

Altra Industrial Motion Corp.  
Form 10-Q  
May 09, 2018

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 31, 2018

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 INDUSTRIAL MOTION CORP.

(Exact name of registrant as specified in its charter)

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

(781) 917-0600

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(Registrant's telephone number, including area code)

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

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

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company.) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 9, 2018, 29,383,365 shares of Common Stock, \$0.001 par value per share, were outstanding.

TABLE OF CONTENTS

|  | Page # |
|--|--------|
| <u>PART I - FINANCIAL INFORMATION</u>  |        |
| Item 1. <u>Financial Statements (unaudited)</u>  | 1      |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 24     |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 34     |
| Item 4. <u>Controls and Procedures</u>   | 34     |
| <br><u>PART II - OTHER INFORMATION</u>   |        |
| Item 1. <u>Legal Proceedings</u>   | 35     |
| Item 1A. <u>Risk Factors</u>   | 35     |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 35     |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 35     |
| Item 4. <u>Mine Safety Disclosures</u>   | 35     |
| Item 5. <u>Other Information</u>   | 35     |
| Item 6. <u>Exhibits</u>  | 36     |
| <br><u>SIGNATURES</u>  | <br>37 |

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed Consolidated Balance Sheets

Amounts in thousands, except share amounts

March 31, 2018      December 31, 2017

**ASSETS**

## Current assets:

Cash and cash equivalents \$ 46,396      \$ 51,994

Trade receivables, less allowance for doubtful accounts of \$4,815 and \$4,542 at

March 31, 2018 and December 31, 2017, respectively 150,794      135,499

Inventories 148,684      145,611

Income tax receivable 4,872      6,634

Prepaid expenses and other current assets 17,745      17,344

Assets held for sale 1,119      1,081

Total current assets 369,610      358,163

Property, plant and equipment, net 194,293      191,918

Intangible assets, net 160,767      159,613

Goodwill 209,722      206,040

Deferred income taxes 1,669      2,608

Other non-current assets, net 2,466      2,315

Total assets \$ 938,527      \$ 920,657

**LIABILITIES, AND STOCKHOLDERS' EQUITY**

## Current liabilities:

Accounts payable \$ 62,363      \$ 68,014

Accrued payroll 26,244      32,091

Accruals and other current liabilities 43,131      32,921

Income tax payable 9,948      9,082

Current portion of long-term debt 1,430      384

Total current liabilities 143,116      142,492

Long-term debt - less current portion 278,282      275,587

Deferred income taxes 52,342      52,250

Pension liabilities 25,749      25,038

Long-term taxes payable 5,419      6,322

Other long-term liabilities 20,655      22,263

## Commitments and Contingencies (Note 12)

## Stockholders' equity:

Common stock (\$0.001 par value, 90,000,000 shares authorized, 29,103,205, and 29      29

29,058,117 issued and outstanding at March 31, 2018 and December 31, 2017,

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|   |           |            |
|---|-----------|------------|
| respectively)                               |           |            |
| Additional paid-in capital                  | 223,149   | 223,336    |
| Retained earnings                           | 227,198   | 223,204    |
| Accumulated other comprehensive loss        | (37,412 ) | (49,864 )  |
| Total stockholders' equity                  | 412,964   | 396,705    |
| Total liabilities, and stockholders' equity | \$938,527 | \$ 920,657 |

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

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed Consolidated Statements of Operations

