

Altra Holdings, Inc.  
Form 10-Q  
May 07, 2008

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

**FORM 10-Q**

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

**For the quarterly period ended March 29, 2008**

**or**

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

**For the transition period from to**

**Commission file number 001-33209  
ALTRA HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**61-1478870**

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

**14 Hayward Street, Quincy, Massachusetts**

(Address of principal executive offices)

**02171**

(Zip code)

**(617) 328-3300**

(Registrant's telephone number, including area code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

As of May 1, 2008, 26,407,499 shares of Common Stock, \$.001 par value per share, were outstanding.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

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

|   | <b>March 29,<br/>2008<br/>(unaudited)</b> | <b>December<br/>31,<br/>2007</b> |
|---|---|----------------------------------|
| Assets  |   |                                  |
| Current assets:   |   |                                  |
| Cash and cash equivalents   | \$ 58,962                                 | \$ 45,807                        |
| Trade receivables, less allowance for doubtful accounts of \$1,387 and \$1,548  | 90,371                                    | 73,248                           |
| Inventories   | 102,104                                   | 101,835                          |
| Deferred income taxes   | 8,704                                     | 8,286                            |
| Receivable from sale of Electronics Division                                    |   | 17,100                           |
| Prepaid expenses and other  | 7,364                                     | 5,578                            |
| Assets held for sale  | 4,676                                     | 1,161                            |
| Total current assets  | 272,181                                   | 253,015                          |
| Property, plant and equipment, net  | 114,965                                   | 116,610                          |
| Intangible assets, net  | 88,175                                    | 88,943                           |
| Goodwill  | 115,535                                   | 114,979                          |
| Deferred income taxes   | 145                                       | 231                              |
| Other assets  | 5,800                                     | 6,747                            |
| Total assets  | \$ 596,801                                | \$ 580,525                       |
| Liabilities and stockholders' equity  |   |                                  |
| Current liabilities:  |   |                                  |
| Accounts payable  | \$ 42,780                                 | \$ 41,668                        |
| Accrued payroll   | 16,435                                    | 16,988                           |
| Accruals and other liabilities  | 25,584                                    | 22,001                           |
| Taxes payable   | 3,441                                     |                                  |
| Deferred income taxes   | 8,060                                     | 8,060                            |
| Current portion of long-term debt   | 3,372                                     | 2,667                            |
| Total current liabilities   | 99,672                                    | 91,384                           |
| Long-term debt, less current portion and net of unaccreted discount and premium | 287,676                                   | 291,399                          |
| Deferred income taxes   | 24,964                                    | 24,490                           |
| Pension liabilities   | 13,046                                    | 13,431                           |
| Other post retirement benefits  | 2,953                                     | 3,170                            |
| Long-term taxes payable   | 5,717                                     | 5,911                            |
| Other long term liabilities   | 4,389                                     | 4,308                            |
| Commitments and Contingencies (Note 17)   |   |                                  |
| Stockholders' equity:   |   |                                  |
|   | 25  | 25                               |

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Common stock (\$0.001 par value, 90,000,000 shares authorized, 25,476,884 and 21,467,502 issued and outstanding at March 29, 2008 and December 31, 2007, respectively)

|  |            |            |
|--|------------|------------|
| Additional paid-in capital                 | 128,069    | 127,653    |
| Retained earnings                          | 25,391     | 16,831     |
| Accumulated other comprehensive income     | 4,899      | 1,923      |
| Total stockholders' equity                 | 158,384    | 146,432    |
| Total liabilities and stockholders' equity | \$ 596,801 | \$ 580,525 |

**See accompanying notes**

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**ALTRA HOLDINGS, INC.**  
**Condensed Consolidated Statements of Income and Comprehensive Income**  
**Amounts in thousands, except per share data**  
**(unaudited)**

|  | <b>Quarter Ended</b>          |                           |
|--|-------------------------------|---------------------------|
|  | <b>March<br/>29,<br/>2008</b> | <b>March 31,<br/>2007</b> |
| <b>Consolidated Statement of Income</b>                        |                               |                           |
| Net sales  | \$ 163,182                    | \$ 132,706                |
| Cost of sales  | 115,384                       | 94,658                    |
| Gross profit   | 47,798                        | 38,048                    |
| Selling, general and administrative expenses                   | 24,713                        | 20,827                    |
| Research and development expenses                              | 1,731                         | 1,294                     |
| Restructuring charges  | 733                           | 793                       |
| Income from operations   | 20,621                        | 15,134                    |
| Interest expense, net  | 7,441                         | 9,148                     |
| Other non-operating income , net                               | (626)                         | (47)                      |
| Income from continuing operations before income taxes          | 13,806                        | 6,033                     |
| Provision for income taxes                                     | 4,849                         | 2,265                     |
| Net income from continuing operations                          | 8,957                         | 3,768                     |
| Net income from discontinued operations, net of taxes of \$124 | (397)                         |                           |
| Net income   | \$ 8,560                      | \$ 3,768                  |
| <b>Consolidated Statement of Comprehensive Income</b>          |                               |                           |
| Foreign currency translation adjustment                        | 2,976                         | 439                       |
| Comprehensive income   | \$ 11,536                     | \$ 4,207                  |
| Weighted average common shares outstanding:                    |                               |                           |
| Basic  | 25,472                        | 21,880                    |
| Diluted  | 26,063                        | 22,878                    |
| Earnings per share Basic:                                      |                               |                           |
| Net income from continuing operations                          | \$ 0.35                       | \$ 0.17                   |
| Net income from discontinued operations                        | \$ (0.01)                     | \$                        |
| Net income   | \$ 0.34                       | \$ 0.17                   |
| Earnings per share Diluted                                     |                               |                           |

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|   |           |         |
|---|-----------|---------|
| Net income from continuing operations   | \$ 0.34   | \$ 0.16 |
| Net income from discontinued operations | \$ (0.01) | \$      |
| Net income                              | \$ 0.33   | \$ 0.16 |

