

Altra Holdings, Inc.
Form 10-Q/A
August 30, 2007

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

FORM 10-Q/A

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

For the quarterly period ended June, 30, 2007

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, or a non-accelerated filer. See definition of "accelerated filer and larger accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ☐

Accelerated Filer ☐

Non-accelerated filer ☒

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 August 1, 2007, 26,266,085 shares of Common Stock, \$.001 par value per share, were outstanding.

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Explanatory Note

This Amendment No. 1 (Amended Filing) to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007 (Original Filing), originally filed August 14, 2007, is being filed solely to amend footnote 3 to the unaudited condensed consolidated financial statements. This Amended Filing is being filed to correct computational errors in the unaudited pro forma disclosure of the Registrant's acquisition of TB Wood's Inc., to accurately include three months of TB Wood's Inc. financial results in the unaudited pro-forma disclosure for the quarter ended June 30, 2006 and to correct certain pro forma adjustments impacting the unaudited pro forma results for the three months and year to date periods ended June 30, 2006 and 2007.

Other than described above, no changes have been made to any other items in the Original Filing. This Amended Filing does not reflect events occurring after the date of the Original Filing or modify or update those disclosures affected by subsequent events.

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

ALTRA HOLDINGS, INC.
Condensed Consolidated Balance Sheets
Dollars in thousands (except share amounts)

| | June 30, 2007 (unaudited) | December 31, 2006 |
|---|--|----------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 34,376 | \$ 42,527 |
| Trade receivables, less allowance for doubtful accounts of \$2,044 and \$2,017 | 92,706 | 61,506 |
| Inventories, net | 106,418 | 75,769 |
| Deferred income taxes | 7,005 | 6,783 |
| Prepaid expenses and other | 5,668 | 7,532 |
| Total current assets | 246,173 | 194,117 |
| Property, plant and equipment, net | 116,380 | 82,387 |
| Intangible assets, net | 99,123 | 59,662 |
| Goodwill | 121,493 | 65,397 |
| Deferred income taxes | 2,283 | 2,135 |
| Other assets | 7,141 | 5,670 |
| Total assets | \$ 592,593 | \$ 409,368 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 41,641 | \$ 34,053 |
| Accrued payroll | 14,238 | 14,071 |
| Accruals and other liabilities | 19,740 | 16,494 |
| Taxes payable | 3,570 | 5,353 |
| Deferred income taxes | 1,382 | 1,382 |
| Current portion of long-term debt | 948 | 573 |
| Total current liabilities | 81,519 | 71,926 |
| Long-term debt, less current portion and net of unaccreted discount and premium | 321,341 | 228,555 |
| Deferred income taxes | 30,034 | 7,130 |
| Pension liabilities | 13,593 | 15,169 |
| Other post retirement benefits | 3,132 | 3,262 |
| Other long term liabilities | 4,279 | 3,910 |
| Commitments and Contingencies (See Note 15) | | |
| Stockholders' equity: | | |
| Common stock (\$0.001 par value, 90,000,000 shares authorized, 25,076,205 and 21,467,502 issued and outstanding at June 30, 2007 and December 31, 2006, respectively) | 25 | 21 |
| Additional paid-in capital | 126,514 | 76,907 |

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| | | |
|--|------------|------------|
| Retained earnings | 13,960 | 5,552 |
| Accumulated other comprehensive loss | (1,804) | (3,064) |
| Total stockholders' equity | 138,695 | 79,416 |
| Total liabilities and stockholders' equity | \$ 592,593 | \$ 409,368 |

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)

| | Quarter Ended June 30, | | Year to Date Ended June 30, | |
|--|-----------------------------------|-------------|--|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net sales | \$ 163,142 | \$ 119,774 | \$ 295,848 | \$ 234,558 |
| Cost of sales | 117,238 | 87,501 | 211,896 | 170,431 |
| Gross profit | 45,904 | 32,273 | 83,952 | 64,127 |
| Selling, general and administrative expenses | 25,063 | 19,094 | 45,890 | 37,821 |
| Research and development expenses | 2,204 | 1,288 | 3,498 | 2,492 |
| Restructuring charges | 198 | | 991 | |
| Income from operations | 18,439 | 11,891 | 33,573 | 23,814 |
| Interest expense, net | 10,692 | 6,374 | 19,840 | 12,815 |
| Other non-operating expense (income), net | 123 | 72 | 76 | (87) |
| Income before income taxes | 7,624 | 5,445 | 13,657 | 11,086 |
| Provision for income taxes | 2,803 | 1,749 | 5,068 | 4,186 |
| Net income | \$ 4,821 | \$ 3,696 | \$ 8,589 | \$ 6,900 |

Consolidated Statement of Comprehensive Income

| | | | | |
|---|----------|----------|----------|----------|
| Foreign currency translation adjustment | 821 | 1,085 | 1,260 | 1,557 |
| Comprehensive income | \$ 4,642 | \$ 4,781 | \$ 9,849 | \$ 8,457 |
| Net Income per share: | | | | |
| Basic | \$ 0.22 | \$ 11.13 | \$ 0.39 | \$ 24.21 |
| Diluted | \$ 0.21 | \$ 0.19 | \$ 0.37 | \$ 0.36 |
| Weighted average common shares outstanding: | | | | |
| Basic | 22,250 | 332 | 22,066 | 285 |
| Diluted | 23,268 | 19,413 | 23,075 | 19,350 |

See accompanying notes.

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

| | Year to Date Ended June 30, | |
|--|------------------------------------|-------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 8,589 | \$ 6,900 |
| Adjustments to reconcile net income to cash (used in) provided by operating activities: | | |
| Depreciation | 8,064 | 4,950 |
| Amortization of intangible assets | 2,468 | 1,796 |
| Amortization and write-offs of deferred loan costs | 1,857 | 654 |
| Loss on foreign currency, net | 210 | |
| Accretion of debt discount and premium, net | 415 | 472 |
| Amortization of inventory fair value adjustment | 651 | 2,278 |
| Loss (gain) on sale of fixed assets | 112 | (7) |
| Stock based compensation | 800 | 65 |
| Provision for deferred taxes | | 2,184 |
| Changes in operating assets and liabilities: | | |
| Trade receivables | (14,040) | (3,667) |
| Inventories | (638) | (3,181) |
| Accounts payable and accrued liabilities | (16,109) | (6,153) |
| Other current assets and liabilities | 3,515 | (446) |
| Other operating assets and liabilities | 101 | 263 |
| Net cash (used in) provided by operating activities | (4,005) | 6,108 |
| Cash flows from investing activities: | | |
| Purchases of fixed assets | (4,249) | (4,110) |
| Acquisitions, net of \$5,222 and \$441 of cash acquired | (117,484) | (54,086) |
| Net cash used in investing activities | (121,733) | (58,196) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of senior notes | | 57,625 |
| Proceeds from issuance of senior secured notes | 106,050 | |
| Payment of debt issuance costs | (3,405) | (1,928) |
| Payments on senior notes | (33,998) | |
| Borrowings under revolving credit agreement | 8,315 | 5,057 |
| Payments on revolving credit agreement | (9,120) | (5,057) |
| Payment on subordinated notes | | (10,800) |
| Proceeds from mortgages | | 2,510 |
| Proceeds from secondary public offering | 49,583 | |
| Payment of public offering transaction costs | (248) | |
| Payments on capital leases | (359) | (61) |
| Net cash provided by financing activities | 116,818 | 47,346 |