Amounts in thousands, except per share data

|  | Quarter Ended |             |
|--|---------------|-------------|
|  | March 31,     | March 31,   |
|  | 2018          | 2017        |
|  | (Unaudited)   | (Unaudited) |
| Net sales                                    | \$240,385     | \$ 215,435  |
| Cost of sales                                | 166,159       | 149,268     |
| Gross profit                                 | 74,226        | 66,167      |
| Operating expenses:                          |               |             |
| Selling, general and administrative expenses | 47,130        | 40,384      |
| Research and development expenses            | 6,473         | 6,223       |
| Restructuring costs                          | 943           | 1,898       |
|  | 54,546        | 48,505      |
| Income from operations                       | 19,680        | 17,662      |
| Other non-operating income and expense:      |               |             |
| Loss on settlement of pension plan           | 5,086         |             |
| Interest expense, net                        | 1,834         | 1,705       |
| Other non-operating expense, net             | (146 )        | (530 )      |
| Loss on extinguishment of convertible debt   | —             | 1,797       |
|  | 6,774         | 2,972       |
| Income before income taxes                   | 12,906        | 14,690      |
| Provision for income taxes                   | 3,905         | 4,364       |
| Net income                                   | \$9,001       | \$ 10,326   |
| Weighted average shares, basic               | 29,073        | 28,763      |
| Weighted average shares, diluted             | 29,225        | 28,897      |
| Net income per share:                        |               |             |
| Basic net income                             | \$0.31        | \$ 0.36     |
| Diluted net income                           | \$0.31        | \$ 0.36     |
| Cash dividend declared                       | \$0.17        | \$ 0.15     |

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

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed Consolidated Statements of Comprehensive Income

Amounts in thousands

|   | Quarter Ended |             |
|---|---------------|-------------|
|   | March 31,     | March 31,   |
|   | 2018          | 2017        |
|   | (Unaudited)   | (Unaudited) |
| Net Income  | \$9,001       | \$ 10,326   |
| Other Comprehensive income:   |               |             |
| Foreign currency translation adjustment   | 7,730         | 3,912       |
| Reclassification adjustment from loss on partial settlement of pension plan, net of tax | 3,815         |             |
| Change in defined benefit pension plans, net of tax                                     | 577           | —           |
| Change in fair value of derivative financial instruments                                | 330           | 818         |
| Other comprehensive income:   | 12,452        | 4,730       |
| Comprehensive income  | \$21,453      | \$ 15,056   |

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

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed Consolidated Statements of Cash Flows

Amounts in thousands

|  | Year to Date Ended |                |
|--|--------------------|----------------|
|  | March 31, 2018     | March 31, 2017 |
|  | (Unaudited)        | (Unaudited)    |
| Cash flows from operating activities                                     |                    |                |
| Net income   | \$9,001            | \$ 10,326      |
| Adjustments to reconcile net income to net operating cash flows:         |                    |                |
| Depreciation   | 6,923              | 6,461          |
| Amortization of intangible assets  | 2,480              | 2,345          |
| Amortization of deferred financing costs                                 | 150                | 149            |
| Loss on foreign currency, net  | (113 )             | (144 )         |
| Loss on settlement of pension plan                                       | 5,086              | —              |
| (Gain)/Loss on disposal / impairment of fixed assets                     | 125                | (58 )          |
| Loss on extinguishment of debt   | —                  | 1,797          |
| Stock based compensation   | 1,303              | 1,751          |
| Amortization of inventory fair value adjustment                          | —                  | 2,347          |
| Changes in assets and liabilities:                                       |                    |                |
| Trade receivables  | (12,906)           | (11,348 )      |
| Inventories  | (515 )             | (1,365 )       |
| Accounts payable and accrued liabilities                                 | (5,919 )           | (6,997 )       |
| Other current assets and liabilities                                     | 47                 | (4,052 )       |
| Other operating assets and liabilities                                   | (1,998 )           | 1,810          |
| Net cash provided by operating activities                                | 3,664              | 3,022          |
| Cash flows from investing activities                                     |                    |                |
| Purchase of property, plant and equipment                                | (6,975 )           | (7,333 )       |
| Net cash used in investing activities                                    | (6,975 )           | (7,333 )       |
| Cash flows from financing activities                                     |                    |                |
| Payments on Revolving Credit Facility                                    | (4,903 )           | (13,459 )      |
| Dividend payments  | (4,977 )           | (3,904 )       |
| Borrowing under Revolving Credit Facility                                | 8,000              | 5,000          |
| Payments of equipment, working capital notes, mortgages, and other debts | (288 )             | (267 )         |
| Cash paid to redeem Convertible Notes                                    | —                  | (954 )         |
| Shares surrendered for tax withholding                                   | (1,490 )           | (163 )         |
| Net cash used in financing activities                                    | (3,658 )           | (13,747 )      |
| Effect of exchange rate changes on cash and cash equivalents             | 1,371              | 1,877          |
| Net change in cash and cash equivalents                                  | (5,598 )           | (16,181 )      |
| Cash and cash equivalents at beginning of year                           | 51,994             | 69,118         |
| Cash and cash equivalents at end of period                               | \$46,396           | \$ 52,937      |
| Cash paid during the period for:   |                    |                |
| Interest   | \$1,755            | \$ 1,797       |
| Income taxes   | 2,642              | 2,937          |
| Non-cash Financing and Investing   |                    |                |
| Conversion of Convertible Notes to common stock                          | \$—                | \$ 51,851      |