**See accompanying notes**

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

|   | <b>Quarter Ended</b>          |                           |
|---|-------------------------------|---------------------------|
|   | <b>March<br/>29,<br/>2008</b> | <b>March 31,<br/>2007</b> |
| <b>Cash flows from operating activities:</b>                                  |                               |                           |
| Net income  | \$ 8,560                      | \$ 3,768                  |
| Adjustments to reconcile net income to cash provided by operating activities: |                               |                           |
| Depreciation  | 4,105                         | 3,474                     |
| Amortization of intangible assets   | 1,435                         | 991                       |
| Amortization and write-offs of deferred loan costs                            | 599                           | 1,076                     |
| (Income) loss on foreign currency, net  | (374)                         | 38                        |
| Accretion of debt discount and premium, net                                   | 179                           | 236                       |
| Loss on sale of fixed assets  | 128                           | 112                       |
| Stock based compensation  | 416                           | 257                       |
| Changes in operating assets and liabilities:                                  |                               |                           |
| Trade receivables   | (15,986)                      | (12,282)                  |
| Inventories   | 413                           | (1,024)                   |
| Accounts payable and accrued liabilities                                      | 5,701                         | (4,299)                   |
| Other current assets and liabilities  | (1,626)                       | 1,619                     |
| Other operating assets and liabilities  | 329                           | 10                        |
| Net cash provided by (used in) operating activities                           | 3,879                         | (6,024)                   |
| <b>Cash flows from investing activities:</b>                                  |                               |                           |
| Purchases of fixed assets   | (4,494)                       | (1,034)                   |
| Proceeds from sale of Electronics Division                                    | 17,000                        |                           |
| Net cash provided by (used in) investing activities                           | 12,506                        | (1,034)                   |
| <b>Cash flows from financing activities:</b>                                  |                               |                           |
| Borrowings under revolving credit agreement                                   |                               | 520                       |
| Payments on revolving credit agreement  | (1,723)                       | (520)                     |
| Payments on senior notes  | (1,346)                       | (22,673)                  |
| Initial public offering transaction costs                                     |                               | (1,071)                   |
| Payments on mortgages   | (133)                         |                           |
| Payments on capital leases  | (256)                         | (250)                     |
| Net cash used in financing activities   | (3,458)                       | (23,994)                  |
| Effect of exchange rates on cash  | 228                           | 113                       |
| <b>Increase (decrease) in cash and cash equivalents</b>                       | <b>13,155</b>                 | <b>(30,939)</b>           |
| Cash and cash equivalents, beginning of period                                | 45,807                        | 42,527                    |
| Cash and cash equivalents, end of period                                      | \$ 58,962                     | \$ 11,588                 |



**Cash paid during the period for:**

|              |          |          |
|--------------|----------|----------|
| Interest     | \$ 3,234 | \$ 7,844 |
| Income Taxes | \$ 2,489 | \$ 6,406 |

**Non-Cash Financing:**

|  |    |          |
|--|----|----------|
| Acquisition of capital equipment under capital lease | \$ | \$ 1,655 |
|--|----|----------|

**See accompanying notes**

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**ALTRA HOLDINGS, INC.**

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

**Amounts in thousands, unless otherwise noted**

**1. Organization and Nature of Operations**

Headquartered in Quincy, 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 nine countries and sales coverage in over 70 countries. The Company s leading brands include Boston Gear, Warner Electric, TB Wood s, Formsprag Clutch, Ameridrives Couplings, Industrial Clutch, Kilian Manufacturing, Marland Clutch, Nuttall Gear, Stieber Clutch, Wichita Clutch, Twiflex Limited, Bibby Transmissions, Matrix International, Inertia Dynamics, Huco Dynatork, and Warner Linear.

**2. Basis of Presentation**

The Company was formed on November 30, 2004 following acquisitions of certain subsidiaries of Colfax Corporation ( Colfax ) and The Kilian Company ( Kilian ). During 2006, the Company acquired Hay Hall Holdings Limited ( Hay Hall ) and Bear Linear ( Warner Linear ). On April 5, 2007, the Company acquired TB Wood s Corporation ( TB Wood s ), and on October 5, 2007, the Company acquired substantially all of the assets of All Power Transmission Manufacturing, Inc. ( All Power ). These acquisitions are discussed in detail in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, which is incorporated herein by reference.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which include normal recurring adjustments, necessary to present fairly the unaudited condensed consolidated financial statements as of March 29, 2008 and for the quarters ended March 29, 2008 and March 31, 2007.

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.

The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

**3. 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 dilutive potential 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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The following is a reconciliation of basic to diluted net income per share:

|  | <b>Quarter Ended</b>          |                           |
|--|-------------------------------|---------------------------|
|  | <b>March<br/>29,<br/>2008</b> | <b>March 31,<br/>2007</b> |
| Net income from continuing operations                                  | \$ 8,957                      | \$ 3,768                  |
| Net income from discontinued operations                                | (397)                         |                           |
| <b>Net Income</b>  | <b>\$ 8,560</b>               | <b>\$ 3,768</b>           |
| Shares used in net income per common share basic                       | 25,472                        | 21,880                    |
| Effect of dilutive securities:   |                               |                           |
| Incremental shares of unvested restricted common stock Preferred Stock | 591                           | 998                       |
| Shares used in net income per common share diluted                     | 26,063                        | 22,878                    |
| Earnings per share Basic:  |                               |                           |
| Net income from continuing operations                                  | \$ 0.35                       | \$ 0.17                   |
| Net income from discontinued operations                                | \$ (0.01)                     |                           |
| <b>Net income</b>  | <b>\$ 0.34</b>                | <b>\$ 0.17</b>            |
| Earnings per share Diluted   |                               |                           |
| Net income from continuing operations                                  | \$ 0.34                       | \$ 0.16                   |
| Net income from discontinued operations                                | \$ (0.01)                     |                           |
| <b>Net income</b>  | <b>\$ 0.33</b>                | <b>\$ 0.16</b>            |

**4. Recent Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115* ( SFAS 159 ), which allows an entity to choose to measure certain financial instruments and liabilities at fair value. Subsequent measurements for the financial instruments and liabilities an entity elects to fair value will be recognized in earnings. SFAS 159 also establishes additional disclosure requirements. SFAS 159 is effective for the Company beginning January 1, 2008. The adoptions of SFAS 159 did not have a material impact on our condensed consolidated statement of financial position, results of operations and cash flows. We did not elect to remeasure any existing financial assets or liabilities under the provisions of SFAS 159.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS No. 157 replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair value measurements that already are required or permitted by other accounting standards and does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, which delayed until the first quarter of 2009

the effective date of SFAS No. 157 for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis.

The adoption of SFAS No. 157 for our financial assets and liabilities in the first quarter of 2008 did not have a material impact on our financial position or results of operations. Our nonfinancial assets and liabilities that meet the deferral criteria set forth in FSP No. 157-2 include goodwill, intangible assets, property, plant and equipment. We do not expect that the adoption of SFAS No. 157 for these nonfinancial assets and liabilities will have a material impact on our financial position or results of operations.

#### **5. Discontinued Operations**

On December 31, 2007, the Company completed the divestiture of its TB Wood's adjustable speed drives business ( Electronics Division ) to Vacon PLC ( Vacon ) for \$29.0 million. The decision to sell the Electronics Division was made to allow the Company to continue its strategic focus on its core electro-mechanical power transmission business.

As of December 31, 2007, \$11.9 million of cash had been received from Vacon for the purchase of the Electronics Division. The remaining \$17.1 million was recorded as a receivable for sale of Electronics Division on the consolidated balance sheet, which was received in January 2008. In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS 144 ), the Company determined that the Electronics Division became a discontinued operation in the fourth quarter of 2007. Accordingly, the operating results of the Electronics Division have been segregated from the continuing operations in the consolidated statements of income and comprehensive income for the periods subsequent to the acquisition of TB Wood's (April 5, 2007) through December 31, 2007.

In connection with the sale of the Electronics Division, the Company entered into a transition services agreement. Pursuant to the Agreement, the Company will provide services such as sales support, warehousing, accounting and IT services to Vacon. The Company has recorded the income received as an offset to the related expense of providing the service. During the first quarter of 2008, \$0.2 million was recorded against cost of sales and \$0.4 million as an offset to selling, general and administrative. The Company also leases building space to Vacon. The Company recorded \$0.2 million of lease income in other income in the condensed consolidation statement of income during the first quarter of 2008.

