Altra Holdings, Inc.
Form 10-Q
April 30, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from to

Commission File Number: 001-33209

ALTRA HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

(781) 917-0600

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company.)	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 x

As of April 30, 2012, 26,935,928 shares of Common Stock, $0.001 par value per share, were outstanding.

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Part I - FINANCIAL INFORMATION

ALTRA HOLDINGS, INC.

Condensed Consolidated Balance Sheets

Amounts in thousands, except share amounts

Item 1. Financial Statements

	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 79,946	$ 92,515
Trade receivables, less allowance for doubtful accounts of $1,300 and $1,092 at March 31, 2012 and December 31, 2011, respectively	110,451	91,859
Inventories	127,112	125,970
Deferred income taxes	5,856	5,856
Income tax receivable	4,197	7,299
Prepaid expenses and other current assets	8,893	7,141
Total current assets	336,455	330,640
Property, plant and equipment, net	128,424	123,464
Intangible assets, net	76,251	77,108
Goodwill	84,597	83,799
Deferred income taxes	1,649	1,614
Other non-current assets, net	13,147	13,360
Total assets	$ 640,523	$ 629,985
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 47,349	$ 52,768
Accrued payroll	17,079	19,734
Accruals and other current liabilities	33,533	28,798
Deferred income taxes	123	118
Current portion of long-term debt	1,109	688
Total current liabilities	99,193	102,106
Long-term debt less current portion and net of unaccreted discount	260,512	263,361
Deferred income taxes	35,916	35,798
Pension liablities	12,673	12,896
Other post retirement benefits	278	296
Long-term taxes payable	6,324	6,227
Other long-term liabilities	705	905
Stockholders equity:		
Common stock ($0.001 par value, 90,000,000 shares authorized, 26,620,293 and 26,600,056 issued and outstanding at March 31, 2012 and December 31, 2011, respectively)	27	27
Additional paid-in capital	150,967	150,234
Retained earnings	93,727	83,211

Accumulated other comprehensive income	(19,799)	(25,076)
Total stockholders equity	224,922	208,396
Total liabilities and stockholders equity	$ 640,523	$ 629,985

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

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ALTRA HOLDINGS, INC.

Condensed Consolidated Statements of Comprehensive Income

Amounts in thousands, except per share data

	Quarter Ended March 31, 2012 (Unaudited)	Quarter Ended April 2, 2011 (Unaudited)
Net sales	$ 192,385	$ 159,847
Cost of sales	135,712	112,012
Gross profit	56,673	47,835
Operating expenses:		
Selling, general and administrative expenses	31,997	25,516
Research and development expenses	3,027	2,317
	35,024	27,833
Income from operations	21,649	20,002
Other non-operating income and expense:		
Interest expense, net	5,774	5,163
Other non-operating expense (income), net	225	(286)
	5,999	4,877
Income before income taxes	15,650	15,125
Provision for income taxes	5,134	4,403
Net income	10,516	10,722
Other Comprehensive Income		
Foreign currency translation adjustment	5,277	5,420
Total comprehensive income	$ 15,793	$ 16,142
Weighted average shares, basic	26,606	26,487
Weighted average shares, diluted	26,660	26,608
Net income per share:		
Basic	$ 0.40	$ 0.40
Diluted	$ 0.39	$ 0.40

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

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ALTRA HOLDINGS, INC.