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

## ALTRA INDUSTRIAL MOTION CORP.

## Consolidated Statements of Stockholders' Equity

Amounts in thousands

(Unaudited)

|   | Common |          | Additional | Retained   | Accumulated<br>Other<br>Comprehensive<br>Income | Total     |
|---|--------|----------|------------|------------|---|-----------|
|   | Stock  | Shares   | in Capital | Earnings   | (Loss)  |           |
| Balance at January 1, 2017              | \$ 27  | \$27,206 | \$ 168,299 | \$ 191,108 | \$ (76,086 )                                    | \$283,348 |
| Stock-based compensation and vesting    |        |          |            |            |   |           |
| of restricted stock                     | —      | 31       | 1,588      | —          | —   | 1,588     |
| Net income                              | —      | —        | —          | 10,326     | —   | 10,326    |
| Conversion of convertible debt          | 2      | 1,748    | 51,849     |            |   | 51,851    |
| Dividends declared                      | —      | —        | —          | (4,396 )   | —   | (4,396 )  |
| Change in fair value of interest rate   |        |          |            |            |   |           |
| swap, net of tax                        | —      | —        | —          | —          | 818   | 818       |
| Cumulative foreign currency translation |        |          |            |            |   |           |
| adjustment                              | —      | —        | —          | —          | 3,912   | 3,912     |
| Balance at March 31, 2017               | \$ 29  | \$28,985 | \$ 221,736 | \$ 197,038 | \$ (71,356 )                                    | \$347,447 |
| Balance at January 1, 2018              | \$ 29  | \$29,058 | \$ 223,336 | \$ 223,204 | \$ (49,864 )                                    | \$396,705 |
| Stock-based compensation and            |        |          |            |            |   |           |
| vesting of restricted stock             | —      | 45       | (187 )     | —          | —   | (187 )    |
| Net income                              | —      | —        | —          | 9,001      | —   | 9,001     |
| Dividends declared, \$0.17 per share    | —      | —        | —          | (5,007 )   | —   | (5,007 )  |
| Change in fair value of interest rate   |        |          |            |            |   |           |
| swap, net of tax                        | —      | —        | —          | —          | 330   | 330       |
| Minimum Pension adjustment, net of tax  | —      | —        | —          | —          | 4,392   | 4,392     |
| Cumulative foreign currency translation |        |          |            |            |   |           |
| adjustment                              | —      | —        | —          | —          | 7,730   | 7,730     |
| Balance at March 31, 2018               | \$ 29  | \$29,103 | \$ 223,149 | \$ 227,198 | \$ (37,412 )                                    | \$412,964 |

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



ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

1. Organization and Nature of Operations

Headquartered in Braintree, Massachusetts, Altra Industrial Motion Corp. (the “Company”, “we”, or “our”) is a leading multi-national designer, producer and marketer of a wide range of electro-mechanical power transmission products. The Company brings together strong brands covering over 42 product lines with production facilities in twelve countries. Altra’s leading brands include Ameridrives Couplings, Bauer Gear Motor, Bibby Turboflex, Boston Gear, Delroyd Worm Gear, Formsprag Clutch, Guardian Couplings, Huco, Industrial Clutch, Inertia Dynamics, Kilian Manufacturing, Lamiflex Couplings, Marland Clutch, Matrix, Nuttall Gear, Stieber Clutch, Stromag, Svendborg Brakes, TB Wood’s, Twiflex, Warner Electric, Warner Linear, and Wichita Clutch.