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

Income from discontinued operations in the first quarter 2008 was comprised of a purchase price working capital adjustment of \$200 before taxes, which increased the previously recorded gain on sale, partially offset by an adjustment to deferred taxes of \$290.

**6. Inventories**

Inventories located at certain subsidiaries acquired in connection with the TB Woods acquisition are stated at the lower of current cost or market, principally using the last-in, first-out ( LIFO ) method. The remaining subsidiaries are stated at the lower of cost or market, using the first-in, first-out ( FIFO ) method. Market is defined as net realizable value. Inventories at March 29, 2008 and December 31, 2007 consisted of the following:

|                  | <b>March 29,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|------------------|---------------------------|----------------------------------|
| Raw materials    | \$ 36,165                 | \$ 33,601                        |
| Work in process  | 21,273                    | 20,376                           |
| Finished goods   | 44,666                    | 47,858                           |
| Inventories, net | \$ 102,104                | \$ 101,835                       |

Approximately 15% of total inventories at March 29, 2008 were valued using the LIFO method. For the quarter to date period ended March 29, 2008, a \$0.2 million LIFO provision was recorded as a component of cost of sales in the accompanying statement of income and comprehensive income.

All LIFO inventory acquired as part of the TB Woods acquisition was valued at the estimated fair market value less costs to sell. The adjustment resulted in a \$1.7 million increase in the carrying value of the inventory. As of March 29, 2008, the net LIFO reserve included as part of inventory on the consolidated balance sheet was an asset of \$1.2 million.

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

A roll forward of goodwill from December 31, 2007 through March 29, 2008 was as follows:

**Goodwill**

|  |            |
|--|------------|
| Balance December 31, 2007                            | \$ 114,979 |
| Adjustments to acquisition related tax contingencies | (194)      |
| Impact of changes in foreign currency                | 750        |
| Balance March 29, 2008                               | \$ 115,535 |

Other intangible assets as of March 29, 2008 and December 31, 2007 consisted of the following:

|  | <b>March 29, 2008</b> |                                     | <b>December 31, 2007</b> |                                     |
|--|-----------------------|-------------------------------------|--------------------------|-------------------------------------|
|  | <b>Cost</b>           | <b>Accumulated<br/>Amortization</b> | <b>Cost</b>              | <b>Accumulated<br/>Amortization</b> |
| <b>Other Intangible assets</b>                 |                       |                                     |                          |                                     |
| Intangible assets not subject to amortization: |                       |                                     |                          |                                     |
| Tradenames and trademarks                      | \$ 30,730             | \$                                  | \$ 30,730                | \$                                  |
| Intangible assets subject to amortization:     |                       |                                     |                          |                                     |
| Customer relationships                         | 62,038                | 11,555                              | 62,038                   | 10,139                              |
| Product technology and patents                 | 5,232                 | 2,367                               | 5,232                    | 2,348                               |
| Impact of changes in foreign currency          | 4,097                 |                                     | 3,430                    |                                     |
| Total intangible assets                        | \$ 102,097            | \$ 13,922                           | \$ 101,430               | \$ 12,487                           |

The Company recorded \$1.4 million and \$1.0 million of amortization expense for the quarters ended March 29, 2008 and March 31, 2007, respectively.

The estimated amortization expense for intangible assets is approximately \$4.1 million for the remainder of 2008 and \$5.5 million in each of the next four years and then \$27.2 million thereafter.

**8. Assets Held for Sale**

During the fourth quarter of 2007, management entered into a plan to exit the building located in Stratford, Canada. The facility, which was acquired as part of the TB Wood's acquisition is to be combined with the Company's remaining facilities in 2008. In the first quarter of 2008, management entered into a plan to exit two buildings, one in Scotland, Pennsylvania and one in Chattanooga, Tennessee. The two buildings were the operating facilities for the Electronics Division. The Company currently leases the space to Vacon. The net book value for all of the buildings is less than the fair market value less cost to sell and therefore no impairment loss has been recorded. In accordance with SFAS 144, the buildings are classified as an asset held for sale in the consolidated balance sheet.

**9. Warranty Costs**

Changes in the carrying amount of accrued product warranty costs for the quarters ended March 29, 2008 and March 31, 2007 are as follows:

|                                | <b>March 29,<br/>2008</b> | <b>March 31,<br/>2007</b> |
|--------------------------------|---------------------------|---------------------------|
| Balance at beginning of period | \$ 4,098                  | \$ 2,083                  |
| Accrued warranty costs         | 608                       | 326                       |

|                          |          |          |
|--------------------------|----------|----------|
| Payments and adjustments | (1,493)  | (208)    |
| Balance at end of period | \$ 3,213 | \$ 2,201 |

**10. Income Taxes**

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

The estimated effective income tax rates recorded for the quarters ended March 29, 2008 and March 31, 2007 were based upon management's best estimate of the effective tax rate for the entire year. The change in the effective tax rate for continuing operations from 37.4% at March 31, 2007 to 35.1% at March 29, 2008, principally relates to a change in the earnings mix among tax jurisdictions. The 2008 tax rate differs from the statutory rate due to the impact of non-U.S. tax rates and permanent differences.

The Company adopted the provisions of FASB interpretation No. 48, *Accounting for Uncertainty in Income Taxes* and an interpretation of FASB 109 (FIN 48) as of January 1, 2007. At March 29, 2008, the Company had \$3.9 million of unrecognized tax benefits, of which \$1.2 million, if recognized would reduce the Company's effective tax rate and \$2.7 million would result in a decrease to goodwill. We do not expect the amount of unrecognized tax benefit disclosed above to change significantly over the next 12 months.

The Company and its subsidiaries file consolidated and separate income tax returns in the U.S. federal jurisdiction as well as in various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in all 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 2004 in these major jurisdictions. Additionally, the Company has indemnification agreements with the sellers of the Colfax and Hay Hall entities, which provides 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 and comprehensive income. At December 31, 2007 and March 29, 2008, the Company had \$1.7 million and \$1.8 million of accrued interest and penalties, respectively.

**11. Pension and Other Employee Benefits*****Defined Benefit (Pension) and Postretirement Benefit Plans***

The Company sponsors various defined benefit (pension) and postretirement (medical and life insurance coverage) plans for certain, primarily unionized, active employees (those in the employment of the Company at or hired since November 30, 2004). Additionally, the Company assumed all post-employment and post-retirement welfare benefit obligations with respect to active U.S. employees in connection with its acquisition of certain subsidiaries of Colfax on November 30, 2004..