Condensed Consolidated Statements of Cash Flows

Amounts in thousands

	Quarter Ended	
	March 31, 2012 (Unaudited)	**April 2, 2011 (Unaudited)**
Cash flows from operating activities		
Net income	$ 10,516	$ 10,722
Adjustments to reconcile net income to net cash flows:		
Depreciation	4,983	4,054
Amortization of intangible assets	1,663	1,364
Amortization of deferred financing costs	329	329
Loss on foreign currency, net	34	51
Accretion of debt discount, net	784	300
Stock-based compensation	784	700
Changes in assets and liabilities:		
Trade receivables	(20,229)	(20,402)
Inventories	440	(3,508)
Accounts payable and accrued liabilities	652	2,070
Other current assets and liabilities	(1,612)	(2,643)
Other operating assets and liabilities	(606)	(337)
Net cash used in operating activities	(2,262)	(7,300)
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,237)	(2,754)
Net cash used in investing activities	(8,237)	(2,754)
Cash flows from financing activities		
Payment of debt issuance costs		(3,404)
Proceeds from issuance of Convertible Notes		85,000
Redemption of variable rate demand revenue bonds related to the San Marcos facility	(3,000)	
Shares repurchased for tax withholdings	(51)	(62)
Payment on mortgages	(127)	(131)
Payments on capital leases	(136)	(186)
Net cash (used in) provided by financing activities	(3,314)	81,217
Effect of exchange rate changes on cash and cash equivalents	1,244	1,636
Net change in cash and cash equivalents	(12,569)	72,799
Cash and cash equivalents at beginning of year	92,515	72,723
Cash and cash equivalents at end of period	$ 79,946	$ 145,522
Cash paid during the period for:		
Interest	$ 1,303	$ 74
Income taxes	$ 1,558	$ 3,286

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

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

1. Organization and Nature of Operations

Headquartered in Braintree, Massachusetts, Altra Holdings, Inc. (the Company), through its wholly-owned subsidiary Altra Industrial Motion, Inc. (Altra Industrial), is a leading multi-national designer, producer and marketer of a wide range of mechanical power transmission products. The Company brings together brands covering over 40 product lines with production facilities in eight countries and sales coverage in over 70 countries. The Company s brands include Boston Gear, Warner Electric, TB Wood s, Formsprag Clutch, Ameridrives Couplings, Industrial Clutch, Kilian Manufacturing, Marland Clutch, Nuttall Gear, Stieber Clutch, Wichita Clutch, Twiflex Limited, Bibby Transmissions, Matrix International, Inertia Dynamics, Huco Dynatork, Warner Linear, and Bauer Gear Motor.

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 Wood s Corporation (TB Wood s), and on October 5, 2007, the Company acquired substantially all of the assets of All Power Transmission Manufacturing, Inc. (All Power). On May 29, 2011, the Company acquired substantially all of the assets of Danfoss Bauer GmbH relating to its gear motor business (Bauer).

The Company s unaudited condensed consolidated interim financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. In the opinion of management, the accompanying unaudited condensed consolidated interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company s financial position as of March 31, 2012 and December 31, 2011, and results of operations and cash flows for the quarters ended March 31, 2012 and April 2, 2011.

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

3. Recent Accounting Pronouncements

In 2011 the FASB amended the provisions of the *Fair Value Measurement* topic of the FASB Codification. This amendment provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards (IFRS). This topic changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. These provisions are effective for reporting periods beginning on or after December 15, 2011, applied prospectively. The adoption of this amendment did not have a material effect on our condensed consolidated interim financial statements.

In June 2011, the Financial Accounting Standards Board (the FASB) issued Standards Update 2011-5, *Comprehensive Income (Topic 220)* as amended, requiring amendments to disclosure for presentation of comprehensive income. This guidance, effective retrospectively for the interim and annual periods beginning on or after December 31, 2011, requires presentation of total comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued an amendment to this guidance which indefinitely defers the requirement to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This guidance is effective for reporting periods beginning after December 15, 2011. The implementation of this guidance did not have a material impact on the Company s consolidated results of operations or financial position.

4. Fair Value of Financial Instruments

The carrying values of financial instruments, including accounts receivable, cash equivalents, accounts payable and other accrued liabilities, approximate their fair values due to their short-term maturities. The carrying amount of the 8 $^{1}/_{8}$% Senior Secured Notes (the Senior Secured Notes) was $198.0 million at each of March 31, 2012 and December 31, 2011. The estimated fair value of the Senior Secured Notes at March 31, 2012 and December 31, 2011 was $212.4 million and $210.4 million, respectively, based on the last available trading price for such notes (level 2).

ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

The carrying amount of the 2.75% Convertible Notes (the Convertible Notes) was $85.0 million at each of March 31, 2012 and December 31, 2011. The estimated fair value of the Convertible Notes at both March 31, 2012 and December 31, 2011, was $84.4 million and $79.1 million, respectively, based on the last available trading price for such notes (level 2).

Included in cash and cash equivalents as of March 31, 2012 and December 31, 2011 are money market fund investments of $41.2 million and $48.9 million, respectively, which are reported at fair value based on quoted market prices for such investments (level 1).

