuance. The form and terms of the Registered Senior Secured Notes are identical in all material respects to the form and terms of the Senior Secured Notes, except for transfer restrictions, registration rights and additional interest payment provisions relating only to the Senior Secured Notes. The exchange offer expired at 5:00 p.m., New York City time, on July 27, 2010 and, as of that date and time, all of the outstanding unregistered Senior Secured Notes had been exchanged for Registered Senior Secured Notes.

***Senior Secured Credit Facility***

Concurrently with the closing of the offering of the Senior Secured Notes, Altra Industrial entered into the Revolving Credit Agreement, which provides for borrowing capacity in an initial amount of up to \$50.0 million (subject to adjustment pursuant to a borrowing base and subject to increase from time to time in accordance with the terms of the credit facility). The Revolving Credit Agreement replaced Altra Industrial's then existing senior secured credit facility and the TB Wood's existing credit facility.

**Table of Contents**

Altra Industrial and all of its domestic subsidiaries are borrowers, or **Borrowers**, under the Revolving Credit Agreement. Certain of our existing and subsequently acquired or organized domestic subsidiaries that are not **Borrowers** do and will guarantee (on a senior secured basis) the Revolving Credit Agreement. Obligations of the other **Borrowers** under the Revolving Credit Agreement and the guarantees are secured by substantially all of **Borrowers** assets and the assets of each of our existing and subsequently acquired or organized domestic subsidiaries that is a guarantor of our obligations under the Revolving Credit Agreement (with such subsidiaries being referred to as the

U.S. subsidiary guarantors), including but not limited to: (a) a first-priority pledge of all the capital stock of subsidiaries held by **Borrowers** or any U.S. subsidiary guarantor (which pledge, in the case of any foreign subsidiary, will be limited to 100% of any non-voting stock and 65% of the voting stock of such foreign subsidiary) and (b) perfected first-priority security interests in and mortgages on substantially all tangible and intangible assets of each **Borrower** and U.S. subsidiary guarantor, including accounts receivable, inventory, equipment, general intangibles, investment property, intellectual property, certain real property, cash and proceeds of the foregoing (in each case subject to materiality thresholds and other exceptions).

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

An event of default under the Revolving Credit Agreement would also occur if an event of default occurs under the indentures governing the Senior Secured Notes or if there is a default under any other indebtedness that any **Borrower** may have involving an aggregate amount of \$10 million or more and such default: (i) occurs at final maturity of such debt, (ii) allows the lender there under to accelerate such debt or (iii) causes such debt to be required to be repaid prior to its stated maturity. An event of default would also occur under the Revolving Credit Agreement if any of the indebtedness under the Revolving Credit Agreement ceases with limited exception to be secured by a full lien of the assets of **Borrowers** and guarantors.

As of October 2, 2010, we were in compliance in all material respects with all covenant requirements associated with all of our borrowings. As of October 2, 2010, we had no borrowings and \$9.4 million in letters of credit outstanding under the Revolving Credit Agreement.

***Cash and Cash Equivalents***

|                                  | <b>October 2,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|----------------------------------|----------------------------|------------------------------|
|                                  | (in thousands)             |                              |
| <i>Cash and cash equivalents</i> | \$ 72,161                  | \$ 51,497                    |

Cash and cash equivalents increased \$20.7 million in the year to date period ended October 2, 2010.

***Cash Flows for year to date period ended October 2, 2010***

The primary source of funds provided by operating activities of \$37.3 million resulted from cash provided from: (i) net income of \$19.2 million; and (ii) the add-back of non-cash depreciation, amortization, stock-based compensation, accretion of debt discount, deferred financing costs, non-cash loss on foreign currency non-cash impairment charges totaling \$19.1 million and (iii) offset by a net increase in working capital totaling \$1.0 million. While a variety of factors can influence our ability to project future cash flow, we expect to continue to see positive cash flows from operating activities in the fourth quarter of 2010.