The following table represents the components of the net periodic benefit cost associated with the respective plans for the quarters ended March 29, 2008 and March 31, 2007:

|   | <b>Quarter Ended</b>          |                           |                               |                           |
|---|-------------------------------|---------------------------|-------------------------------|---------------------------|
|   | <b>Pension Benefits</b>       |                           | <b>Other Benefits</b>         |                           |
|   | <b>March<br/>29,<br/>2008</b> | <b>March 31,<br/>2007</b> | <b>March<br/>29,<br/>2008</b> | <b>March 31,<br/>2007</b> |
| Service cost                                | \$ 16                         | \$ 65                     | \$ 15                         | \$ 18                     |
| Interest cost                               | 378                           | 336                       | 52                            | 49                        |
| Expected return on plan assets              | (326)                         | (268)                     |                               |                           |
| Amortization of prior service cost (income) |                               | 2                         | (243)                         | (243)                     |
| Amortization of net (gain)                  |                               |                           | (6)                           | (53)                      |
| Net periodic benefit cost (income)          | \$ 68                         | \$ 135                    | \$ (182)                      | \$ (229)                  |



**Table of Contents****ALTRA HOLDINGS, INC.****Notes to Unaudited Condensed Consolidated Interim Financial Statements**

Amounts in thousands, unless otherwise noted

**12. Long-Term Debt**

Long-term debt obligations at March 29, 2008 and December 31, 2007 were as follows:

|   | <b>March 29,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|---|---------------------------|----------------------------------|
| Revolving credit agreement                        | \$                        | \$                               |
| TB Wood's revolving credit agreement              | 6,000                     | 7,700                            |
| Overdraft agreements                              |                           |                                  |
| 9% Senior Secured Notes                           | 270,000                   | 270,000                          |
| 11.25% Senior Notes                               | 6,531                     | 7,790                            |
| Variable rate demand revenue bonds                | 5,300                     | 5,300                            |
| Mortgages   | 2,695                     | 2,639                            |
| Capital leases                                    | 3,154                     | 3,449                            |
| Less: debt discount and premium, net of accretion | (2,632)                   | (2,812)                          |
| Total long-term debt                              | 291,048                   | 294,066                          |

**Revolving Credit Agreement**

The Company maintains a \$30 million revolving borrowings facility with a commercial bank (the Revolving Credit Agreement) through its wholly owned subsidiary Altra Industrial Motion, Inc. (Altra Industrial). The Revolving Credit Agreement is subject to certain limitations resulting from the requirement of Altra Industrial to maintain certain levels of collateralized assets, as defined in the Revolving Credit Agreement. Altra Industrial may use up to \$10.0 million of its availability under the Revolving Credit Agreement for standby letters of credit issued on its behalf, the issuance of which will reduce the amount of borrowings that would otherwise be available to Altra Industrial. Altra Industrial may re-borrow any amounts paid to reduce the amount of outstanding borrowings; however, all borrowings under the Revolving Credit Agreement must be repaid in full as of November 30, 2010.

Substantially all of Altra Industrial's assets have been pledged as collateral against outstanding borrowings under the Revolving Credit Agreement. The Revolving Credit Agreement requires Altra Industrial to maintain a minimum fixed charge coverage ratio (when availability under the line falls below \$12.5 million) and imposes customary affirmative covenants and restrictions on Altra Industrial. Altra Industrial was in compliance with all requirements of the Revolving Credit Agreement at March 29, 2008.

There were no borrowings under the Revolving Credit Agreement at March 29, 2008 and December 31, 2007. However, the lender had issued \$7.3 million and \$6.5 million of outstanding letters of credit as of March 29, 2008 and December 31, 2007, respectively, under the Revolving Credit Agreement.

In April 2007, Altra Industrial amended the Revolving Credit Agreement. The interest rate on any outstanding borrowings on the line of credit were reduced to the lender's Prime Rate plus 25 basis points or LIBOR plus 175 basis points. The rate on all outstanding letters of credit was reduced to 1.5% and .25% on any unused availability under the Revolving Credit Agreement.

**TB Wood's Revolving Credit Agreement**

As part of the TB Wood's acquisition, the Company refinanced a \$13.0 million existing line of credit agreement through TB Wood's (the TB Wood's Credit Agreement) with a commercial bank. As of March 29, 2008, there was \$6.0 million outstanding under the TB Wood's Credit Agreement, and \$7.0 million of outstanding letters of credit. All borrowings under the TB Wood's Credit Agreement must be repaid in full as of November 30, 2010.

**Overdraft Agreements**

Certain of our foreign subsidiaries maintain overdraft agreements with financial institutions. There were no borrowings as of March 29, 2008 or December 31, 2007 under any of the overdraft agreements.

**9% Senior Secured Notes**

On November 30, 2004, Altra Industrial issued 9% Senior Secured Notes ( Senior Secured Notes ), with a face value of \$165.0 million. Interest on the 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%. The Senior Secured Notes mature on December 1, 2011 unless previously redeemed by Altra Industrial.

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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 Senior Secured Notes. The additional \$105.0 million has the same terms and conditions as the previously issued Senior Secured Notes. The effective interest rate on the Senior Secured Notes, after the follow-on offering is approximately 9.6% after consideration of the amortization of \$5.5 million net discount and \$6.5 million of deferred financing costs.

The Senior Secured Notes are guaranteed by Altra Industrial s U.S. domestic subsidiaries and are secured by a second priority lien, subject to first priority liens securing the Revolving Credit Agreement, on substantially all of Altra Industrial s assets. The Senior Secured Notes contain numerous terms, covenants and conditions, which impose substantial limitations on Altra Industrial. Altra Industrial was in compliance with all covenants of the indenture governing the Senior Secured Notes at March 29, 2008.

**11.25% Senior Notes**

On February 8, 2006, the Company issued 11.25% Senior Notes ( Senior Notes ), with a face value of £33 million. Interest on the Senior Notes is 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 Senior Notes is approximately 12.4%, after consideration of the \$0.6 million of deferred financing costs (included in other assets). The Senior Notes mature on February 13, 2013.

The Senior Notes are guaranteed on a senior unsecured basis by the Company s U.S. domestic subsidiaries. The Senior Notes contain numerous terms, covenants and conditions, which impose substantial limitations on the Company. The Company was in compliance with all covenants of the indenture governing the Senior Notes at March 29, 2008.

On March, 19, 2008, Altra Industrial retired £0.7 million, or \$1.3 million aggregate principal amount of the outstanding Senior Notes at a redemption price of 106.0% of the principal amount of the Senior Notes, plus accrued and unpaid interest. In connection with the redemption, Altra Industrial incurred \$0.1 million of pre-payment premium.

As of March 29, 2008, the remaining principal balance outstanding on the Senior Notes was £3.3 million, or \$6.5 million, and the effective rate of interest including the amortization of deferred financing costs was 12.7%.

**Variable Rate Demand Revenue Bonds**

In connection with the acquisition of TB Wood s, the Company assumed the Variable Rate Demand Revenue Bonds outstanding as of the acquisition date. TB Wood s had borrowed approximately \$3.0 million and \$2.3 million by issuing Variable Rate Demand Revenue Bonds 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 (2.36% interest at March 29, 2008), and mature in April 2024 and April 2022. 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 TB Wood s Credit Agreement.

During the first quarter of 2008, the Company formulated a plan to sell the building in Chattanooga, Tennessee. According to the terms of the debt agreement, if Altra Industrial sells the building, the debt will have to be paid in full. As a result, the debt is classified as a current liability on the condensed consolidated balance sheet.

**Mortgage**

In June 2006, the Company entered into a mortgage on its building in Heidelberg, Germany with a local bank. As of March 29, 2008 and December 31, 2007, the mortgage had a remaining principal balance outstanding of 1.7 million, or (\$2.7 million) and 1.8 million or (\$2.6 million), respectively, and an interest rate of 5.75%. The mortgage 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. Capital lease obligations amounted to approximately \$3.2 million and \$3.4 million at March 29, 2008 and December 31, 2007, respectively. Assets under capital leases are included in property, plant and

equipment with the related amortization recorded as depreciation expense.