5. Net Income per Share

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

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

	Quarter Ended March 31, 2012	Quarter Ended April 2, 2011
Net income	$ 10,516	$ 10,722
Shares used in net income per common share basic	26,606	26,487
Incremental shares of unvested restricted common stock	54	121
Shares used in net income per common share diluted	26,660	26,608
Earnings per share (amounts not in thousands):		
Basic	$ 0.40	$ 0.40
Diluted	$ 0.39	$ 0.40

The Company excluded 784,890 shares related to the Convertible Notes (See Note 12) from the above earnings per share calculation as these shares were anti-dilutive.

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

6. Acquisitions

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

Through the Bauer Acquisition, the Company acquired a European manufacturer of high-quality gear motors, offering engineered solutions to a variety of industries, including material handling, metals, food processing and energy. With the Bauer Acquisition, in addition to a presence in Germany, the Company acquired Bauer s well-established sales network in 15 additional countries in Western and Eastern Europe, China, and the United States.

The closing date of the Bauer Acquisition was May 29, 2011, and as a result, the Company s consolidated financial statements reflect Bauer s results of operations from the beginning of business on May 30, 2011 forward. Revenue for the Bauer activity included in the results for the quarter ended March 31, 2012 was $26.8 million, and Bauer was break even for Net Income in the results for the quarter ended March 31, 2012.

The Company has completed its final purchase price allocation. The purchase price allocation as of the acquisition date is as follows:

Total purchase price, excluding acquisition costs of approximately $3.1 million	$ 69,501
Cash and cash equivalents	41
Trade receivables	18,394
Inventories	21,397
Prepaid expenses and other	2,331
Property, plant and equipment	17,974
Intangible assets	15,669
Total assets acquired	$ 75,806
Accounts payable	3,946
Accrued expenses and other current liabilities	7,589
Other liabilities	2,910
Total liabilities assumed	$ 14,445
Net assets acquired	61,361
Excess purchase price over fair value of net assets acquired	$ 8,140

The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. The Company expects to develop synergies, such as lower cost country sourcing, global procurement, ability to cross-sell product, as well as penetrating certain geographic areas, as a result of the acquisition of Bauer.

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

Customer relationships, subject to amortization	$ 12,274

Trade names and trademarks, not subject to amortization	3,395
Total intangible assets	$ 15,669

Customer relationships are subject to amortization, and will be recognized on a straight-line basis over the estimated useful life of 9 years, which represents the anticipated period over which the Company estimates it will benefit from the acquired assets.

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

The following table sets forth the unaudited pro forma results of operations of the Company for the quarter to date period ended April 2, 2011, as if the Company had acquired Bauer at the beginning of the period. The pro forma information contains the actual operating results of the Company and Bauer, adjusted to include the pro forma impact of (i) additional depreciation expense as a result of estimated depreciation based on the fair value of fixed assets; (ii) additional expense as a result of the estimated amortization of identifiable intangible assets and (iii) additional interest expense associated with the Convertible Notes issued on March 7, 2011 in connection with the Bauer Acquisition. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisitions occurred at the beginning of the period or that may be obtained in the future.

	Pro Forma (unaudited) Quarter to Date Period Ended April 2, 2011	
Total revenues	$	189,416
Net income	$	10,759
Basic earnings per share (amounts not in thousands):		
Net income	$	0.41
Diluted earnings per share (amounts not in thousands):		
Net income	$	0.40

7. Inventories

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

	March 31, 2012	December 31, 2011
Raw materials	$ 46,974	$ 45,664
Work in process	22,849	23,838
Finished goods	57,289	56,468
Inventories	$ 127,112	$ 125,970

Approximately 11% of total inventories were valued using the LIFO method as of March 31, 2012 and December 31, 2011, respectively. The Company recorded a $0.1 million provision as a component of cost of sales to value the inventory on a LIFO basis for each of the quarters ended March 31, 2012 and April 2, 2011.

ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

8. Goodwill and Intangible Assets

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

	2012
Gross goodwill balance as of January 1	$ 115,609
Impact of changes in foreign currency	798
Gross goodwill balance as of March 31	116,407
Accumulated impairment as of January 1	(31,810)
Impairment charge during the period	
Accumulated impairment as of March 31	(31,810)
Net goodwill balance March 31, 2012	$ 84,597

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

	March 31, 2012		December 31, 2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Other intangible assets				
Intangible assets not subject to amortization:				
Tradenames and trademarks	$ 34,125	$	$ 34,125	$
Intangible assets subject to amortization:				
Customer relationships	74,312	31,333	74,312	29,704
Product technology and patents	5,603	5,350	5,576	5,316
Impact of changes in foreign currency	(1,106)		(1,885)	
Total intangible assets	$ 112,934	$ 36,683	$ 112,128	$ 35,020

The Company recorded $1.7 million and $1.4 million of amortization expense in the quarters ended March 31, 2012 and April 2, 2011, respectively.

The estimated amortization expense for intangible assets is approximately $5.0 million for the remainder of 2012, $6.7 million in each of the next four years and then $13.7 million thereafter.

9. Warranty Costs

The contractual warranty period generally ranges from three months to two years with a few extending up to thirty-six months based on product and application of the product. Changes in the carrying amount of accrued product warranty costs for each of the quarters ended March 31, 2012 and April 2, 2011 are as follows:

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

	March 31, 2012	April 2, 2011
Balance at beginning of period	$ 4,898	$ 3,583
Accrued current period warranty expense	762	566
Payments	(619)	(1,291)
Balance at end of period	$ 5,041	$ 2,858

10. Income Taxes

The estimated effective income tax rates recorded for the quarters ended March 31, 2012 and April 2, 2011, were based upon management s best estimate of the effective tax rate for the entire year.

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

The Company and its subsidiaries file a consolidated federal income tax return in the United States as well as consolidated and separate income tax returns in various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in all of these jurisdictions. With the exception of certain foreign jurisdictions, the Company is no longer subject to income tax examinations for the tax years prior to 2007. Additionally, the Company has indemnification agreements with the sellers of the Colfax, Kilian, Hay Hall, and Bauer 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 comprehensive income. At December 31, 2011 and March 31, 2012, the Company had $2.7 million and $2.8 million of accrued interest and penalties, respectively. The Company accrued $0.1 million of interest and no penalties during the year to date period ended March 31, 2012.

11. Pension and Other Employee Benefits

Defined Benefit (Pension) and Post-retirement Benefit Plans

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

The following table represents the components of the net periodic benefit cost associated with the respective plans for the quarters ended March 31, 2012 and April 2, 2011:

ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

	Quarter Ended			
	Pension Benefits		Other Benefits	
	March 31, 2012	April 2, 2011	March 31, 2012	April 2, 2011
Service cost	$ 25	$ 25	$ 1	$ 1
Interest cost	273	281	4	4
Expected return on plan assets	(268)	(246)		
Amortization of prior service income			(1)	(1)
Amortization of net gain	25	18	(13)	(13)
Net periodic benefit cost (income)	$ 55	$ 78	$ (9)	$ (9)

There were no required contributions in the first quarter of 2012, however, the Company made $0.5 million of supplemental payments to the pension plan in the quarter ended March 31, 2012.

12. Debt

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

	March 31, 2012	December 31, 2011
Debt:		
Revolving Credit Agreement	$	$
Convertible Notes	85,000	85,000
Senior Secured Notes	198,045	198,045
Variable rate demand revenue bonds		3,000
Mortgages	1,690	1,762
Capital leases	281	417
Total debt	285,016	288,224
Less: debt discount, net of accretion	(23,395)	(24,175)
Total long-term debt, net of unaccreted discount	$ 261,621	$ 264,049
Less current portion of long-term debt	1,109	688
Total long-term debt	$ 260,512	$ 263,361

Convertible Senior Notes

On March 7, 2011, the Company issued $85.0 million of Convertible Notes (due on March 1, 2031). Interest on the Convertible Notes is payable semiannually in arrears, on March 1 and September 1 of each year, commencing on September 1, 2011 at an annual rate of 2.75%. Proceeds from the offering were $81.6 million, net of fees and expenses that were capitalized. The proceeds from the offering were used in part to fund the Bauer Acquisition and also to bolster the Company s cash position.

