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

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

FORM 10-Q

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

For the quarterly period ended October 2, 2010

or

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

For the transition period from __________ to __________

Commission File Number: 001-33209

ALTRA HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

(781) 917-0600

(Registrant s telephone number, including area code)

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

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

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

Large Accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(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 o No þ

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

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Item 1. Financial Statements

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

	October 2, 2010 (Unaudited)	December 31, 2009
ASSETS		
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
LIABILITIES AND STOCKHOLDERS EQUITY		
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 liablities	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

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.

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

	Quarter Ended		Year to Date Ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
	(Unaudited)		(Unaudited)	
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-operarting 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
Consolidated Statement of Comprehensive Income				
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.

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

	Year to date ended October 2, 2010	Year to date ended September 26, 2009
	(Unaudited)	
Cash flows from operating activities		
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
Cash flows from investing activities		
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)
Cash flows from financing activities		
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

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.

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

1. Organization and Nature of Operations

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

2. Basis of Presentation

The Company was formed on November 30, 2004 following acquisitions of 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).

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.

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ALTRA HOLDINGS, INC.
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Amounts in thousands, unless otherwise noted

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

	Quarter Ended		Year to Date Ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
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 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 October 2, 2010 and December 31, 2009 consisted of the following:

	October 2, 2010	December 31, 2009
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.

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6. Goodwill and Intangible Assets

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

	2010
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:

	October 2, 2010		December 31, 2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Other intangible assets				
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.

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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:

	October 2, 2010	September 26, 2009
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.

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:

	Quarter Ended			
	Pension Benefits		Other Benefits	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
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)

	Year to Date Ended			
	Pension Benefits		Other Benefits	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
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.

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:

	Amounts in millions	
	October 2, 2010	December 31, 2009
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 $8^1/_8$% 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 $8^1/_8$%. 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.

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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.

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ALTRA HOLDINGS, INC.
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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.

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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:

	Shares	Weighted-average grant date fair value
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.

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ALTRA HOLDINGS, INC.
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Amounts in thousands, unless otherwise noted

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

	Net Sales Quarter Ended October 2, 2010	Net Sales Quarter Ended September 26, 2009	Net Sales Year to Date Ended October 2, 2010	Net Sales Year to Date Ended September 26, 2009
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.

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ALTRA HOLDINGS, INC.
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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:

	Year to Date Ended October 2, 2010 2009 Altra Plan	Year to Date Ended September 26, 2009 2009 Altra Plan
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:

	2009 Altra Plan
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.

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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

	Issuer	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$	$ 39,283	$ 32,878	$	$ 72,161
Trade receivables, less allowance for doubtful accounts		46,064	26,060		72,124
Loans receivable from related parties	216,228			(216,228)	
Inventories		56,080	24,219		80,299
Deferred income taxes		9,087	187		9,274
Income tax receivable					
Assests held for sale		1,484			1,484
Prepaid expenses and other 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, 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
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable	$	$ 24,770	$ 12,056	$	$ 36,826
Accrued payroll		11,223	6,130		17,353
Accruals and other current 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 debt		2,981	375		3,356
Loans payable to related parties		194,882	21,346	(216,228)	

Total current liabilities	5,688	248,972	56,702	(216,228)	95,134
Long-term debt less current portion and net of unacreted discount	207,504	3,466	2,213		213,183
Deferred income taxes		13,812	3,357		17,169
Pension liablities		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 equity	$ 374,811	$ 347,376	$ 151,665	$ (368,614)	$ 505,238

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

	Issuer	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 1	$ 19,744	$ 31,752	$	$ 51,497
Trade receivables, less allowance for doubtful accounts		33,966	18,889		52,855
Loans receivable from related 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 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, 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
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable	$ 76	$ 18,156	$ 9,189	$	$ 27,421
Accrued payroll		7,415	4,718		12,133
Accruals and other current liabilities	1,659	10,711	7,601		19,971
Deferred income taxes			7,275		7,275
Current portion of long-term debt		650	409		1,059
Loans payable to related parties		187,611	26,972	(214,583)	