**13. Stockholder s Equity**

As of March 29, 2008, the Company had 10,000,000 shares of undesignated Preferred Stock authorized ( Preferred Stock ). The Preferred Stock may be issued from time to time in one or more classes or series, the shares of each class or series to have such

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

designations and powers, preferences, and rights, and qualifications, limitations and restrictions as determined by the Company's Board of Directors. There was no Preferred Stock issued or outstanding at March 29, 2008.

**Stock-Based Compensation**

In January 2005, 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 between 3.5 to 5 years, provided, that the vesting of the restricted shares may accelerate upon the occurrence of certain liquidity events, if approved by the Board of Directors in connection with the transactions.

The Plan permits the Company to grant restricted stock to key employees and other persons who make significant contributions to the success of the Company. The restrictions and vesting schedule for restricted stock granted under the Plan are determined by the Compensation Committee of the Board of Directors. Compensation expense recorded during the quarters ended March 29, 2008 and March 31, 2007 was \$0.4 million (\$0.3 million net of tax) and \$0.3 million (\$0.2 million, net of tax), respectively. Compensation expense is recognized on a straight-line basis over the vesting period.

The following table sets forth the activity of the Company's unvested restricted stock grants in the quarter ending March 29, 2008:

|  | <b>Shares</b> | <b>Weighted-average<br/>grant date fair<br/>value</b> |
|--|---------------|---|
| Restricted shares unvested December 31, 2007 | 1,120,865     | \$ 3.76   |
| Shares granted                               | 157,762       | \$ 13.59  |
| Shares for which restrictions lapsed         | (348,012)     | \$ 3.37   |
| Restricted shares unvested March 29, 2008    | 930,615       | \$ 4.97   |

Total remaining unrecognized compensation cost is approximately \$4.5 million as of March 29, 2008, and 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 first quarter 2008 was \$5.5 million. Subsequent to the initial public offering of the Company, restricted shares granted were valued based on the fair market value of the stock on the date of grant.

**14. Related-Party Transactions****Joy Global Sales**

One of the Company's directors had been an executive of Joy Global, Inc. until his resignation March 3, 2008. The Company sold approximately \$1.3 million and \$1.5 million to divisions of Joy Global, Inc. in the quarter ended March 29, 2008 and March 31, 2007, respectively. Other than his former position as an executive of Joy Global, Inc., the Company's director has no interest in sales transactions between the Company and Joy Global, Inc.

**15. Concentrations of Credit, Business Risks and Workforce**

Financial instruments which are potentially subject to concentrations of credit risk consist primarily of trade accounts receivable. The Company manages this risk 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.

Credit related losses may occur in the event of non-performance by counterparties to financial instruments. Counterparties typically represent international or well established financial institutions.

No single customer represented 10% or more of the Company's sales for either of the quarters ended March 29, 2008 and March 31, 2007.



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Approximately 20.0% of the Company's labor force (14.3% and 51.8% in the United States and Europe, respectively) is represented by collective bargaining agreements.

**16. Geographic Information**

The Company operates in a single business segment for the development, manufacturing and sales of mechanical power transmission products. The Company's chief operating decision maker reviews consolidated operating results in order to make decisions about allocating resources and assess performance for the entire Company. Net sales to third parties and property, plant and equipment by geographic region are as follows (in thousands):

|                                | Net Sales      |                | Property, Plant and Equipment |                |
|--------------------------------|----------------|----------------|-------------------------------|----------------|
|                                | Quarter Ended  |                | March                         |                |
|                                | March 29, 2008 | March 31, 2007 | March 29, 2008                | March 31, 2007 |
| North America (primarily U.S.) | \$ 118,703     | \$ 93,279      | \$ 82,191                     | \$ 50,454      |
| Europe                         | 38,239         | 35,580         | 30,355                        | 29,143         |
| Asia and other                 | 6,240          | 3,947          | 2,419                         | 1,790          |
| Total                          | \$ 163,182     | \$ 132,706     | \$ 114,965                    | \$ 81,387      |

Net sales to third parties are attributed to the geographic regions based on the country in which the shipment originates. Amounts attributed to the geographic regions for long-lived assets are based on the location of the entity which holds such assets.

The net assets of foreign subsidiaries at March 29, 2008 and March 31, 2007 were \$59.9 million and \$47.7 million, respectively.

The Company has not provided specific product line sales as our general purpose financial statements do not allow us to readily determine groups of similar product sales.

**17. 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 financial condition of the Company. With respect to these proceedings, management believes that it 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 financial condition of the Company.

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

**18. Restructuring, Asset Impairment and Transition Expenses**

During 2007, the Company adopted two restructuring programs. The first was intended to improve operational efficiency by reducing headcount, consolidating operating facilities and relocating manufacturing to lower cost areas (the Altra Plan). The second was related to the acquisition of TB Woods and is intended to reduce duplicate staffing and consolidate facilities (the TB Woods Plan). The plan was initially formulated at the time of the TB Woods acquisition and therefore the accrual has been recorded as part of purchase price accounting. The Company's total restructuring expense, by major component for the quarter ended March 29, 2008 were as follows:





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

|   | <b>Altra<br/>Plan</b> | <b>TB<br/>Wood s<br/>Plan</b> | <b>Total</b> |
|---|-----------------------|-------------------------------|--------------|
| Expenses  |                       |                               |              |
| Non-cash asset impairment and loss on sale of fixed asset | \$ 70                 | \$                            | \$ 70        |
| Other cash expenses                                       |                       |                               |              |
| Moving and relocation                                     | 122                   | 61                            | 183          |
| Severance   | 480                   |                               | 480          |
| Total cash expenses                                       | 602                   | 61                            | 663          |
| Total restructuring expenses                              | \$ 672                | \$ 61                         | \$ 733       |

The following is a reconciliation of the accrued restructuring costs between December 31, 2007 and March 29, 2008:

|   | <b>Altra<br/>Plan</b> | <b>TB<br/>Wood s<br/>Plan</b> | <b>Total</b> |
|---|-----------------------|-------------------------------|--------------|
| Balance at December 31, 2007              | \$ 449                | \$ 1,029                      | \$ 1,478     |
| Restructuring expense incurred            | 672                   | 61                            | 733          |
| Cash payments                             | (293)                 | (655)                         | (948)        |
| Non-cash loss on disposal of fixed assets | (70)                  |                               | (70)         |
| Balance at March 29, 2008                 | \$ 758                | \$ 435                        | \$ 1,193     |

The Company expects to incur an additional \$1.0 million in severance expense over the remainder of the Altra Plan restructuring program, and an additional \$0.6 million of moving and relocation costs.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion of the financial condition and results of operations of Altra Holdings, Inc. should be read together with the audited financial statements of Altra Holdings, Inc. and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The following discussion includes forward-looking statements. For a discussion of important factors that could cause actual results to differ materially from the results referred to in the forward-looking statements, see Forward-Looking Statements. in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.*

**General**

We are a leading global designer, producer and marketer of a wide range of mechanical power transmission and motion control products with a presence in over 70 countries. Our global sales and marketing network includes over 1,000 direct original equipment manufacturers ( OEM ) and over 3,000 distributor outlets. We are headquartered in Quincy, Massachusetts.