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

The Convertible Notes will mature on March 1, 2031, unless earlier redeemed, repurchased by the Company or converted, and are convertible into cash or shares, or a combination thereof, at the Company s election. The Convertible Notes are convertible into shares of the Company s common stock based on an initial conversion rate, subject to adjustment, of 36.0985 shares per $1,000 principal amount of notes (which represents an initial conversion price of approximately $27.70 per share of our common stock), in certain circumstances. Prior to March 1, 2030, the Convertible Notes are convertible only in the following circumstances: (1) during any fiscal quarter commencing after June 30, 2011 if the last reported sale price of the Company s common stock is greater than or equal to 130% of the applicable conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; (2) during the five business day period after any 10 consecutive trading day period (the measurement period) in which the trading price per $1,000 principal amount of notes for each trading day in the measurement period was less than 97% of the product of the last reported sale price of the Company s common stock and the conversion rate on such trading day; (3) if the Convertible Notes have been called for redemption; or (4) upon the occurrence of specified corporate transactions. On or after March 1, 2030, and ending at the close of business on the second business day immediately preceding the maturity date, holders may convert their Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of common stock, or a combination thereof, at the Company s election. The Company intends to settle the principal amount in cash and any additional amounts in shares of stock.

If a fundamental change occurs, the Convertible Notes are redeemable at a price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but excluding, the repurchase date. The Convertible Notes are also redeemable on each of March 1, 2018, March 1, 2021, and March 1, 2026 for cash at a price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but excluding, the option repurchase date.

On or after March 1, 2015, the Company may call all or part of the Convertible Notes at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date, plus a make-whole premium payment in cash, shares of the Company s common stock, or combination thereof, at the Company s option, equal to the sum of the present values of the remaining scheduled payments of interest on the Convertible Notes to be redeemed through March 1, 2018 to, but excluding, the redemption date, if the last reported sale price of the Company s common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day prior to the date the Company provides notice of redemption exceeds 130% of the conversion price in effect on each such trading day. On or after March 1, 2018, the Company may redeem for cash all or a portion of the notes at a redemption price of 100% of the principle amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest (including contingent and additional interest, if any) to, but not including, the redemption date.

The Company separately accounted for the debt and equity components of the Convertible Notes to reflect the issuer s non-convertible debt borrowing rate, which interests costs are to be recognized in subsequent periods. The note payable principal balance at the date of issuance of $85.0 million was bifurcated into a debt component of $60.5 million and an equity component of $24.5 million. The difference between the note payable principal balance and the value of the debt component is being accreted to interest expense over the term of the notes. The debt component was recognized at the present value of associated cash flows discounted using a 8.25% discount rate, the borrowing rate at the date of issuance for a similar debt instrument without a conversion feature. The Company paid approximately $3.5 million of issuance costs associated with the Convertible Notes. The Company recorded $1.0 million of debt issuance costs as an offset to additional paid-in capital. As of March 31, 2012, the Company has amortized $0.4 million of debt issuance costs. The balance of $2.1 million of debt issuance costs is classified as other non-current assets and will be amortized over the term of the notes using the effective interest method.

The carrying amount of the equity component and the principal amount of the liability component, the unamortized discount, and the net carrying amount are as follows as of March 31, 2012:

	March 31, 2012

Principal amount of debt	$ 85,000
Unamortized discount	21,540
Carrying value of debt	$ 63,460

ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

Interest expense associated with the Convertible Notes consisted of the following for the quarter to date period ended March 31, 2012:

	March 31, 2012
Contractual coupon rate of interest	$ 584
Accretion of convertible notes discount and amortization of deferred financing costs	788
Interest expense for the Convertible Notes	$ 1,372

The effective interest yield of the Convertible Notes due in 2031 is 8.5% at March 31, 2012 and the cash coupon interest rate is 2.75%.

Senior Secured Notes

In November 2009, the Company issued 8 $^{1}/_{8}$% Senior Secured Notes (the Senior Secured Notes) with a face value of $210 million. Interest on the Senior Secured Notes is payable semi-annually in arrears, on June 1 and December 1 of each year, commencing on June 1, 2010 at an annual rate of 8 $^{1}/_{8}$%. The effective interest rate of the Senior Secured Notes was approximately 8.75% after consideration of the $6.7 million of deferred financing costs (included in other non-current assets) which are being amortized over the term using the effective interest method. The principal balance of the Senior Secured Notes matures on December 1, 2016.