Total current liabilities	1,735	224,543	56,164	(214,583)	67,859
Long-term debt less current portion and net of unaccreted discount and premium	207,284	6,267	2,939		216,490
Deferred income taxes		17,876	3,175		21,051
Pension liablities		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 equity	$ 347,962	$ 315,127	$ 142,485	$ (340,375)	$ 465,199

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

	Year to Date Ended October 2, 2010				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
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 administrative expenses	46	44,916	21,029		65,991
Research and development 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, net		764	(14)		750
Equity in earnings of subsidiaries	26,594			(26,594)	
Income before income taxes	13,022	26,526	14,388	(26,594)	27,342
Provision (benefit) for income 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

	Year to Date Ended September 26, 2009				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 252,335	$ 110,847	$ (21,999)	$ 341,183
Cost of sales		192,110	80,839	(21,999)	250,950
Gross profit		60,225	30,008		90,233
Selling, general and administrative expenses		38,145	22,826		60,971
Research and development expenses		2,872	1,697		4,569
Other post employment benefit plan settlement		(1,467)			(1,467)
Restructuring costs		3,122	2,238		5,360
Loss on disposal of assets		120	396		516

Income from operations		17,433	2,851		20,284
Interest expense, net		18,806	73		18,879
Other non-operating expense, net		576	672		1,248
Equity in earnings of subsidiaries	300			(300)	
Income (loss) before income taxes	300	(1,949)	2,106	(300)	157
Provision (benefit) for income taxes		(1,069)	926		(143)
Net income (loss)	$ 300	$ (880)	$ 1,180	$ (300)	$ 300

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

	Quarter Ended October 2, 2010				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
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 administrative expenses		15,702	7,102		22,804
Research and development 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 (income) expense, net		638	(910)		(272)
Equity in earnings of subsidiaries	8,762			(8,762)	
Income before income taxes	4,297	8,474	5,006	(8,762)	9,015
Provision (benefit) for income 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

	Quarter Ended September 26, 2009				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 75,377	$ 37,206	$ (7,817)	$ 104,766
Cost of sales		56,971	27,040	(7,817)	76,194
Gross profit		18,406	10,166		28,572
Selling, general and administrative expenses		11,885	7,405		19,290
Research and development expenses		909	599		1,508
Restructuring costs		983	23		1,006
Loss on disposal of assets		120	396		516
Income from operations		4,509	1,743		6,252
Interest expense, net		6,290			6,290

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

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

	Year to Date Ended October 2, 2010				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities					
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
Cash flows used in investing activities					
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

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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				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities					
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
Cash flows from investing activities					
Purchase of fixed assets		(4,224)	(881)		(5,105)
Net cash used in investing activities		(4,224)	(881)		(5,105)
Cash flows from financing activities					

Payments on11 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.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- the Company s access to capital, credit ratings, indebtedness, and ability to raise additional financings and operate under the terms of the Company s debt obligations;
- the risks associated with our debt leverage;
- the effects of intense competition in the markets in which we operate;
- the Company s ability to successfully execute, manage and integrate key acquisitions and mergers;
- the Company s ability to obtain or protect intellectual property rights;
- the Company s ability to retain existing customers and our ability to attract new customers for growth of our business;
- the effects of the loss or bankruptcy of or default by any significant customer, suppliers, or other entity relevant to the Company s operations;
- the Company s ability to successfully pursue the Company s development activities and successfully integrate new operations and systems, including the realization of revenues, economies of scale, cost savings, and productivity gains associated with such operations;
- the Company s ability to complete cost reduction actions and risks associated with such actions;
- the Company s ability to control costs;
- 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;

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:

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 Wood s Corporation, or TB Wood s. TB Wood s is an established designer, manufacturer and marketer of mechanical and electronic industrial power transmission products with a history dating back to 1857.

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

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.

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

Products	Principal Brands	Principal Markets	Sample Applications
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. 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.

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Results of Operations

(In thousands, except per share data)	Quarter Ended October 2, 2010	Quarter Ended September 26, 2009	Year to Date Ended October 2, 2010	Year to Date Ended September 26, 2009
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
Gross profit percentage	*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)

	Quarter Ended October 2, 2010	Quarter Ended September 26, 2009	Change	%
Net sales	$ 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.