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| | | |
|--|-----------|-----------|
| Effect of exchange rates on cash | 769 | 255 |
| Decrease in cash and cash equivalents | (8,151) | (4,487) |
| Cash and cash equivalents, beginning of period | 42,527 | 10,060 |
| Cash and cash equivalents, end of period | \$ 34,376 | \$ 5,573 |
| Cash paid during the period for: | | |
| Interest | \$ 18,284 | \$ 10,584 |
| Income Taxes | \$ 9,738 | \$ 2,020 |
| Non-Cash Financing: | | |
| Acquisition of capital equipment under capital lease | \$ 1,655 | \$ |
| Accrued offering costs | \$ 524 | \$ 1,304 |

See accompanying notes.

Table of Contents**ALTRA HOLDINGS, INC.****Notes to Unaudited Condensed Consolidated Interim Financial Statements****Dollars in thousands, unless otherwise noted****1. Organization and Nature of Operations**

Headquartered in Quincy, Massachusetts, Altra Holdings, Inc., through its wholly-owned subsidiary Altra Industrial Motion, Inc., 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 Woods, Formsprag Clutch, Ameridrives Couplings, Industrial Clutch, Kilian Manufacturing, Marland Clutch, Nuttall Gear, Stieber Clutch, Wichita Clutch, Twiflex Limited, Bibby Transmissions, Matrix International, Inertia Dynamics, Huco Dynatork and Warner Linear.

2. Basis of Presentation

The Company was formed on November 30, 2004 following acquisitions of 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 Woods Corporation (TB Woods).

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 June 30, 2007 and for the quarters and year to date periods ended June 30, 2007 and 2006.

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, 2006, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Certain prior period amounts have been reclassified in the condensed consolidated financial statements to conform to the current period presentation.

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.

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

| | Quarter Ended June 30, | | Year to Date Period Ended June 30, | |
|--|-----------------------------------|-------------|---|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net Income | \$ 4,821 | \$ 3,696 | \$ 8,589 | \$ 6,900 |
| Shares used in net income per common share basic | 22,250 | 332 | 22,066 | 285 |
| Effect of dilutive securities: | | | | |
| Incremental shares of unvested restricted common stock | 1,018 | 1,331 | 1,009 | 1,315 |
| Preferred Stock | | 17,750 | | 17,750 |
| Shares used in net income per common share diluted | 23,268 | 19,413 | 23,075 | 19,350 |

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| | | | | | |
|-----------------------------|---------|---------|----------|---------|----------|
| Net income per common share | basic | \$ 0.22 | \$ 11.13 | \$ 0.39 | \$ 24.21 |
| Net income per common share | diluted | \$ 0.21 | \$ 0.19 | \$ 0.37 | \$ 0.36 |

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Table of Contents**ALTRA HOLDINGS, INC.****Notes to Unaudited Condensed Consolidated Interim Financial Statements****Dollars in thousands, unless otherwise noted****4. Acquisition**

On April 5, 2007, the Company acquired all of the outstanding shares of TB Wood s for \$24.80 per share, or aggregate consideration of \$93.5 million. As part of the TB Wood s Acquisition, the Company retired \$18.7 million of TB Wood s indebtedness and paid \$9.2 million to retire options under the TB Wood s equity plan. TB Wood s is an established designer, manufacturer and marketer of mechanical and electronic industrial power transmission products.

The TB Wood s Acquisition has been accounted for in accordance with SFAS No. 141. The closing date of the TB Wood s Acquisition was April 5, 2007, and as such, the Company s consolidated financial statements reflect TB Wood s results of operations from that date forward.

The Company has not completed its final purchase price allocation. The preliminary value of the acquired assets, assumed liabilities and identified intangibles from the acquisition of TB Wood s, as presented below, are based upon management s estimates of fair value as of the date of the acquisition. Goodwill and intangibles recorded in connection with the acquisition of TB Wood s have not yet been allocated across the business units acquired nor have the values been finalized. The final purchase price allocations are not expected to have a material impact on the Company s financial position or results of operations. The preliminary purchase price allocation is as follows:

| | |
|---|------------|
| Total purchase price, including closing costs of approximately \$1.6 million | \$ 123,006 |
| Cash and cash equivalents | 5,522 |
| Trade receivables | 16,606 |
| Inventories | 29,808 |
| Prepaid expenses and other | 1,791 |
| Property, plant and equipment | 35,764 |
| Intangible assets | 41,431 |
| Total assets acquired | 130,992 |
| Accounts payable, accrued payroll, and accruals and other current liabilities | 21,395 |
| Other liabilities | 43,283 |
| Total liabilities assumed | 64,678 |
| Net assets acquired | 66,314 |
| Excess purchase price over the fair value of net assets acquired | \$ 56,692 |

The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill.

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

| | |
|---|-----------|
| Customer relationships, subject to amortization | \$ 29,647 |
| Trade names and trademarks, not subject to amortization | 11,784 |
| Total intangible assets | \$ 41,431 |

Customer relationships are subject to amortization over their estimated useful lives which reflects the anticipated periods over which the Company estimates it will benefit from the acquired assets. The estimated useful lives have not been finalized by the Company.

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The following table sets forth the unaudited pro forma results of operations of the Company for the periods ended June 30, 2007 and 2006 as if the Company had acquired TB Wood s at the beginning of the respective periods. The pro forma information contains the actual operating results of the Company and TB Wood s with the results prior to April 5, 2007, for TB Wood s, adjusted to include the pro forma impact of (i) additional interest expense associated with debt issued on April 5, 2007 in connection with the TB Wood s Acquisition; (ii) additional depreciation expense as a result of estimated depreciation on fair value of fixed assets; (iii) additional expense as a result of estimated amortization of identifiable intangible assets; (iv) and an adjustment to the tax provision for the tax effect of the above adjustments. The unaudited pro-forma financial information for the quarter to date and year to date periods ended June 30, 2007 includes a non-recurring charge to step-up the value of acquired inventory sold of \$0.7 million. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisitions occurred at the beginning of the respective periods or that may be obtained in the future.

| | Quarter to Date ended | Quarter to Date ended | Year to Date ended | Year to Date ended |
|----------------------------|--------------------------------------|--------------------------------------|-----------------------------------|-----------------------------------|
| | June 30, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| Total revenues | \$ 164,505 | \$ 149,524 | \$ 326,181 | \$ 293,727 |
| Net income | 3,831 | 2,805 | \$ 5,916 | \$ 4,736 |
| Basic Earnings per share | \$ 0.17 | \$ 8.45 | \$ 0.27 | \$ 16.62 |
| Diluted Earnings per share | \$ 0.16 | \$ 0.14 | \$ 0.26 | \$ 0.24 |

During 2006, the Company purchased all of the outstanding share capital of Hay Hall for \$51.0 million, including \$1.8 million of closing costs. The Company completed its final purchase price allocation during 2006, which resulted in the Company recording approximately \$12.4 million in goodwill. In addition, the Company recorded \$16.4 million in intangible assets.