2. Basis of Presentation

The Company’s unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company’s financial position for the interim periods presented, and cash flows for the interim periods presented. The results are not necessarily indicative of future results. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

3. Recent Accounting Standards

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to address the application of generally accepted accounting principles in the United States, or GAAP, in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the U.S. Tax Act. The ultimate impact of the U.S. Tax Act may differ from this estimate, possibly materially, due to changes in interpretations and assumptions, and guidance that may be issued and actions we may take in response to the U.S. Tax Act. The U.S. Tax Act is highly complex and we will continue to assess the impact that various provisions will have on our business. Any subsequent adjustment to these amounts will be recorded to current tax expense in the period when the analysis is complete.

As of March 31, 2018, the Company has not completed the accounting for the tax effects of enactment of this legislation; however, the Company has made a reasonable estimate of the effects on its existing deferred tax balances, the one-time transition tax and provisional state taxes on future repatriations. For the items for which the Company was able to determine a reasonable estimate, the Company recognized a provisional amount of \$7.4 million under SAB 118 as a component of income tax expense in the year ended December 31, 2017.

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”), which allows companies to reclassify stranded income tax effects resulting from the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings in their consolidated financial statements. This guidance is effective for years beginning after December 31, 2018 (fiscal 2020 for Company), including interim periods within those fiscal years. We are currently evaluating the impact of this new standard on our consolidated financial statements.

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”). This ASU provides new guidance about income statement classification and eliminates the requirement to separately measure and report hedge ineffectiveness. The entire change in fair value for qualifying hedge instruments included in the effectiveness will be recorded in other comprehensive income (OCI) and amounts deferred in OCI will be reclassified to earnings in the same income statement line item in which the earnings effect of the hedged item is reported. The guidance will be effective for interim and annual periods for the Company on January 1, 2019, with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). The ASU requires management to recognize lease assets and lease liabilities by lessees for all operating leases. The ASU is effective for periods beginning after December 15, 2018 and interim periods therein on a modified retrospective basis. We are currently evaluating the impact this guidance will have on our consolidated financial statements and expect to recognize a significant lease obligation upon adoption.

Recently Adopted Accounting Standards

On January 1, 2018 The Company adopted ASU 2014-09 Revenue from Contracts with Customers (“Topic 606”) (“ASU 2014-09”) and all the related amendments using the modified retrospective approach. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods, which has been discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

The Company recognizes revenue under the core principle of depicting the transfer of control to the Company’s customers in an amount reflecting the consideration to which the Company expects to be entitled. In order to achieve that core principle, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

Our sales revenue for product sales is recognized based on a point in time model, at the point control transfers to our customers, which is generally when products are shipped from our manufacturing facilities or when delivered to the customer’s named location. When the Company performs shipping and handling activities after the transfer of control to the Customer (e.g., when control transfers prior to delivery), they are considered as fulfillment activities and, accordingly, the costs are accrued for when the related revenue is recognized. Taxes collected from Customers relating to product sales and remitted to governmental authorities are excluded from revenues. See Note 4 Revenue Recognition for further disclosures and detail regarding revenue.

The adoption of Topic 606 was not material to the Company and, as such, there was no cumulative effect upon the January 1, 2018 adoption date. As the impact of the new revenue standard is not material to the Company, there is no impact disclosure presented as of and for the quarter ended March 31, 2018.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (“Topic 715”): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”). This ASU changes the income statement presentation of defined benefit and post-retirement benefit plan expense by requiring separation between operating expense (service cost component of net periodic benefit expense) and non-operating expense (all other components of net periodic benefit expense, including but not limited to interest cost, amortization

of prior service cost, curtailments and settlements, etc.). The guidance became effective for interim and annual periods for the Company on January 1, 2018. The operating expense component is reported with similar compensation costs while the non-operating components are reported outside of operating income. The Company adopted the amendments in the first quarter of 2018 using a retrospective transition method. The impact of the adoption was immaterial for the three months ended March 31, 2017. The financial statements for the three months ended March 31, 2018 include the impact of the adoption.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows - Restricted Cash (“ASU 2016-18”). The amendments in ASU 2016-18 require that the statement of cash flows explain the change in total cash, cash equivalents and restricted cash. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of this ASU did not have a material impact on our unaudited condensed consolidated financial statements.