	Quarter Ended October 2, 2010	Quarter Ended September 26, 2009	Change	%
Gross Profit	$ 38,641	$ 28,572	$ 10,069	35.2%
Gross Profit as a percent of sales	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.

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	Quarter Ended October 2, 2010	Quarter Ended September 26, 2009	Change	%
Selling, general and administrative expense (SG&A)	$ 22,804	$ 19,290	$ 3,514	18.2%
SG&A as a percent of sales	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.

	Quarter Ended October 2, 2010	Quarter Ended September 26, 2009	Change	%
Restructuring expenses	$ 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.

	Quarter Ended October 2, 2010	Quarter Ended September 26, 2009	Change	%
Interest Expense, net	$ 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.

	Quarter Ended October 2, 2010	Quarter Ended September 26, 2009	Change	%
Other non-operating income, net	$ (272)	$ (371)	$ 99	-26.7%

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

	Quarter Ended			
	October 2, 2010	September 26, 2009	Change	%
Provision (benefit) for income taxes	$ 2,441	$ (315)	$ 2,756	-874.9%
Provision (benefit) for income taxes as a % of income from operations before income taxes	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)

	Year to Date Period Ended			
	October 2, 2010	September 26, 2009	Change	%
Net sales	$ 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.

	Year to Date Period Ended			
	October 2, 2010	September 26, 2009	Change	%
Gross Profit	$ 116,171	$ 90,233	$ 25,938	28.7%
Gross Profit as a percent of sales	29.8%	26.4%		

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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.

	Year to Date Period Ended			
	October 2, 2010	**September 26, 2009**	**Change**	**%**
Selling, general and administrative expense (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.

	Year to Date Period Ended			
	October 2, 2010	**September 26, 2009**	**Change**	**%**
Restructuring expenses	$ 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.

	Year to Date Period Ended			
	October 2, 2010	**September 26, 2009**	**Change**	**%**
Interest Expense, net	$ 14,734	$ 18,879	$ (4,145)	-22.0%

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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, 2010	September 26, 2009	Change	%
Other non-operating loss	$ 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, 2010	September 26, 2009	Change	%
Provision (benefit) for income taxes	$ 8,190	$ (143)	$ 8,333	-5827%
Provision (benefit) for income taxes as a % of income from operations before income taxes	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.

Borrowings

	Amounts in millions October 2, 2010	December 31, 2009
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 $8^1/_8$% 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.

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

	October 2, 2010	December 31, 2009
	(in thousands)	
Cash and cash equivalents	$ 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.

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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:

	Quarter Ended			
	October 2, 2010	September 26, 2009	Change	%
Net Sales	$ 128,930	$ 104,766	$ 24,164	23.1%
Plus: Foreign Currency Translation Loss	$ 1,452			
Adjusted Net Sales	$ 130,382	$ 104,766	$ 25,616	24.5%

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

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

	Quarter Ended			
	October 2, 2010	September 26, 2009	Change	%
Gross Profit	$ 38,641	$ 28,572	$ 10,069	35.2%
Plus: Foreign Currency Translation Loss	$ 404			
Adjusted Gross Profit	$ 39,045	$ 28,572	$ 10,473	36.7%

	Year to Date Period Ended			
	October 2, 2010	September 26, 2009	Change	%

Gross Profit	$	116,171	$	90,233	$	25,938	28.7%
Less: Foreign Currency Translation Gain	$	(285)					
Adjusted Gross Profit	$	115,886	$	90,233	$	25,653	28.4%

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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.

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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.

Period	Total Number of Shares Purchased (1)		Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program		Approximate Dollar Value of Shares that may be Purchased under the Program
July 4, 2010 to July 31, 2010		$			$	
August 1, 2010 to August 28, 2010	30,033		14.37			
August 29, 2010 to October 2, 2010	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:

Exhibit Number	Description
3.1(1)	Second Amended and Restated Certificate of Incorporation of the Registrant.
3.2(2)	Second Amended and Restated Bylaws of the Registrant.
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.

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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

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EXHIBIT INDEX

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