5. Inventories

Inventories located at certain subsidiaries acquired in connection with the TB Wood s 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 June 30, 2007 and December 31, 2006 consisted of the following:

| | June 30, 2007 | December 31, 2006 |
|---|--------------------------|----------------------------------|
| Raw materials | \$ 40,291 | \$ 29,962 |
| Work in process | 28,279 | 19,112 |
| Finished goods | 51,048 | 36,858 |
| Gross inventories | 119,618 | 85,932 |
| Less Allowance for excess, slow-moving and obsolete inventory | (13,070) | (10,163) |
| LIFO reserve | (130) | |

| | | |
|------------------|------------|-----------|
| Inventories, net | \$ 106,418 | \$ 75,769 |
|------------------|------------|-----------|

Approximately 18% of total inventories at June 30, 2007 were valued using the LIFO method. In the year to date period ended June 30, 2007, the LIFO reserve increased \$0.1 million which increased Cost of Goods Sold by the same amount.

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

A rollforward of goodwill from December 31, 2006 through June 30, 2007 was as follows:

| Goodwill | Cost |
|---|-------------|
| Balance December 31, 2006 | \$ 65,397 |
| Additions related to TB Wood's acquisition | 56,692 |
| Impact of additional tax contingencies | 956 |
| Adjustments to acquisition related deferred tax liabilities | (2,309) |
| Impact of changes in foreign currency | 757 |
| Balance June 30, 2007 | \$ 121,493 |

Other intangibles as of June 30, 2007 and December 31, 2006 consisted of the following:

| Other Intangibles | June 30, 2007 | | December 31, 2006 | |
|--|----------------------|---------------------------------|--------------------------|---------------------------------|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Intangible assets not subject to amortization: | | | | |
| Tradenames and trademarks | \$ 34,794 | \$ | \$ 23,010 | \$ |
| Intangible assets subject to amortization: | | | | |
| Customer relationships | 66,761 | 7,683 | 37,114 | 5,679 |
| Product technology and patents | 5,232 | 1,780 | 5,232 | 1,316 |
| Impact of changes in foreign currency | 1,799 | | 1,301 | |
| Total intangible assets | \$ 108,586 | \$ 9,463 | \$ 66,657 | \$ 6,995 |

The Company recorded \$1.5 million and \$1.0 million of amortization expense for the quarters ended June 30, 2007 and 2006, respectively and \$2.5 million and \$1.8 million for the year to date periods ended June 30, 2007 and 2006, respectively.

The estimated amortization expense for intangible assets is approximately \$5.8 million in each of the next five years and then \$33.5 million thereafter.

7. Warranty Costs

Changes in the carrying amount of accrued product warranty costs for the year to date periods ended June 30, 2007 and 2006 are as follows:

| | June 30, 2007 | June 30, 2006 |
|--|----------------------|----------------------|
| Balance at beginning of period | \$ 2,083 | \$ 1,876 |
| Balance assumed with TB Wood's acquisition | 795 | |
| Accrued warranty costs | 758 | 825 |
| Payments and adjustments | (1,261) | (747) |
| Balance at end of period | \$ 2,375 | \$ 1,954 |

8. Income Taxes

The effective income tax rates recorded for the periods ended June 30, 2007 and 2006 were recorded based upon management's best estimate of the effective income tax rates for the entire years. The 2007 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 An Interpretation of FASB No. 109 (FIN 48) at the beginning of fiscal 2007, which resulted in a decrease of approximately \$0.2 million to the December 31, 2006 retained earnings balance. FIN 48 provides a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns.

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

As of January 1, 2007 the Company had \$2.3 million of unrecognized tax benefits of which \$1.2 million, if recognized would reduce the Company's effective tax rate and \$0.9 million would result in a decrease in goodwill.

As a result of the acquisition of TB Wood's completed during the second quarter, the Company increased its unrecognized tax benefits by approximately \$3.3 million. At June 30, 2007, the Company had \$6.1 million of unrecognized tax benefits of which \$1.7 million if recognized would reduce the Company's effective tax rate and \$4.2 million would result in a decrease to goodwill.

Included in the balance of unrecognized tax benefits are amounts related to proposed tax filing positions currently under review by foreign taxing authorities. The Company expects this review to be completed by December 31, 2007 however it is unable to estimate the impact on its unrecognized tax benefits as of June 30, 2007.

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 years before 2003 in these major jurisdictions. Additionally, the Company has indemnification agreements with the sellers of the Colfax 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 in income tax expense in the condensed consolidated statements of operations. At January 1, 2007 and June 30, 2007, the Company had \$0.3 million and \$1.6 million of accrued interest and penalties, respectively.

9. 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.

The following table represents the components of the net periodic benefit cost associated with the respective plans for the year to date periods ended and quarters ended June 30, 2007 and 2006:

| | Quarter Ended | | | |
|------------------------------------|------------------|---------------|----------------|---------------|
| | Pension Benefits | | Other Benefits | |
| | June 30, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| Service cost | \$ 67 | \$ 151 | \$ 18 | \$ 84 |
| Interest cost | 319 | 334 | 49 | 150 |
| Expected return on plan assets | (265) | (207) | | |
| Amortization of prior service cost | 2 | 2 | (243) | (101) |
| Amortization of net (gain) loss | | | (53) | 17 |
| Net periodic benefit cost (income) | \$ 123 | \$ 280 | \$ (229) | \$ 150 |

| Year to Date Ended | | | |
|--------------------|---------------|----------------|---------------|
| Pension Benefits | | Other Benefits | |
| June 30, | June 30, 2006 | June 30, | June 30, 2006 |

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| | 2007 | | 2007 | |
|------------------------------------|-------------|--------|-------------|--------|
| Service cost | \$ 132 | \$ 303 | \$ 36 | \$ 168 |
| Interest cost | 654 | 669 | 98 | 299 |
| Expected return on plan assets | (533) | (415) | | |
| Amortization of prior service cost | 3 | 3 | (487) | (201) |
| Amortization of net (gain) loss | | | (105) | 35 |
| Net periodic benefit cost (income) | \$ 256 | \$ 560 | \$ (458) | \$ 301 |

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ALTRA HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Dollars in thousands, unless otherwise noted

10. Long-Term Debt

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 the Company to maintain certain levels of collateralized assets, as defined in the Revolving Credit Agreement. The Company 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 the Company. The Company may re-borrow any amounts paid to reduce the amount of outstanding borrowings; however, all borrowings under the Revolving Credit Agreement must be repaid in full as of November 30, 2010.