Our product portfolio includes industrial clutches and brakes, open and enclosed gearing, couplings, engineered belted drives, engineered bearing assemblies and other related power transmission components which are sold across a wide variety of industries, including energy, general industrial, material handling, mining, transportation and turf and garden. Our products benefit from our industry leading brand names including Warner Electric, Boston Gear, TB Wood's, Kilian, Nuttall Gear, Ameridrives, Wichita Clutch, Formsprag Clutch, Bibby Transmissions, Stieber, Matrix, Inertia Dynamics, Twiflex, Industrial Clutch, Huco Dynatork, Marland Clutch, Delroyd, Warner Linear, and Saftek. We primarily sell our products to OEMs and through long-standing relationships with the industry's leading industrial distributors such as Motion Industries, Applied Industrial Technologies, Kaman Industrial Technologies and W.W. Grainger.

**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 of America 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. Management believes there have been no significant changes in our critical accounting policies since December 31, 2007. See the discussion of critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2007.

**Recent Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an Amendment of FASB Statement No. 115* ( SFAS 159 ), which allows an entity to choose to measure certain financial instruments and liabilities at fair value. Subsequent measurements for the financial instruments and liabilities an entity elects to fair value will be recognized in earnings. SFAS 159 also establishes additional disclosure requirements. SFAS 159 is effective for the Company beginning January 1, 2008. The adoptions of SFAS 159 did not have a material impact on our condensed consolidated statement of financial position, results of operations and cash flows. We did not elect to remeasure any existing financial assets or liabilities under the provisions of SFAS 159.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS No. 157 replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair value measurements that already are required or permitted by other accounting standards and does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, which delayed until the first quarter of 2009 the effective date of SFAS No. 157 for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis.

The adoption of SFAS No. 157 for our financial assets and liabilities in the first quarter of 2008 did not have a material impact on our financial position or results of operations. Our nonfinancial assets and liabilities that meet the deferral criteria set forth in FSP No. 157-2 include goodwill, intangible assets, property, plant and equipment. We do

not expect that the adoption of SFAS No. 157 for these nonfinancial assets and liabilities will have a material impact on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is

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effective for the Company beginning January 1, 2009. The Company is currently evaluating the potential impact of the adoption of SFAS 141R on the Company's consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51* ( SFAS 160 ). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for the Company beginning January 1, 2009. The Company is currently evaluating the potential impact of the adoption of SFAS 160 on their consolidated financial position, results of operations and cash flows.

### **Non-GAAP Financial Measures**

The discussion of EBITDA (earnings before interest, income taxes, depreciation and amortization) included in the discussion of Results of Operations below is being provided because management considers EBITDA to be an important measure of financial performance. Among other things, management believes that EBITDA provides useful information for our investors because it is useful for trending, analyzing and benchmarking the performance and value of our business. Management also believes that EBITDA is useful in assessing current performance compared with our historical performance because significant line items within our statements of operations such as depreciation, amortization and interest expense are significantly impacted by acquisitions. Internally, EBITDA is used as a financial measure to assess the operating performance and is an important measure in our incentive compensation plans.

EBITDA has important limitations, and should not be considered in isolation or as a substitute for analysis of our results as reported under generally accepted accounting principles in the United States ( GAAP ). For example, EBITDA does not reflect:

- cash expenditures, or future requirements, for capital expenditures or contractual commitments;

- changes in, or cash requirements for, working capital needs;

- the significant interest expense, or the cash requirements necessary to service interest or principal payments on debts;

- tax distributions that would represent a reduction in cash available to us; and

- any cash requirements for assets being depreciated and amortized that may have to be replaced in the future.

EBITDA is not a recognized measurement under GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, operating income and net income (each as determined in accordance with GAAP). Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. The amounts shown for EBITDA also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

To compensate for the limitations of EBITDA we utilize several GAAP measures to review our performance. These GAAP measures include, but are not limited to, net income, operating income, cash provided by (used in) operations, cash provided by (used in) investing activities and cash provided by (used in) financing activities. These important GAAP measures allow our management to, among other things, review and understand our uses of cash period to period, compare our operations with competitors on a consistent basis and understand the revenues and expenses matched to each other for the applicable reporting period. We believe that the use of these GAAP measures, supplemented by the use of EBITDA, allows us to have a greater understanding of our performance and allows us to adapt to changing trends and business opportunities.



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

|   | <b>Quarter Ended</b>          |                           |
|---|-------------------------------|---------------------------|
|   | <b>March<br/>29,<br/>2008</b> | <b>March 31,<br/>2007</b> |
|   | <b>(Amounts in thousands)</b> |                           |
| Net sales   | \$ 163,182                    | \$ 132,706                |
| Cost of sales   | 115,384                       | 94,658                    |
| Gross profit  | 47,798                        | 38,048                    |
| <i>Gross profit percentage</i>                        | 29.3%                         | 28.7%                     |
| Selling, general and administrative expenses          | 24,713                        | 20,827                    |
| Research and development expenses                     | 1,731                         | 1,294                     |
| Restructuring charges                                 | 733                           | 793                       |
| Income from continuing operations                     | 20,621                        | 15,134                    |
| Interest expense, net                                 | 7,441                         | 9,148                     |
| Other non-operating income, net                       | (626)                         | (47)                      |
| Income from continuing operations before income taxes | 13,806                        | 6,033                     |
| Provision for income taxes                            | 4,849                         | 2,265                     |
| Net income from continuing operations                 | 8,957                         | 3,768                     |
| Income from discontinued operations                   | (397)                         | 0                         |
| Net income  | 8,560                         | 3,768                     |

***Quarter Ended March 29, 2008 Compared with Quarter Ended March 31, 2007***  
***(Amounts in thousands unless otherwise noted)***

|                  | <b>Quarter Ended</b>      |                           |               |          |
|------------------|---------------------------|---------------------------|---------------|----------|
|                  | <b>March 29,<br/>2008</b> | <b>March 31,<br/>2007</b> | <b>Change</b> | <b>%</b> |
| <i>Net sales</i> | \$ 163,182                | \$ 132,706                | \$ 30,476     | 23.0%    |

The increase in net sales was primarily due to the 2007 acquisitions of TB Woods and All Power which contributed \$22.8 million of quarterly sales. The remaining increase in net sales was due to price increases, strong after market sales, the strength of several key markets including energy, primary metals and mining and the impact of a stronger Euro and British Pound Sterling.

|  | <b>Quarter Ended</b>      |                           |               |          |
|--|---------------------------|---------------------------|---------------|----------|
|  | <b>March 29,<br/>2008</b> | <b>March 31,<br/>2007</b> | <b>Change</b> | <b>%</b> |
| <i>Gross profit</i>                              | \$ 47,798                 | \$ 38,048                 | \$ 9,750      | 25.6%    |
| <i>Gross profit as a percentage of net sales</i> | 29.3%                     | 28.7%                     |               |          |

The increase in gross profit was primarily due to the 2007 acquisitions of TB Woods and All Power which added gross profit of \$5.9 million. Gross profit of other operations also increased due to price increases, an increase in low cost country material sourcing and manufacturing, and further manufacturing efficiencies as a result of continued application of the Altra business system, including lean management with emphasis on quality, delivery, and operational cost improvements. Gross profit also increased due to the stronger Euro and British Pound Sterling.