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

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

Revolving Credit Agreement

Concurrently with the closing of the offering of the Senior Secured Notes, Altra Industrial entered into a new senior secured credit facility, (the Revolving Credit Agreement). In 2011, the Company amended the Revolving Credit Agreement to increase the borrowing base to $65 million (subject to adjustment pursuant to a borrowing base and subject to increase from time to time in accordance with the terms of the amended credit facility) and to extend the term to October 31, 2016. As part of the amendment, additional financing fees of $0.3 million were capitalized and will be amortized over the life of agreement.

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

There were no borrowings under the Revolving Credit Agreement at March 31, 2012 and December 31, 2011, however, the lender had issued $7.0 million and $6.5 million of outstanding letters of credit on behalf of the Company as of March 31, 2012 and December 31, 2011, respectively.

Altra Industrial and all of its domestic subsidiaries are borrowers, (collectively, 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 of any borrower 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 on the assets of Borrowers and guarantors.

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. The Company sold the Chattanooga facility on April 14, 2011 and redeemed the bonds associated with the facility at the time. The Company redeemed the bonds associated with the San Marcos facility during the quarter ended March 31, 2012. As of March 31, 2012, the Variable Rate Demand Revenue Bonds have been paid in full.

Mortgage

In June 2006, the Company entered into a mortgage on its building in Heidelberg, Germany with a local bank. In 2009, the Company refinanced the Heidelberg mortgage and increased the amount borrowed by an additional 1.0 million. The new mortgage has an interest rate of 2.9% and is payable in monthly installments over the next six years. As of March 31, 2012 and December 31, 2011, the mortgage has a remaining principal of 1.3 million or $1.7 million, and of 1.3 million or $1.8 million, respectively.

Capital Leases

The Company leases certain equipment under capital lease arrangements, whose obligations are included in both short-term and long-term debt. Capital lease obligations amounted to approximately $0.3 million and $0.4 million at March 31, 2012 and December 31, 2011, respectively. Assets subject to capital leases are included in property, plant and equipment with the related amortization recorded as depreciation expense.

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Overdraft Agreements

Certain of our foreign subsidiaries maintain overdraft agreements with financial institutions. There were no borrowings as of March 31, 2012 and December 31, 2011 under any of the overdraft agreements.

13. 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.

The Plan permits the Company to grant restricted stock, among other things, to key employees and other persons who make significant contributions to the success of the Company. The restrictions and vesting schedule for restricted stock granted under the Plan are determined by the Personnel and Compensation Committee of the Board of Directors. Compensation expense recorded during the quarters ended March 31, 2012 and April 2, 2011 was $0.8 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 comprehensive 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 quarter ended March 31, 2012:

	Shares	Weighted-average grant date fair value
Restricted shares unvested January 1, 2012	211,031	$ 13.52
Shares granted	128,018	21.27
Shares for which restrictions lapsed	(23,414)	21.13
Restricted shares unvested March 31, 2012	315,635	$ 16.09

Total remaining unrecognized compensation cost was $4.2 million as of March 31, 2012, 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 quarter ended March 31, 2012 was $0.5 million. Restricted shares granted are valued based on the fair market value of the stock on the date of grant.

14. Concentrations of Credit, Segment Data and Workforce

Financial instruments, which are potentially subject to counter party performance and concentrations of credit risk, consist primarily of trade accounts receivable. The Company manages these risks by conducting credit evaluations of customers prior to delivery or commencement of services. When the Company enters into a sales contract, collateral is normally not required from the customer. Payments are typically due within thirty days of billing. An allowance for potential credit losses is maintained, and losses have historically been within management s expectations. No customer represented greater than 10% of total sales for each of the quarters ended March 31, 2012 and April 2, 2011.

The Company is also subject to counter party performance risk of loss in the event of non-performance by counterparties to financial instruments, such as cash and investments. Cash and investments are held by international or well established financial institutions.

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With the acquisition of Bauer, the Company has six 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 six operating segments are expected to 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 with the exception of the newly acquired Bauer gear motor business, for which the Company is developing a plan to integrate sales and marketing activities. 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 Company is in the process of converging the purchasing process so that these 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.