Substantially all of the Company's assets have been pledged as collateral against outstanding borrowings under the Revolving Credit Agreement. The Revolving Credit Agreement requires the Company 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 the Company. The Company was in compliance with all requirements of the Revolving Credit Agreement at June 30, 2007.

There were no borrowings under the Revolving Credit Agreement at June 30, 2007 and December 31, 2006, however, as of both dates, the lender had issued \$3.0 million of outstanding letters of credit on behalf of the Company.

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 lenders Prime Rate plus 25 basis points or LIBOR plus 175 basis points. The rate on all outstanding letters of credit were reduced to 1.5% and .25% on any unused availability under the Revolving Credit Agreement. All borrowings under the amended plan must be repaid by November 30, 2010.

TB Wood's Revolving Credit Agreement

As part of the TB Wood's acquisition, the Company refinanced the existing line of credit agreement with a commercial bank. The Company refinanced \$13.0 million of debt associated with TB Wood's line of credit in connection with the acquisition and \$6.5 million in letters credit. As of June 30, 2007, there was \$12.2 million outstanding on the TB Wood's Credit Agreement, including \$6.5 million of outstanding letters of credit. There are no additional borrowings available under this agreement.

Overdraft Agreements

Certain of our foreign subsidiaries maintain overdraft agreements with financial institutions. There were no borrowings as of June 30, 2007 or December 31, 2006 under any of the overdraft agreements.

9% Senior Secured Notes

On November 30, 2004, Altra Industrial Motion, Inc., (Altra Industrial), a wholly owned subsidiary of the Company, issued 9% Senior Secured Notes (Senior Secured Notes), with a face value of \$165 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 effective interest rate on the Senior Secured Notes is approximately 10.0%, after consideration of the amortization of \$6.6 million related to initial offer discounts (included in long-term debt) and \$2.8 million of deferred financing costs (included in other assets). The Senior Secured Notes mature on December 1, 2011 unless previously redeemed by Altra Industrial.

The Senior Secured Notes are guaranteed by the 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 the 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 June 30, 2007.

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

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ALTRA HOLDINGS, INC.

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Dollars in thousands, unless otherwise noted

approximately 9.6% after consideration of the amortization of \$1.1 million premium and \$3.2 million of additional deferred financing costs.

11.25% Senior Notes

On February 8, 2006, Altra Industrial 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 11.7%, after consideration of the \$2.5 million of deferred financing costs (included in other assets). The Senior Secured Notes mature on February 13, 2013.

The Senior Notes are guaranteed on a senior unsecured basis by Altra Industrial's U.S. domestic subsidiaries. The Senior 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 Notes at June 30, 2007.

In February 2007, using proceeds from the Company's initial public offering, Altra Industrial redeemed £11.6 million aggregate principal amount of the outstanding Senior Notes, at a redemption price of 111.25% of the principal amount of the Senior Notes, plus accrued and unpaid interest. In connection with the redemption Altra Industrial expensed \$0.8 million of deferred financing costs and incurred \$2.6 million of a pre-payment premium.

In June 2007, using proceeds from the Company's secondary public offering, Altra Industrial redeemed £5.5 million aggregate principal amount of the outstanding Senior Notes at a redemption price of 114.5% of the principal amount of the Senior Notes, plus accrued and unpaid interest. In connection with the redemption Altra Industrial expensed \$0.4 million of deferred financing costs and incurred \$0.8 million of pre-payment premium.

The remaining principal amount of the Senior Notes matures on February 13, 2013, unless previously redeemed by Altra Industrial prior to such maturity date. As of June 30, 2007, the remaining principal balance outstanding was £15.9 million, or \$31.9 million.

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 has borrowed approximately \$3.0 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 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 Revolving Credit Agreement.

Mortgage

In June 2006, the Company entered into a mortgage on its building in Heidelberg, Germany with a local bank. As of June 30, 2007 and December 31, 2006, the mortgage has a principal of 1.9 million, or \$2.6 million and 2.0 million or \$2.6 million, respectively and an interest rate of 5.75% 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. Capital lease obligations amounted to approximately \$3.1 million and \$1.5 million at June 30, 2007 and December 31, 2006, respectively. Assets under capital leases are included in property, plant and equipment with the related amortization recorded as depreciation expense.

11. Stockholders' Equity

In June 2007, the Company closed its secondary public offering of 12,650,000 shares of its common stock, par value \$0.001 per share (the Shares), which included 1,650,000 sold as a result of the underwriters' exercise of their overallotment option in full at

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closing. In the offering the Company sold 3,178,494 Shares and certain selling stockholders, including Genstar Capital, the Company's largest stockholder, sold an aggregate of 9,471,506 Shares.

As of June 30, 2007, 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 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 June 30, 2007.

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 each of the five years from the date of grant, 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 year to date periods ended June 30, 2007 and 2006 was \$0.8 million (\$0.5 million net of tax) and \$0.1 million (less than \$0.1 million, net of tax), respectively and \$0.7 million (\$0.4 million, net of tax) and less than \$0.1 million in the quarter ended June 30, 2007 and 2006, 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 to date:

| | Shares | Weighted-average grant date fair value |
|--|---------------|---|
| Restricted shares unvested December 31, 2006 | 1,620,089 | \$ 3.24 |
| Shares for which restrictions lapsed | (430,209) | \$ 4.75 |
| Restricted shares unvested June 30, 2007 | 1,189,880 | \$ 2.69 |

Total remaining unrecognized compensation cost is approximately \$2.8 million as of June 30, 2007 and will be recognized over a weighted average remaining period of three years.

Subsequent to the initial public offering restricted shares granted are valued based on the fair market value of the stock on the date of grant.

In July 2007, the Compensation Committee of the Board of Directors approved a grant to two of the Company's non-employee directors of 3,326 shares each of restricted common stock of Altra Holdings. The fair market value of the restricted shares was calculated using the total number of shares granted multiplied by the average stock price on the date of grant, of \$18.04, for a total compensation charge of approximately \$0.1 million. The shares will fully vest on March 14, 2008. The expense will be recognized on a straight-line basis over the service period.

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

One of the Company's directors, is an Executive of Joy Global, Inc. The Company sold approximately \$2.6 million and \$1.7 million in goods to divisions of Joy Global, Inc. during the year to date periods ended June 30, 2007 and 2006, respectively. Sales to division of Joy Global were \$1.2 million and \$0.8 million for the quarters ended June 30,

2007 and 2006, respectively. Other than his

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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.