Cost of sales benefited from warehousing fees of \$0.2 million billed as a part of our transition services which was entered into in connection with the sale of TB Woods Electronics Division. These warehousing services may be provided until December 31, 2009.

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|  | March 29,<br>2008 | Quarter Ended<br>March 31,<br>2007 | Change  | %     |
|--|-------------------|------------------------------------|---------|-------|
| <i>Selling, general and administrative expense</i><br>( SG&A ) | \$24,713          | \$ 20,827                          | \$3,886 | 15.7% |
| <i>SG&amp;A as a percentage of sales</i>                       | 15.1%             | 15.7%                              |         |       |

The SG&A increase was due primarily to the inclusion of TB Wood s and All Power s G&A in the first quarter 2008 which added \$3.2 million. The remaining increase resulted from additional amortization of intangible assets associated with the TB Wood s acquisition, and wage increases. SG&A as a percentage of sales decreased primarily due to the leverage achieved by reducing duplicate costs between the Company and TB Wood s.

SG&A was net of a credit of \$0.4 million for billings related to our transition services agreement for sales commissions, information technology, accounts payable and payroll services. These transition services may be provided until December 31, 2009.

|  | March 29,<br>2008 | Quarter Ended<br>March 31,<br>2007 | Change | %     |
|--|-------------------|------------------------------------|--------|-------|
| <i>Research and development expenses</i> ( R&D ) | \$1,731           | \$ 1,294                           | \$437  | 33.8% |

R&D increased primarily due to the inclusion of TB Wood s in the quarter ended March 29, 2008, which amounted to \$0.4 million additional R&D.

|                               | March<br>29, 2008 | Quarter Ended<br>March 31,<br>2007 | Change | %      |
|-------------------------------|-------------------|------------------------------------|--------|--------|
| <i>Restructuring expenses</i> | \$733             | \$ 793                             | \$(60) | (8.2%) |

During 2007, we adopted two restructuring programs. The first was intended to improve operational efficiency by reducing headcount, consolidating our operating facilities and relocating manufacturing to lower cost areas (the Altra Plan ). The second was related to the acquisition of TB Wood s and was intended to reduce duplicate staffing and consolidate facilities (the TB Wood s Plan ). We recorded approximately \$0.6 million in the first quarter of 2008 of restructuring expenses for moving and relocation, and severance pay. Non-cash asset impairment was \$0.1 million for the quarter ended March 29, 2008.

|                              | March 29,<br>2008 | Quarter Ended<br>March 31,<br>2007 | Change    | %       |
|------------------------------|-------------------|------------------------------------|-----------|---------|
| <i>Interest expense, net</i> | \$7,441           | \$ 9,148                           | \$(1,707) | (18.7%) |

Net interest expense decreased due to the lower average outstanding balance of 11.25% Senior Notes during Q1 2008, which resulted in lower interest and lower prepayment penalties and other fees of \$3.7 million compared to the prior year s quarter. This was offset by \$2.4 million of interest associated with the Senior Secured Notes that were issued in the second quarter of 2007. For a description of the 9% Senior Secured Notes and the 11.25% Senior Notes, please see Note 12 to our Condensed Consolidated Financial Statements in Item I of this Form 10-Q.

Quarter Ended



|  | March 29,<br>2008 | March 31,<br>2007 | Change | %   |
|--|-------------------|-------------------|--------|-----|
| <i>Other non-operating income, net</i> | \$(626)           | \$ (47)           | \$579  | N/A |

Other non-operating income included rental income of \$0.2 million for facility rentals under lease agreements which were part of the sale of TB Woods Electronics Division and have a term of two years, with annual extensions thereafter at the lessee's, or the Company's, option. The remaining increase was primarily the net gain on foreign currency transactions.

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|   | Quarter Ended     |                   | Change  | %     |
|---|-------------------|-------------------|---------|-------|
|   | March 29,<br>2008 | March 31,<br>2007 |         |       |
| <i>Earnings before interest taxes depreciation &amp; amortization</i> |                   |                   |         |       |
| <b>EBITDA</b>   | \$26,390          | \$ 19,600         | \$6,790 | 34.6% |

To reconcile EBITDA to net income for the quarter ended March 29, 2008, we added back to net income \$4.8 million provision for income taxes, \$7.4 million of net interest expense and \$5.5 million of depreciation and amortization expenses. To reconcile net income to EBITDA for the quarter ended March 31, 2007, we added back to net income \$2.3 million provision for income taxes, \$9.1 million of net interest expense and \$4.5 million of depreciation and amortization expenses. The EBITDA increase was due to the acquisition of TB Wood s and All Power s EBITDA of \$3.9 million, strategic price increases, sales volume gains in our base products, and cost savings measures.

|   | Quarter Ended     |                   | Change  | %     |
|---|-------------------|-------------------|---------|-------|
|   | March 29,<br>2008 | March 31,<br>2007 |         |       |
| <i>Provision for income taxes, continuing operations</i>        | \$4,849           | \$ 2,265          | \$2,584 | 53.3% |
| <i>Provision for income taxes as a % of income before taxes</i> | 35.1%             | 37.5%             |         |       |

The 2008 provision for income taxes, as a percentage of income before taxes, was lower than that of 2007, primarily due to the effect of reductions of tax rates in several foreign jurisdictions and change in earnings mix among tax jurisdictions.

**Discontinued Operations**

On December 31, 2007, we completed the divestiture of our TB Wood s adjustable speed drives business ( Electronics Division ) for \$29.0 million. The decision to sell the Electronics Division was made to allow us to continue our strategic focus on our core electro-mechanical power transmission business. As of December 31, 2007, \$11.9 million of cash had been received for the purchase of the Electronics Division, and the remaining \$17.1 million was recorded as a receivable for the sale of Electronics Division on the consolidated balance sheet, which was received in January 2008.

The Electronics Division was classified as a discontinued operation in the fourth quarter of 2007 and, accordingly, the operating results of the Electronics Division were segregated from the continuing operations in the consolidated statements of income for the periods subsequent to the acquisition of TB Wood s on April 5, 2007 through December 31, 2007. Since the purchase of TB Wood s occurred after the first quarter of 2007, there is no impact on the first quarter 2007, however, the Electronics Division s operating activity for the remaining quarters of 2007 will be reclassified as a discontinued operation. For the approximately nine-month period from April 5, 2007 to December 31, 2007, the Electronics Division recorded \$28.7 million in sales, income before taxes of \$4.1 million, and net loss after taxes of \$2 million, which will be classified as discontinued operations in the remaining three quarters of 2007 for comparative purposes.

Income from discontinued operations in the first quarter 2008 was comprised of a purchase price working capital adjustment of \$200 before taxes, which increased the previously recorded gain on sale, partially offset by an adjustment to deferred taxes of \$290.