#### 4. Revenue Recognition

The following disclosure represents the Company’s effort to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers in accordance with Topic 606. The Company operates through three business segments that are aligned with key product types and end markets served:

◆ **Couplings, Clutches & Brakes.** Couplings are the interface between two shafts, which enable power to be transmitted from one shaft to the other. Clutches in this segment are devices which use mechanical, hydraulic, pneumatic, or friction type connections to facilitate engaging or disengaging two rotating members. Brakes are combinations of interacting parts

7

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## ALTRA INDUSTRIAL MOTION CORP.

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

that work to slow or stop machinery. Products in this segment are generally used in heavy industrial applications and energy markets.

**Electromagnetic Clutches & Brakes.** Products in this segment include brakes and clutches that are used to electronically slow, stop, engage or disengage equipment utilizing electromagnetic friction type connections. Products in this segment are used in industrial and commercial markets including agricultural machinery, material handling, motion control, and turf & garden.

**Gearing.** Gears are utilized to reduce the speed and increase the torque of an electric motor or engine to the level required to drive a particular piece of equipment. Gears produced by the Company are primarily utilized in industrial applications.

We distribute our products through three primary distribution channels: Industrial distributors, original equipment manufacturers (OEMs), and direct to end users. Each of these segments sells similar products, which are balanced across end-user industries including, without limitation, energy, food processing, general industrial, material handling, mining, transportation, and turf and garden.

The following table disaggregates our revenue for each reportable segment. The Company believes that disaggregating revenue into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors:

|                                   | Quarter Ended |            |
|-----------------------------------|---------------|------------|
|                                   | March 31,     |            |
|                                   | 2018          | 2017       |
| Net Sales:                        |               |            |
| Couplings, Clutches & Brakes      | \$ 120,173    | \$ 106,232 |
| Electromagnetic Clutches & Brakes | 69,107        | 63,878     |
| Gearing                           | 53,885        | 47,028     |
| Inter-segment eliminations        | (2,780 )      | (1,703 )   |
| Net sales                         | \$240,385     | \$215,435  |

The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. The Company's contracts with customers are generally for product only, and do not include other performance obligations such as professional services, extended warranties, or other material rights. In situations where sales are to a distributor, the Company has concluded that its contracts are with the distributor as the Company holds a contract bearing enforceable rights and obligations only with the distributor. As part of its consideration of the contract, the Company evaluates certain factors including the customer's ability to pay (or credit risk). For each contract, the Company considers the promises to transfer products, each of which is distinct, to be the identified performance obligations. In determining the transaction price the Company evaluates whether the price is



subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. As the Company's standard payment terms are less than one year, the Company has elected the practical expedient under ASC 606-10-32-18 to not assess whether a contract has a significant financing component. Revenue is recognized when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs at shipment from the Company's manufacturing site or delivery to the customer's named location. In determining whether control has transferred, the Company considers if there is a present right to payment and legal title, along with risks and rewards of ownership having transferred to the customer. In certain circumstances, the Company manufactures customized product without alternative use for its customers, which would generally result in the transfer of control over time. The Company has evaluated the amount of revenue subject to recognition over time and concluded that it is immaterial.

At times, the Company receives orders for products to be delivered over multiple dates that may extend across reporting periods. The Company invoices for each delivery upon shipment and recognizes revenues for each distinct product delivered, assuming transfer of control has occurred. As scheduled delivery dates are within one year, under the optional exemption provided by ASC 606-10-50-14 revenues allocated to future shipments of partially completed contracts are not disclosed.