Management Agreement

The Company entered into an advisory services agreement with Genstar Capital, L.P. ("Genstar"), whereby Genstar agreed to provide certain management, business strategy, consulting, financial advisory and acquisition related services to the Company. Pursuant to the agreement, the Company was required to pay to Genstar an annual consulting fee of \$1.0 million (payable quarterly, in arrears at the end of each calendar quarter), reimbursement of out-of-pocket expenses incurred in connection with the advisory services and an advisory fee of 2.0% of the aggregate consideration relating to any acquisition or dispositions completed by the Company. The Company recorded \$0.3 million in management fees, included in selling, general and administrative expenses for the quarter ended June 30, 2006 and \$0.5 million for the year to date period ended June 30, 2006. Genstar also received a one-time transaction fee of \$1.0 million for the Hay Hall acquisition and it is reflected in selling, general and administrative expenses for the year to date period ended and quarter ended June 30, 2006. In December 2006, the Genstar management agreement was terminated. There are no amounts in accruals or other liabilities payable to Genstar as of June 30, 2007.

13. 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 one customer represented 10% or more of the Company's sales for the quarters ended or year to date periods ended June 30, 2007 and 2006.

Approximately 22.8% of the Company's labor force (14.0% and 59.7% in the United States and Europe, respectively) is represented by collective bargaining agreements.

14 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 to make decisions about allocating resources and assessing 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 | | Net Sales | | Property, Plant and Equipment | |
|-----------------------------------|---------------|------------|---------------------------|------------|-------------------------------|-----------|
| | Quarter Ended | | Year to Date Period Ended | | | December |
| | June 30, | | June 30, | | June 30, | 31, |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| North America (primarily U.S.) | \$ 117,997 | \$ 80,756 | \$ 211,176 | \$ 163,994 | \$ 84,930 | \$ 50,673 |
| Europe | 39,276 | 35,018 | 74,256 | 62,624 | 29,675 | 29,865 |
| Asia and other | 5,869 | 4,000 | 10,416 | 7,940 | 1,775 | 1,849 |
| Total | 163,142 | \$ 119,774 | \$ 295,848 | \$ 234,558 | \$ 116,380 | \$ 82,387 |

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 June 30, 2007 and December 31, 2006 were \$65.8 million and \$46.8 million, respectively.

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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.

15. 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 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. 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.

We have been indemnified for certain pre-existing legal and environmental matters for matters prior to acquisition.

16. Restructuring, Asset Impairment and Transition Expenses

Beginning in the first quarter of 2007, the Company adopted a restructuring program intended to improve operational efficiency by reducing headcount, consolidating its operating facilities and relocating manufacturing to lower cost areas. The restructuring charges for the quarter and year to date periods ended June 30, 2007 were approximately \$0.2 million and \$1.0 million, respectively.

The Company's asset impairment and losses on sales of assets for the manufacturing consolidation program for the year to date period ended June 30, 2007 were \$0.1 million. The Company does not expect any additional asset impairment and losses on sale of assets through the completion of this program.

The Company's total transition expense for the manufacturing consolidation program for the year to date period ended and quarter ended June 30, 2007 was approximately \$0.9 million and \$0.2 million, respectively. The Company expects to incur during 2007 an additional \$0.1 million of transition costs in connection with the completion of this program.

The Company's total restructuring expense, excluding non-cash loss on disposal of fixed assets, by major component for the year to date period ended June 30, 2007 and costs that are expected to be incurred through the completion of the program, were as follows:

| | Costs incurred year to date period ended June 30, 2007 | Expected costs through program completion |
|-----------------------------|---|--|
| Moving and relocation costs | \$ 521 | \$ |
| Severance | 224 | 30 |
| Other | 129 | |
| Total expenditures | \$ 874 | \$ 30 |

The following is a reconciliation of the accrued restructuring costs between December 31, 2006 and June 30, 2007:

| | |
|---------------------------------|-----|
| Balance at December 31, 2006 | \$ |
| Restructuring expenses incurred | 991 |

| | |
|---|--------|
| Cash payments | (755) |
| Non-cash loss on disposal of fixed assets | (117) |
| Balance at June 30, 2007 | \$ 119 |

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In connection with the Company's acquisition of TB Woods, the Company adopted a restructuring program intended to consolidate operating facilities and reduce duplicate staffing. The estimated costs of this restructuring program were recorded as a part of purchase accounting and increased goodwill.

The following is a summary of accruals related to such restructuring activities:

| | |
|--|--------|
| Balance at December 31, 2006 | \$ |
| Restructuring accruals established as part of purchase accounting related to severance | 952 |
| Cash payments | (852) |
| Balance at June 30, 2007 | \$ 100 |

This is a preliminary estimate of costs associated with this restructuring program.

17. Subsequent Event

On August 8, 2007, Altra Industrial redeemed £12.0 million aggregate principal amount of the outstanding Senior Notes at a redemption price of 113.5% of the principal amount of the Senior Notes, plus accrued and unpaid interest. In connection with the redemption Altra Industrial incurred \$3.3 million of pre-payment premium. Subsequent to the redemption, £3.9 million, or \$7.9 million of Senior Notes remain outstanding

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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 its Predecessor and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. 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, 2006.

General

We are a leading multinational designer, producer and marketer of a wide range of mechanical power transmission products. Our product portfolio includes industrial clutches and brakes, enclosed gear drives, open gearing, couplings, machined-race bearings, belted drives and other related products which are sold across a wide variety of industries. Our products serve a wide variety of end markets including general industrial, material handling, mining, power generation, transportation, automotive and turf and garden. We primarily sell our products to OEMs such as John Deere, Carrier and General Electric and through long-standing relationships with industrial distributors such as Motion Industries, Applied Industrial Technologies, Kaman Industrial Technologies, Bearing Distributions, Inc. and W.W. Grainger.

Recent Acquisition

On April 5, 2007, the Company completed its acquisition of TB Wood's Corporation (TB Wood's) pursuant to a cash tender offer for all of the outstanding shares of TB Wood's common stock for \$24.80 per share. This was followed by a short form merger (the Merger) of Forest Acquisition Corporation, the Company's indirect wholly-owned subsidiary, with and into TB Wood's. This resulted in TB Wood's becoming a wholly-owned indirect subsidiary of the Company. In connection with the merger, all remaining outstanding shares of TB Wood's common stock (other than those held by shareholders who properly perfect dissenters' rights under Delaware law), were converted into the right to receive the same \$24.80 cash price per share paid in the tender offer (net of the holder without interest and less any required withholding taxes).

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, 2006. See the discussion of critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2006.

Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted FIN 48 on January 1, 2007. See Note 8 to the condensed consolidated financial statements for the impact of adoption of this pronouncement.

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.

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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.