**Liquidity and Capital Resources****Net Cash**

| March 29,<br>2008 | December 31,<br>2007 |
|-------------------|----------------------|
|-------------------|----------------------|

(in thousands)

*Cash and cash equivalents*

\$58,962

\$ 45,807

**Cash and cash equivalents increased \$13.2 million in the first quarter 2008 due to the following:**

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Net cash provided by operating activities for the first quarter 2008 of \$3.9 million resulted mainly from cash provided by net income of \$8.6 million, plus the add-back of non-cash depreciation, amortization, stock based compensation, disposal of fixed assets, accretion of debt discount/premium and deferred financing costs of \$6.9 million, offset by a net increase in operating assets and liabilities of \$11.2 million, due mainly to a \$16.0 million increase in trade receivables, partially offset by higher accounts payable and accrued liabilities and \$0.4 million of income from foreign currency. The increase in A/R was primarily due to record sales in March 2008 versus December 2007 and timing of payments from certain large customers who paid balances in full at December 31, 2007.

Net cash received from investing activities of \$12.5 million for the first quarter 2008 resulted primarily from \$17.0 million from the proceeds from the sale of the Electronics Division, offset by the purchase of manufacturing equipment of \$4.5 million.

Net cash used by financing activities of \$3.5 million for the first quarter 2008 consisted primarily of payments on the TB Wood's revolving line of credit of \$1.7 million, payments on the Senior Notes of \$1.3 million, payments on mortgages of \$0.1 million and payments of capital lease obligations of \$0.3 million.

**Liquidity**

Our primary source of liquidity will be cash flow from operations and borrowings under our senior revolving credit facility. See Note 12 to the Condensed Consolidated Financial Statements for explanation of our senior revolving credit facility and other indebtedness. We expect that our primary ongoing requirements for cash will be for working capital, debt service, capital expenditures and pension plan funding.

We incurred substantial indebtedness in connection with the acquisitions of subsidiaries of Colfax Corporation and of Hay Hall and TB Wood's. As of March 29, 2008, taking into account these transactions, we had approximately \$293.7 million of total indebtedness outstanding including capital leases and mortgages. We expect our interest expense, arising from our existing debt, to be approximately \$28.1 million on an annual basis, through the maturity of the \$270.0 million of Senior Secured Notes, which are due December 1, 2011.

Our senior revolving credit facility provides for senior secured financing of up to \$30.0 million, including \$10.0 million available for letters of credit through November 30, 2010. As of March 29, 2008, there were no outstanding borrowings, but there were \$7.3 million of outstanding letters of credit issued under our senior revolving credit facility.

We had \$6.0 million principal borrowings outstanding and \$7.0 million of outstanding letters of credit as of March 29, 2008 under the TB Wood's \$13.0 million revolving credit facility, which is due in 2010.

We made capital expenditures of approximately \$4.5 million and \$6.8 million in the quarters ended March 29, 2008 and March 31, 2007, respectively. These capital expenditures will support on-going manufacturing requirements.

We have cash funding requirements associated with our pension plan which are estimated to be \$1.8 million for the remainder of 2008, \$5.7 million in 2009, \$1.3 million for 2010, \$2.0 million for 2011, and \$2.1 million thereafter.

Our ability to make scheduled payments of principal and interest, to fund planned capital expenditures and to meet our pension plan funding obligations will depend on our ability to generate cash in the future. Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our senior revolving credit facility will be adequate to meet our future liquidity requirements for at least the next two years. However, our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. See the section entitled *Changes in general economic conditions or the cyclical nature of our markets could harm our operations and financial performance* in our Annual Report on Form 10-K for the year ended December 31, 2007 for further discussion.

We cannot assure you that our business will generate sufficient cash flow from operations, that any revenue growth or operating improvements will be realized or that future borrowings will be available under our senior secured credit facility in an amount sufficient to enable us to service our indebtedness, including the notes, or to fund our other liquidity needs. In addition, we cannot assure you that we will be able to refinance any of our indebtedness, including our senior revolving credit facility and the notes as they become due. Our ability to access capital in the long term will depend on the availability of capital markets and pricing on commercially reasonable terms, if at all, at the time we are seeking funds. See the section entitled *Our substantial level of indebtedness could adversely affect our financial condition, harm our ability to react to changes to our business and prevent us from fulfilling our obligations on the*

*notes* in our Annual Report on Form 10-K for the year ended December 31, 2007 for further discussion. In addition, our ability to borrow funds under our senior revolving credit facility will depend on our ability to satisfy the financial and non-financial covenants contained in that facility.

**Table of Contents*****Contractual Obligations***

As of March 29, 2008, the outstanding principal balance of our Senior Notes was £3.3 million, or approximately \$6.5 million. The remaining principal balance is due February 13, 2013.

In April 2007, we completed a follow-on offering of an aggregate of \$105.0 million of the existing Senior Secured Notes. As of March 29, 2008, the remaining principal balance on our Senior Secured Notes was \$270.0 million. The balance is due December 1, 2011.

From time to time the Company may repurchase its 9% senior secured notes or the 11 1/4% senior notes in open market transactions or privately negotiated transactions.

In connection with the TB Wood's acquisition, we assumed \$5.3 million of variable rate demand revenue bonds. \$3.0 million of these bonds mature in 2024 and \$2.3 million mature in 2022. We expect to pay the bonds associated with the Chattanooga, Tennessee facility within 12 months, totaling \$2.3 million. In addition, we refinanced, concurrent with the acquisition, \$13.0 million of TB Wood's revolving credit agreement. As of March 29, 2008, there is \$6.0 million outstanding which is due in 2010.

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

Information concerning market risk is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2007. There were no material changes in our exposure to market risk from December 31, 2007.

**Item 4. Controls and Procedures**

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of March 29, 2008.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting (as defined in Rules 13(a)-15(f) and 15(d)-15(f) under the Exchange Act) that occurred during our fiscal quarter ended March 29, 2008, 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**

The Company is involved in various pending legal proceedings arising out of its ordinary course of business. None of these legal proceedings is expected to have a material adverse effect on the financial condition of the Company. With respect to these proceedings, management believes that it will prevail, has adequate insurance coverage or has established appropriate reserves to cover potential liabilities. 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 financial condition of the Company.

**Item 1A. Risk Factors**

The reader should carefully consider the Risk Factors listed in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission. These factors could cause our actual results to differ materially from those stated in forward looking statements contained in this Form 10-Q and elsewhere. Management does not believe there have been any

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material changes in our risk factors as stated in our Annual Report on Form 10-K for the year ended December 31, 2007. All risk factors stated in our Annual Report on Form 10-K for the year ended December 31, 2007 are incorporated herein by reference.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

The following exhibits are filed as part of this report:

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**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b>   | <b>Description</b>  |
|---|---|
| 3.1(1)  | Second Amended and Restated Certificate of Incorporation of the Registrant.                         |
| 3.2(1)  | 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<br>herewith.   |   |
| (1) Incorporated by<br>reference<br>Holdings, Inc. s<br>Registration<br>Statement on<br>Form S-1, as<br>amended, filed<br>with the<br>Securities and<br>Exchange<br>Commission on<br>December 4,<br>2006. |   |



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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.

May 7, 2008

By: /s/ Michael L. Hurt

Name: Michael L. Hurt

Title Chairman and Chief Executive Officer

May 7, 2008

By: /s/ Christian Storch

Name: Christian Storch

Title Vice President and Chief Financial Officer

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