The Company generally provides an assurance warranty that its products will substantially conform to the published specifications for twelve months from the date of shipment. The Company's liability typically is limited to either a credit equal to the purchase price or replacement of the defective part. Returns under warranty have historically been immaterial. The Company does not consider activities related to such warranty, if any, to be a separate performance obligation. For certain of its products, the Company

## ALTRA INDUSTRIAL MOTION CORP.

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

will separately sell extended warranty and service policies to its customers. These policies typically are for periods ranging from one to three years. Payments received are deferred and recognized over the policy period. For all periods presented, the revenue recognized and the revenue deferred under these policies is not material to the unaudited condensed consolidated financial statements.

The payment terms and conditions in our customer contracts vary. In some cases, customers will partially prepay for their goods; in other cases, after appropriate credit evaluations, payment will be due in arrears. In addition, there are constraints which cause variability in the ultimate consideration to be recognized. These constraints typically include early payment discounts, volume rebates, rights of return, surcharges, and other customer consolidation. When the timing of the Company's recognition of revenue is different from the timing of payments made by the customer, the Company recognizes either a contract asset (performance precedes contractual due date) or a contract liability (customer payment precedes performance or is in excess of estimates of what the Company expects to be entitled). Contracts with payment in arrears are recognized as receivables. The opening and closing balances of the Company's contract asset, contract liability, and receivables are as follows:

|                             | Deferred<br>Revenue<br>(Current) | Accounts<br>Receivable |
|-----------------------------|----------------------------------|------------------------|
| Beginning - January 1, 2018 | \$ 2,189                         | \$ 135,499             |
| Closing - March 31, 2018    | 7,034                            | 150,794                |
| Increase/(Decrease)         | \$ 4,845                         | \$ 15,295              |

The amounts of revenue recognized in the period that were included in deferred revenue was \$7.0. This revenue consists primarily of revenue recognized for shipments of product which were prepaid.

The Company has concluded that none of the costs it has incurred to obtain and fulfill its contracts meet the capitalization criteria, and as such, there are no costs deferred and recognized as assets on the unaudited condensed consolidated balance sheet.

## 5. Fair Value of Financial Instruments

Fair value is determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as determined by either the principal market or the most advantageous market. Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy, as follows:

Level 1- Quoted prices in active markets for identical assets or liabilities.

Level 2- Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived,

Level 3- Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

The Company considers all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

The carrying values of financial instruments, including accounts receivable, cash equivalents, accounts payable, and other accrued liabilities approximate fair value. Debt under the Company's 2015 Credit Agreement approximates the fair value due to the variable rate and the fact that the agreement was renegotiated in December 2016 and there have been no significant changes in our credit rating or pricing of similar debt.

The Company determines the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available for various types of financial instruments (such as forwards, options and swaps), the Company uses standard models with market-based inputs, which take into account the present value of estimated future cash flows and the ability of the Company or the financial counterparty to perform. For interest rate and cross currency swaps, the significant inputs to these models are interest rate curves for discounting future cash flows and are adjusted for credit risk. For forward foreign currency contracts, the significant inputs are interest rate curves for discounting future cash flows, and exchange rate curves of the foreign currency for translating future cash flows. See additional discussion of the Company's use of financial instruments including a cross-currency swap included in Note 16.

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

6. Changes in Accumulated Other Comprehensive Loss by Component

The following is a reconciliation of changes in accumulated other comprehensive loss by component for the periods presented:

|  | Gains<br>and<br>Losses<br>on<br>Cash<br>Flow<br>Hedges | Defined<br>Benefit<br>Pension<br>Plans | Foreign<br>Currency<br>Translation<br>Adjustment | Total        |
|--|--|--|--|--------------|
| Accumulated Other Comprehensive Loss by Component,   |  |  |  |              |
| January 1, 2018                                      | \$ (452 )  | \$ (3,678 )                            | \$ (45,734 )                                     | \$ (49,864 ) |
| Net current-period Other Comprehensive Income (Loss) | 330  | 577                                    | 7,730  | 8,637        |
| Reclassification adjustment from loss on partial     |  |  |  |              |
| settlement of pension plan, net of tax               | —  | 3,815                                  | —  | 3,815        |
| Accumulated Other Comprehensive Loss by Component,   |  |  |  |              |
| March 31, 2018                                       | \$ (122 )  | \$ 714                                 | \$ (38,004 )                                     | \$ (37,412 ) |