Results of Operations

| | Quarter Ended | | Year to Date Ended | |
|--|--------------------------|--------------------------|---------------------------|--------------------------|
| | June 30, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| Net sales | \$ 163,142 | \$ 119,774 | \$ 295,848 | \$ 234,558 |
| Cost of sales | 117,238 | 87,501 | 211,896 | 170,431 |
| Gross profit | 45,904 | 32,273 | 83,952 | 64,127 |
| <i>Gross profit percentage</i> | <i>28.1%</i> | <i>26.9%</i> | <i>28.4%</i> | <i>27.3%</i> |
| Selling, general and administrative expenses | 25,063 | 19,094 | 45,890 | 37,821 |
| Research and development expenses | 2,204 | 1,288 | 3,498 | 2,492 |
| Restructuring charges | 198 | | 991 | |
| Income from operations | 18,439 | 11,891 | 33,573 | 23,814 |
| Interest expense, net | 10,692 | 6,374 | 19,840 | 12,815 |
| Other non-operating income, net | 123 | 72 | 76 | (87) |
| Income before income taxes | 7,624 | 5,445 | 13,657 | 11,086 |
| Provision for income taxes | 2,803 | 1,749 | 5,068 | 4,186 |

| | | | | | | | | |
|------------|----|-------|----|-------|----|-------|----|-------|
| Net income | \$ | 4,821 | \$ | 3,696 | \$ | 8,589 | \$ | 6,900 |
|------------|----|-------|----|-------|----|-------|----|-------|

Quarter Ended June 30, 2007 Compared with Quarter Ended June 30, 2006

Net sales. Net sales increased by \$43.4 million, or 36.2%, from \$119.8 million for the quarter ended June 30, 2006 to \$163.1 million for the quarter ended June 30, 2007. The increase in sales was primarily due to the inclusion of TB Wood s which contributed \$29.8 million. Without including the impact of Hay Hall, acquired February 10, 2006, Warner Linear, acquired May 18, 2006 and TB Wood s acquired April 5, 2007, sales increased 10.6%. The remaining increase was driven by price increases, new product initiatives, continued strength in key late cycle markets, defense applications and global clutch brake sales.

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Gross profit. Gross profit increased by \$13.6 million, or 42.2%, from \$32.3 million (26.9% of net sales), for the quarter ended June 30, 2006 to \$45.9 million (28.1% of net sales) for the same period of 2007. The increase is primarily due to the inclusion of TB Wood s during the second quarter 2007, additional low cost country material sourcing and implementation of productivity improvements at recently acquired businesses.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by \$6.0 million, or 31.2%, from \$19.1 million for the quarter ended June 30, 2006 to \$25.1 million for the quarter ended June 30, 2007. The increase in selling, general and administrative expenses is primarily due to the inclusion of TB Wood s and Warner Linear for the full quarter ended June 30, 2007, additional amortization of intangible assets associated with the TB Wood s acquisition and increased costs associated with being a public company, partially offset by the termination of the management advisory fee agreement.

Research and development expenses. Research and development expenses increased \$0.9 million or 71.1% from \$1.3 million to \$2.2 million. The increase in research and development expense is due to the inclusion of TB Wood s in the quarter ended June 30, 2007.

Restructuring During the first quarter of 2007, we initiated a restructuring program intended to improve operational efficiency by reducing headcount, consolidating our operating facilities and relocating manufacturing to lower cost areas. We recorded approximately \$0.2 million of restructuring expense in the second quarter of 2007.

EBITDA. To reconcile net income to EBITDA for the quarter ended June 30, 2007, we added back to net income \$2.8 million provision of income taxes, \$10.7 million of interest expense and \$6.1 million of depreciation and amortization expenses. To reconcile net income to EBITDA for the quarter ended June 30, 2006, we added back to net income \$1.7 million provision of income taxes, \$6.4 million of interest expense and \$3.8 million of depreciation and amortization expenses. Taking into account the foregoing adjustments, our resulting EBITDA was \$24.4 million for the quarter ended June 30, 2007 and \$15.6 million for the quarter ended June 30, 2006. The increase is due to the acquisition of TB Wood s and Warner Linear, price increases, volume, and cost savings measures.

Interest expense. We recorded interest expense of \$10.7 million during the quarter ended June 30, 2007, which was an increase of \$4.3 million, from the quarter ended June 30, 2006. The increase was due to \$2.4 million of interest associated with the Senior Secured Notes that were issued in the second quarter of 2007, the \$1.6 million pre-payment premium and the \$0.3 million amortization of deferred financing costs associated with the pay-down of the Senior Notes. For a description of the Senior Notes please see Note 10 to our Condensed Consolidated Financial Statements in Item I of this Form 10-Q.

Provision for income taxes. The provision for income taxes was \$2.8 million, or 36.8%, of income before taxes, for the quarter ended June 30, 2007, versus a provision of \$1.7 million, or 32.1%, of income before taxes, for the quarter ended June 30, 2006. The 2007 provision as a percentage of income before taxes was higher than that of 2006, primarily due to a greater proportion of taxable income in jurisdictions having higher statutory tax rates. Additionally, the Company s overall estimated effective tax rate for all of 2006 was lower than the rate recorded in the first quarter of 2006 and therefore the second quarter rate was driven down to get the year to date effective rate at the estimated full year rate.

Year to Date Ended June 30, 2007 Compared with Year to Date Ended June 30, 2006

Net sales. Net sales increased by \$61.3 million, or 26.1%, from \$234.6 million for the year to date period ended June 30, 2006 to \$295.8 million for the year to date period ended June 30, 2007. Without including the impact of Hay Hall, acquired February 10, 2006 Warner Linear, acquired May 18, 2006, and TB Wood s acquired April 5, 2007, sales increased 9.4%. The increase is due to price increases, new product initiatives, continued strength in key late cycle markets, defense applications and global clutch brake sales.

Gross profit. Gross profit increased by \$19.8 million, or 30.9%, from \$64.1 million (27.3% of net sales), for the year to date period ended June 30, 2006 to \$84.0 million (28.4% of net sales) for the same period of 2007. The increase is primarily due to the inclusion of Hay Hall, TB Wood s and Warner Linear for the full year to date period ended June 30, 2007, additional low cost country material sourcing and implementation of productivity improvements at recently acquired businesses.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by \$8.1 million, or 21.3%, from \$37.8 million for the year to date period ended June 30, 2006 to \$45.9 million for the

year to date period ended June 30, 2007. The increase in selling, general and administrative expenses is primarily due to the inclusion of TB Woods, Hay Hall and Warner

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Linear for the full year to date period ended June 30, 2007, additional amortization of intangible assets associated with the TB Woods acquisition and increased costs associated with being a public company, partially offset by the termination of the management advisory fee agreement.

Research and development expenses. Research and development expenses increased \$1.0 million, or 40.4%, from \$2.5 million to \$3.5 million. The increase is mainly due to the inclusion of TB Woods in the year to date period ended June 30, 2007.