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

	Net Sales Quarter Ended	
	March 31, 2012	**April 2, 2011**
North America (primarily U.S.)	$ 124,978	$ 117,083
Europe	57,446	34,095
Asia and other	9,961	8,669
Total	$ 192,385	$ 159,847

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 March 31, 2012 and December 31, 2011 were $113.9 million and $108.8 million, respectively.

15. Commitments and Contingencies

General Litigation

The Company is involved in various pending legal proceedings arising out of the ordinary course of business. These proceedings primarily involve commercial claims, product liability claims, personal injury claims, and workers compensation claims. None of these legal proceedings are expected to have a material adverse effect on the results of operations, cash flows, or financial condition of the Company. With respect to these proceedings, management believes that the Company will prevail, has adequate insurance coverage or has established appropriate reserves to cover potential liabilities. Any costs that management estimates may be paid related to these proceedings or claims are accrued when the liability is considered probable and the amount can be reasonably estimated. There can be no assurance, however, as to the ultimate outcome of any of these matters, and if all or substantially all of these legal proceedings were to be determined adversely to the Company, there could be a material adverse effect on the results of operations, cash flows, or financial condition of the Company. As of March 31, 2012 and December 31, 2011, the Company cannot estimate the likelihood or potential amount of the liability related to these proceedings. As a result, no amounts were accrued in the accompanying condensed consolidated balance sheets for potential litigation losses at those dates.

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

16. Guarantor Subsidiaries

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

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Unaudited Condensed Consolidating Balance Sheet

March 31, 2012

	Issuer	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$	$ 41,066	$ 38,880	$	$ 79,946
Trade receivables, less allowance for doubtful accounts		65,266	45,185		110,451
Loans receivable from related parties	269,745			(269,745)	
Inventories		74,790	52,322		127,112
Deferred income taxes		5,325	531		5,856
Income tax receivable		3,799	398		4,197
Prepaid expenses and other current assets		4,382	4,511		8,893
Total current assets	269,745	194,628	141,827	(269,745)	336,455
Property, plant and equipment, net		82,038	46,386		128,424
Intangible assets, net		49,321	26,930		76,251
Goodwill		56,446	28,151		84,597
Deferred income taxes			1,649		1,649
Investment in subsidiaries	213,555			(213,555)	
Other non-current assets	6,800	5,616	731		13,147
Total assets	$ 490,100	$ 388,049	$ 245,674	$ (483,300)	$ 640,523
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable	$	$ 28,125	$ 19,224	$	$ 47,349
Accrued payroll		6,836	10,243		17,079
Accruals and other current liabilities	5,559	15,566	12,408		33,533
Deferred income taxes			123		123
Current portion of long-term debt		225	884		1,109
Loans payable to related parties		193,769	75,976	(269,745)	
Total current liabilities	5,559	244,521	118,858	(269,745)	99,193
Long-term debt less current portion and net of unacreted discount	259,619	54	839		260,512
Deferred income taxes		29,595	6,321		35,916
Pension liablities		6,996	5,677		12,673
Other post retirement benefits		278			278
Long-term taxes payable		6,324			6,324
Other long-term liabilities		630	75		705
Total stockholders equity	224,922	99,651	113,904	(213,555)	224,922

Total liabilities and stockholders equity	$ 490,100	$ 388,049	$ 245,674	$ (483,300)	$ 640,523

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ALTRA HOLDINGS, INC.

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Condensed Consolidating Balance Sheet

December 31, 2011

	Issuer	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$	$ 49,876	$ 42,639	$	$ 92,515
Trade receivables, less allowance for doubtful accounts		52,706	39,153		91,859
Loans receivable from related parties	259,891			(259,891)	
Inventories		76,632	49,338		125,970
Deferred income taxes		5,325	531		5,856
Income tax receivable		6,868	431		7,299
Prepaid expenses and other current assets		3,096	4,045		7,141
Total current assets	259,891	194,503	136,137	(259,891)	330,640
Property, plant and equipment, net		79,576	43,888		123,464
Intangible assets, net		50,329	26,779		77,108
Goodwill		56,446	27,353		83,799
Deferred income taxes			1,614		1,614
Investment in subs	202,463			(202,463)	
Other non-current assets	7,091	5,551	718		13,360
Total assets	$ 469,445	$ 386,405			