|  | Gains<br>and<br>Losses<br>on<br>Cash<br>Flow<br>Hedges | Defined<br>Benefit<br>Pension<br>Plans | Foreign<br>Currency<br>Translation<br>Adjustment | Total        |
|--|--|--|--|--------------|
| Accumulated Other Comprehensive Loss by              |  |  |  |              |
| Component, January 1, 2017                           | \$ (646 )  | \$ (5,668 )                            | \$ (69,772 )                                     | \$ (76,086 ) |
| Net current-period Other Comprehensive Income (Loss) | 818  | (234 )                                 | 4,146  | 4,730        |

Accumulated Other Comprehensive Loss by Component,

|                |        |           |             |            |
|----------------|--------|-----------|-------------|------------|
| March 31, 2017 | \$ 172 | \$(5,902) | \$(65,626 ) | \$(71,356) |
|----------------|--------|-----------|-------------|------------|

7. Acquisitions

On December 30, 2016, we acquired the shares and certain assets and liabilities of the Stromag business from GKN plc., and as a result, the Company's unaudited condensed consolidated financial statements reflect Stromag's results of operations from the beginning of business on December 30, 2016 forward. Stromag is a leading global manufacturer of highly engineered clutches and brakes, couplings, and limit switches for use in a variety of end markets including renewable energy, crane & hoist, and marine. We refer to this transaction as the Stromag Acquisition.

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

As of December 31, 2017, the allocation of the Company's acquisition accounting is complete and the calculation of fair value, of all the acquired identifiable assets and liabilities, for the Stromag Acquisition is final. The measurement period adjustments which reflected new information obtained about facts and circumstances that existed as of the acquisition date were not material. The final purchase price allocation was finalized as of December 31, 2017, see the table below:

|  | Final<br>Purchase<br><br>Price<br>Allocation |
|--|--|
| Total purchase price, excluding acquisition costs of approximately \$2.9 million | \$ 191,852                                   |
| Cash and cash equivalents  | 8,758  |
| Trade receivables  | 24,087                                       |
| Inventories  | 22,039                                       |
| Property, plant and equipment  | 40,343                                       |
| Intangible assets  | 74,795                                       |
| Prepaid expenses and other current assets  | 778  |
| Total assets acquired  | \$ 170,800                                   |
| Accounts payable   | (15,370 )                                    |
| Accrued payroll  | (7,171 )                                     |
| Accrued expenses and other current liabilities                                   | (4,496 )                                     |
| Income tax payable   | (2,525 )                                     |
| Deferred tax liability   | (27,783 )                                    |
| Other long-term liabilities  | (1,255 )                                     |
| Pension liability  | (15,283 )                                    |
| Total liabilities assumed  | \$ (73,883 )                                 |
| Net assets acquired  | 96,917                                       |
| Excess purchase price over fair value of net assets acquired                     | \$ 94,935                                    |

The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. This goodwill is generally not deductible for income tax purposes with the exception of approximately \$12.8 million which relates to certain assets acquired in the United States.

|  |          |
|--|----------|
| Intangible assets acquired consist of: |          |
| Customer relationships                 | \$56,019 |
| Trade names and trademarks             | 18,776   |
| Total intangible assets                | \$74,795 |

Customer relationships are subject to amortization and will be amortized on a straight-line basis over their estimated useful lives of 15 years, which represents the anticipated period over which the Company estimates it will benefit from the acquired assets.