Restructuring During the first quarter of 2007, we adopted a restructuring program intended to improve operational efficiency by reducing headcount, consolidating our operating facilities and relocating manufacturing to lower cost areas. We incurred approximately \$1.0 million of restructuring expense in the year to date period ended June 30, 2007.

EBITDA. To reconcile net income to EBITDA for the year to date period ended June 30, 2007, we added back to net income \$5.1 million provision of income taxes, \$19.8 million of interest expense and \$10.6 million of depreciation and amortization expenses. To reconcile net income to EBITDA for the year to date period ended June 30, 2006, we added back to net income \$4.2 million provision of income taxes, \$12.8 million of interest expense and \$6.7 million of depreciation and amortization expenses. Taking into account the foregoing adjustments, our resulting EBITDA was \$44.1 million for the year to date period ended June 30, 2007 and \$30.6 million for the year to date period ended June 30, 2006. The increase is due to the acquisitions of TB Woods, Hay Hall and Warner Linear, price increases, volume, cost savings measures and the termination of the management advisory services agreement.

Interest expense. We recorded interest expense of \$19.8 million during the year to date period ended June 30, 2007, which was an increase of \$7.0 million, from the year to date period ended June 30, 2006. The increase was due to the interest associated with the Senior Notes being outstanding for an additional six weeks during the first quarter of 2007, the \$1.6 million pre-payment premium and \$0.3 million of amortization of deferred financing costs associated with the pay-down of the Senior Notes issued during the second quarter of 2007. The increase was partially offset by a decrease in interest on the Senior Notes after the February redemption. For a description of the Senior Notes and Senior Secured Notes, please see Note 10 to our Condensed Consolidated Financial Statements in Item I of this Form 10-Q.

Provision for income taxes. The provision for income taxes was \$5.1 million, or 37.1%, of income before taxes, for the year to date period ended June 30, 2007, versus a provision of \$4.2 million, or 37.8%, of income before taxes, for the year to date period ended June 30, 2006.

Liquidity and Capital Resources

Net Cash

Cash and cash equivalents totaled \$34.4 million at June 30, 2007 compared to \$42.5 million at December 31, 2006. Net cash used in operating activities for the year to date period ended June 30, 2007 resulted mainly from cash provided by net income of \$8.6 million and the add-back of non-cash depreciation, amortization, stock based compensation, amortization of inventory fair value adjustment, disposal of fixed assets, loss on foreign currency, accretion of debt discount and deferred financing costs of \$14.6 million offset by a net increase in operating assets of \$11.1 million and a net decrease in operating liabilities of \$16.1 million.

Net cash used in investing activities of \$121.7 million for the year to date period ended June 30, 2007 resulted from \$117.5 million used in the purchase of TB Woods and \$4.2 million used in the purchases of property, plant and equipment primarily for investment in manufacturing equipment.

Net cash provided by financing activities of \$116.8 million for the year to date period ended June 30, 2007 consisted primarily of proceeds from the issuance of Senior Secured Notes for \$106.1 million, the proceeds from the secondary public offering for \$49.6 million and borrowings from the revolving line of credit of \$8.3 million. This was offset by the payment of debt issuance costs of \$3.4 million, payments on the revolving line of credit for \$9.1 million, the payment of \$34.0 million on the Senior Notes and payment of costs associated with the secondary public offering and initial public offering of \$0.4 million and payments of capital lease obligations of \$0.4 million.

Net cash flow used in operating activities, for the year to date period ended June 30, 2006 resulted mainly from cash provided by net income of \$6.9 million and the add-back of non-cash depreciation, amortization, accretion and deferred financing costs of \$7.9 million, stock based compensation of \$0.1 million, deferred tax expense of

\$2.2 million, non-cash amortization of \$2.3 million for

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inventory step-ups recorded as part of the Hay Hall Acquisition and a net increase in operating liabilities of \$3.8 million, offset by cash used from a net increase in operating assets of \$9.5 million.

Net cash used in investing activities of \$58.2 million for the quarter ended June 30, 2006 resulted from \$50.3 million used in the purchase of Hay Hall, \$3.5 million for the purchase of Bear Linear and \$4.1 million used in the purchases of property, plant and equipment primarily for investment in manufacturing equipment and for the consolidation of our IT infrastructure.

Net cash provided by financing activities of \$47.3 million for the year to date period ended June 30, 2006 resulted primarily from the proceeds of \$57.6 million from the issuance of the Senior Notes in connection with the Hay Hall Acquisition, offset primarily by payment on the subordinated notes of \$9.0 million and payment of debt issuance costs of \$1.8 million.

Liquidity

Our primary source of liquidity will be cash flow from operations and borrowings under our senior revolving credit facility. See footnote 10 to the condensed consolidated financial statements for explanation of our senior revolving credit facility. 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 Colfax Corporation, Hay Hall and TB Woods Acquisitions. As of June 30, 2007, taking into account these transactions, we had approximately \$322.3 million of total indebtedness outstanding (including capital leases and mortgages). We expect our interest expense, arising from our existing debt, to be approximately \$31.2 million on an annual basis, through the maturity of the Senior Secured Notes, in 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. As of June 30, 2007, there were no outstanding borrowings and \$3.0 million of outstanding letters of credit under our senior revolving credit facility.

We had \$12.2 million outstanding on the TB Woods revolving credit facility as of June 30, 2007. No additional borrowing are allowed under this agreement.

We made capital expenditures of approximately \$4.2 million and \$4.1 million in the quarters ended June 30, 2007 and June 30, 2006, respectively. These capital expenditures will support on-going business needs.

We have cash funding requirements associated with our pension plan which are estimated to be \$1.6 million during the remainder of 2007, \$3.8 million in 2008, and \$1.9 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, 2006 and Form S-1 filed with the SEC on June 4, 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 at the time we are seeking funds. See 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, 2006 and Form S-1 filed with the SEC on June 4, 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.

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Contractual Obligations

During the year to date period ended June 30, 2007 Altra Industrial redeemed £11.6 million and £5.5 million aggregate principal amount of their outstanding Senior Notes. As of June 30, 2007, the remaining principal balance was £15.9 million, or approximately \$31.9 million. In August, 2007, Altra Industrial redeemed £12.0 million aggregate principal amount of the outstanding Senior Notes at a redemption price of 113.5% of the principal amount of the Senior Notes, plus accrued and unpaid interest. Subsequent to the redemption, £3.9 million, or \$7.9 million of Senior Notes remain outstanding. The remaining principal balance is due February 2013.

In April 2007, Altra Industrial completed a follow-on offering of an aggregate of \$105.0 million of the existing Senior Secured Notes. As of June 30, 2007, the remaining principal balance was \$270.0 million. The balance is due in December 2011.

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. In addition, we refinanced concurrent with the acquisition \$13.0 million of TB Wood's revolving credit agreement. Payments of \$0.8 million are due over the remainder of 2007. \$1.5 million, \$1.5 million, \$8.8 million are due in 2008, 2009 and 2010, respectively.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information concerning market risk is contained in the 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, 2006. There were no material changes in our exposure to market risk from December 31, 2006.