Net cash used in investing activities was \$13.9 million for the year to date period ended October 2, 2010. This resulted from the purchase of manufacturing equipment and investment in the Company's new global ERP system all totaling \$12.7 million and \$1.2 million of additional purchase price paid for settlement of contingent consideration related to the acquisition of Hay Hall. We expect to incur between \$3.0 million and \$5.0 million of additional capital expenses in 2010.

Net cash used by financing activities was \$2.2 million for the year to date period ended October 2, 2010. This resulted primarily from payments of capital lease obligations of \$0.6 million, \$0.5 million of payments on mortgages, \$0.2 million additional costs associated with the issuance of the Senior Secured Notes, and \$0.9 of shares surrendered for tax withholding.



**Table of Contents**

We intend to use our remaining existing cash and cash equivalents and cash flow from operations to provide for our working capital needs and to fund potential future acquisitions, debt service, capital expenditures, and pension funding. We believe our future operating cash flows will be sufficient to meet our future operating and investing cash needs. Furthermore, the existing cash balances and the availability of additional borrowings under our Revolving Credit Agreement provide additional potential sources of liquidity should they be required.

***Contractual Obligations***

There were no significant changes in our contractual obligations subsequent to December 31, 2009.

***Reconciliation of Non-GAAP Financial Measures***

As used in this report, non-GAAP sales and gross profit are each calculated using either sales or gross profit that excludes changes in foreign currency exchange rates that management does not consider to be directly related to the Company's core operating performance. Non-GAAP sales and gross profit are calculated as sales and gross profit, respectively, plus foreign currency translation loss or minus foreign currency translation gain over the applicable period. The Company believes that this presentation of non-GAAP sales and gross profit provides important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations.

The following table is a reconciliation of our sales to non-GAAP sales:

|                                                | <b>October 2,<br/>2010</b> | <b>Quarter Ended<br/>September<br/>26,<br/>2009</b> | <b>Change</b> | <b>%</b> |
|------------------------------------------------|----------------------------|-----------------------------------------------------|---------------|----------|
| <i>Net Sales</i>                               | \$ 128,930                 | \$ 104,766                                          | \$ 24,164     | 23.1%    |
| <i>Plus: Foreign Currency Translation Loss</i> | \$ 1,452                   |                                                     |               |          |
| <i>Adjusted Net Sales</i>                      | \$ 130,382                 | \$ 104,766                                          | \$ 25,616     | 24.5%    |

|                                                | <b>October 2,<br/>2010</b> | <b>Year to Date Period Ended<br/>September<br/>26,<br/>2009</b> | <b>Change</b> | <b>%</b> |
|------------------------------------------------|----------------------------|-----------------------------------------------------------------|---------------|----------|
| <i>Net Sales</i>                               | \$ 389,624                 | \$ 341,183                                                      | \$ 48,441     | 14.2%    |
| <i>Less: Foreign Currency Translation Gain</i> | \$ (1,181)                 |                                                                 |               |          |
| <i>Adjusted Net Sales</i>                      | \$ 388,443                 | \$ 341,183                                                      | \$ 47,260     | 13.9%    |

The following table is a reconciliation of our gross profit to non-GAAP gross profit:

|                                                | <b>October 2,<br/>2010</b> | <b>Quarter Ended<br/>September<br/>26,<br/>2009</b> | <b>Change</b> | <b>%</b> |
|------------------------------------------------|----------------------------|-----------------------------------------------------|---------------|----------|
| <i>Gross Profit</i>                            | \$ 38,641                  | \$ 28,572                                           | \$ 10,069     | 35.2%    |
| <i>Plus: Foreign Currency Translation Loss</i> | \$ 404                     |                                                     |               |          |
| <i>Adjusted Gross Profit</i>                   | \$ 39,045                  | \$ 28,572                                           | \$ 10,473     | 36.7%    |

|  | <b>October 2,<br/>2010</b> | <b>Year to Date Period Ended<br/>September<br/>26,<br/>2009</b> | <b>Change</b> | <b>%</b> |
|--|----------------------------|-----------------------------------------------------------------|---------------|----------|
|--|----------------------------|-----------------------------------------------------------------|---------------|----------|

|                                                |            |           |           |       |
|------------------------------------------------|------------|-----------|-----------|-------|
| <i>Gross Profit</i>                            | \$ 116,171 | \$ 90,233 | \$ 25,938 | 28.7% |
| <i>Less: Foreign Currency Translation Gain</i> | \$ (285)   |           |           |       |
| <i>Adjusted Gross Profit</i>                   | \$ 115,886 | \$ 90,233 | \$ 25,653 | 28.4% |