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 June 30, 2007.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only 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 June 30, 2007, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various pending legal proceedings arising out of the 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, 2006 and Form S-1 filed with the SEC on June 4, 2007. 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 material changes in our risk factors as stated in our Annual Report on Form 10-K for the year ended December 31, 2006 and Form S-1 filed with the SEC on June 4, 2007.

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

Our annual meeting of stockholders was held on May 8, 2007. The following matters were voted upon: Edmund M. Carpenter, Jean-Pierre L. Conte, Darren J. Gold, Michael L. Hurt, Larry McPherson, Richard D. Paterson and James H. Woodward, Jr. were elected to serve as Directors of the Company until the 2008 Annual Meeting of Stockholders and until the successors are duly elected and qualified.

Mr. Carpenter was elected with 16,323,526 votes FOR and 1,894,361 votes WITHHELD, Mr. Conte was elected with 16,290,242 votes FOR and 1,927,645 votes WITHHELD, Mr. Gold was elected with 13,908,903 votes FOR and 4,308,984 votes WITHHELD, Mr. Hurt was elected with 13,996,953 votes FOR and 4,270,934 votes WITHHELD, Mr. McPherson was elected with 17,884,786 votes FOR and 333,101 votes WITHHELD, Mr. Paterson was elected with 17,884,786 votes FOR and 333,101 votes WITHHELD and Mr. Woodward was elected with 17,884,786 votes FOR and 333,101 votes WITHHELD.

The stockholders approved the ratification of the Audit Committee's selection of Ernst & Young, LLP as the Company's independent registered public accounting firm for the year ending December 31, 2007, with 18,208,343 votes FOR, 6,027 votes AGAINST and 3,516 votes ABSTAINING.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed as part of this report:

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EXHIBIT INDEX

| Exhibit Number | Description |
|---------------------------|---|
| 2.1(1) | Agreement and Plan of Merger, dated as of February 17, 2007, among Altra Holdings, Inc., Forest Acquisition Corporation and TB Woods Corporation. |
| 2.2(2) | Amendment No. 1 to the Agreement and Plan of Merger, dated as of March 11, 2007, among Altra Holdings, Inc., Forest Acquisition Corporation and TB Woods Corporation. |
| 3.1(3) | Second Amended and Restated Certificate of Incorporation of the Registrant |
| 3.3(3) | Amended and Restated Bylaws of the Registrant |
| 4.1(4) | Indenture, dated as of November 30, 2004, among Altra Industrial Motion, Inc., the Guarantors party thereto and The Bank of New York Trust Company, N.A. as trustee. |
| 4.2(5) | First Supplemental Indenture, dated as of February 7, 2006, among Altra Industrial Motion, Inc., the guarantors party thereto, and The Bank of New York Trust Company, N.A. as trustee. |
| 4.3(6) | Second Supplemental Indenture, dated as of February 8, 2006, among Altra Industrial Motion, Inc., the guarantors party thereto, and The Bank of New York Trust Company, N.A. as trustee. |
| 4.4(5) | Third Supplemental Indenture, dated as of April 24, 2006, among Altra Industrial Motion, Inc., the guarantors party thereto, and The Bank of New York Trust Company, N.A. as trustee. |
| 4.5(7) | Fourth Supplemental Indenture, dated as of March 21, 2007, among Altra Industrial Motion, Inc., the guarantors party thereto, and The Bank of New York Trust Company, N.A. as trustee. |
| 4.6(8) | Fifth Supplemental Indenture, dated as of April 5, 2007, among Altra Industrial Motion, Inc., the guarantors party thereto, and The Bank of New York Trust Company, N.A. as trustee. |
| 4.7(4) | Form of 9% Senior Secured Notes due 2011. |
| 4.8(4) | Registration Rights Agreement, dated as of November 30, 2004, among Altra Industrial Motion, Inc., Jefferies & Company, Inc., and the subsidiary guarantors party thereto. |
| 4.9(9) | Registration Rights Agreement, dated as of April 5, 2007, among Altra Industrial Motion, Inc., Jefferies & Company, Inc., and the subsidiary guarantors party thereto. |
| 4.10(6) | Indenture, dated as of February 8, 2006, among Altra Industrial Motion, Inc., the guarantors party thereto, The Bank of New York, as trustee and paying agent and The Bank of New York (Luxembourg) SA, as Luxembourg paying agent. |
| 4.11(5) | First Supplemental Indenture, dated as of April 24, 2006, among Altra Industrial Motion, Inc., the guarantors party thereto, and The Bank of New York as trustee. |
| 4.12(7) | |

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Second Supplemental Indenture, dated as of March 26, 2007, among Altra Industrial Motion, Inc., the guarantors party thereto, and The Bank of New York, as trustee.

4.13(8) Third Supplemental Indenture, dated as of April 5, 2007, among Altra Industrial Motion, Inc., the guarantors party thereto, and The Bank of New York, as trustee.

4.14(6) Form of 11 $\frac{1}{4}$ % Senior Notes due 2013.

4.15(6) Registration Rights Agreement, dated as of February 8, 2006, among Altra Industrial Motion, Inc., the guarantors party thereto, and Jefferies International Limited, as initial purchasers.

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**Exhibit
Number**

Description

| | |
|---------|---|
| 10.2(9) | Fifth Amendment to, and Consent and Waiver under, Credit Agreement and Joinder to Loan Documents, dated as of April 5, 2007, among Altra Industrial Motion, Inc., the financial institutions listed therein, as Lenders, and Wells Fargo Foothill, Inc. |
| 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 the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 20, 2007.
- (2) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 13, 2007.
- (3) Incorporated by reference to the Registrant's Registration Statement on Form S-1, as amended (No. 333-137660), filed with the Securities and Exchange Commission on December 4, 2006.
- (4) Incorporated by reference to Altra Industrial Motion, Inc. Registration Statement on Form S-4 (File No. 333-124944) filed with the Securities and Exchange Commission on May 16, 2005.
- (5) Incorporated by reference to Altra Industrial Motion, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 15, 2006.
- (6) Incorporated by reference to Altra Industrial Motion, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 14, 2006.
- (7) Incorporated by reference to Altra Industrial Motion, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 2007.
- (8) Incorporated by reference to Altra Industrial Motion, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 11, 2007.
- (9) Incorporated by reference to Altra Industrial Motion, Inc.'s Registration Statement on Form S-4 (File No. 333-142692-06) filed with the Securities and Exchange Commission on May 8, 2007.

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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.

August 30, 2007

By: /s/ Michael L. Hurt

Name: Michael L. Hurt
Title: Chairman and Chief Executive
Officer

August 30, 2007

By: /s/ David Wall

Name: David Wall
Title: VP Finance and Chief Financial
Officer

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