**Table of Contents**

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

We are exposed to various market risk factors such as fluctuating interest rates, changes in foreign currency rates, and changes in commodity prices. At present, we do not utilize any derivative instruments to manage these risks. During the reporting period, there have been no material changes to the quantitative and qualitative disclosures regarding our market risk set forth in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Item 4. Controls and Procedures**

As of October 2, 2010, our management, under the supervision and with the participation of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended or the Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed under the Exchange Act, such as this Form 10-Q, is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including the principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosures. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of October 2, 2010, our disclosure controls and procedures are effective at a reasonable assurance level.

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our fiscal quarter ended October 2, 2010, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are, from time to time, party to various legal proceedings arising out of our business. During the reporting period, there have been no material changes to the description of legal proceedings set forth in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Item 1A. Risk Factors**

The reader should carefully consider the Risk Factors described in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission. Those risk factors described elsewhere in this report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2009 are not the only ones we face, but are considered to be the most material. These risk factors could cause our actual results to differ materially from those stated in forward looking statements contained in this Form 10-Q and elsewhere. All risk factors stated in our Annual Report on Form 10-K for the year ended December 31, 2009 are incorporated herein by reference.

During the reporting period, there have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table summarizes our share repurchase activity by month for the three months ended October 2, 2010.

| <b>Period</b>                             | <b>Total Number<br/>of Shares<br/>Purchased<br/>(1)</b> | <b>Weighted<br/>Average<br/>Price Paid per<br/>Share</b> | <b>Total Number<br/>of<br/>Shares<br/>Purchased as<br/>Part of a<br/>Publicly<br/>Announced<br/>Program</b> | <b>Approximate<br/>Dollar Value<br/>of<br/>Shares that<br/>may be<br/>Purchased<br/>under<br/>the Program</b> |
|-------------------------------------------|---------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| <i>July 4, 2010 to July 31, 2010</i>      |                                                         | \$                                                       |                                                                                                             | \$                                                                                                            |
| <i>August 1, 2010 to August 28, 2010</i>  | 30,033                                                  | 14.37                                                    |                                                                                                             |                                                                                                               |
| <i>August 29, 2010 to October 2, 2010</i> | 10,908                                                  | \$ 12.87                                                 |                                                                                                             | \$                                                                                                            |

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

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

The following exhibits are filed as part of this report:

**Table of Contents**

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                  |
|---------------------------|-----------------------------------------------------------------------------------------------------|
| 3.1(1)                    | Second Amended and Restated Certificate of Incorporation of the Registrant.                         |
| 3.2(2)                    | Second Amended and Restated Bylaws of the Registrant.                                               |
| 31.1*                     | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2*                     | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1**                    | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2**                    | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

\* Filed herewith.

\*\* Furnished  
herewith.

(1) Incorporated by  
reference to  
Altra Holdings,  
Inc. s  
Registration  
Statement on  
Form S-1A, as  
amended, filed  
with the  
Securities and  
Exchange  
Commission on  
December 4,  
2006.

(2) Incorporated by  
reference to  
Altra Holdings,  
Inc. s Current  
Report on form  
8-K filed on  
October 27,  
2008.



**Table of Contents**

**SIGNATURES**

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

ALTRA HOLDINGS, INC.

November 3, 2010

By: /s/ Carl R. Christenson

Name: Carl R. Christenson

Title President and Chief Executive Officer

November 3, 2010

By: /s/ Christian Storch

Name: Christian Storch

Title Vice President and Chief Financial Officer

November 3, 2010

By: /s/ Todd B. Patriacca

Name: Todd B. Patriacca

Title Vice President of Finance, Corporate Controller  
and Treasurer

**Table of Contents**

**EXHIBIT INDEX**

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\*\* Furnished  
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