#### 8. Net Income per Share

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

11

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ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

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

|  | Quarter Ended  |                |
|--|----------------|----------------|
|  | March 31, 2018 | March 31, 2017 |
| Net income   | \$9,001        | \$ 10,326      |
| Shares used in net income per common share - basic     | 29,073         | 28,763         |
| Incremental shares of unvested restricted common stock | 152            | 134            |
| Shares used in net income per common share - diluted   | 29,225         | 28,897         |
| Earnings per share:                                    |                |                |
| Basic net income                                       | \$0.31         | \$ 0.36        |
| Diluted net income                                     | \$0.31         | \$ 0.36        |

9. Inventories

Inventories at March 31, 2018 and December 31, 2017 consisted of the following:

|                 | March 31, 2018 | December 31, 2017 |
|-----------------|----------------|-------------------|
| Raw materials   | \$53,548       | \$ 49,351         |
| Work in process | 23,860         | 22,914            |
| Finished goods  | 71,276         | 73,346            |
|                 | \$148,684      | \$ 145,611        |

10. Goodwill and Intangible Assets

Changes in goodwill from January 1, 2018 through March 31, 2018 were as follows:

|  |       |
|--|-------|
| Couplings, Electromagnetic Gearing<br>& Clutches | Total |
|--|-------|



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|   | Clutches<br>&<br>Brakes | Brakes    |          |           |
|---|-------------------------|-----------|----------|-----------|
| Net goodwill balance January 1, 2018            | \$ 119,963              | \$ 37,905 | \$48,172 | \$206,040 |
| Impact of changes in foreign currency and other | 3,397                   | 152       | 133      | 3,682     |
| Net goodwill balance March 31, 2018             | \$ 123,360              | \$ 38,057 | \$48,305 | \$209,722 |

Other intangible assets as of March 31, 2018 and December 31, 2017 consisted of the following:

|  | March 31, 2018 |              |            | December 31, 2017 |              |            |
|--|----------------|--------------|------------|-------------------|--------------|------------|
|  | Accumulated    |              |            | Accumulated       |              |            |
|  | Cost           | Amortization | Net        | Cost              | Amortization | Net        |
| Other intangible assets                        |                |              |            |                   |              |            |
| Intangible assets not subject to amortization: |                |              |            |                   |              |            |
| Tradenames and trademarks                      | \$56,035       | \$ —         | \$56,035   | \$54,883          | \$ —         | \$54,883   |
| Intangible assets subject to amortization:     |                |              |            |                   |              |            |
| Customer relationships                         | 180,399        | 76,348       | 104,051    | 177,207           | 72,970       | 104,237    |
| Product technology and patents                 | 6,085          | 5,404        | 681        | 5,853             | 5,360        | 493        |
| Total intangible assets                        | \$242,519      | \$ 81,752    | \$ 160,767 | \$237,943         | \$ 78,330    | \$ 159,613 |

The Company recorded \$2.5 million and \$2.3 million of amortization expense in the quarters ended March 31, 2018 and 2017 respectively.

The estimated amortization expense for intangible assets is approximately \$7.1 million for the remainder of 2018, \$9.6 million in each of the next four years and then \$59.2 million thereafter.

## ALTRA INDUSTRIAL MOTION CORP.

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

## 11. Warranty Costs

The contractual warranty period of the Company's products generally ranges from three months to two years with certain warranties extending for longer periods. Estimated expenses related to product warranties are accrued at the time products are sold to customers and are recorded in accruals and other current liabilities on the unaudited condensed consolidated balance sheet. Estimates are established using historical information as to the nature, frequency and average costs of warranty claims. Changes in the carrying amount of accrued product warranty costs for each of the quarters ended March 31, 2018 and March 31, 2017 are as follows:

|   | March 31,<br>2018 | March 31,<br>2017 |
|---|-------------------|-------------------|
| Balance at beginning of period          | \$ 7,479          | \$ 9,158          |
| Accrued current period warranty expense | 514               | 122               |
| Payments and adjustments                | (429 )            | (110 )            |
| Balance at end of period                | \$ 7,564          | \$ 9,170          |

## 12. Debt

Outstanding debt obligations at March 31, 2018 and December 31, 2017 were as follows.

|  | March 31,<br>2018 | December 31,<br>2017 |
|--|-------------------|----------------------|
| Debt:  |                   |                      |
| Revolving Credit Facility                        | \$ 266,581        | \$ 262,915           |
| Mortgages  | 12,946            | 12,833               |
| Capital leases                                   | 185               | 223                  |
| Total debt                                       | 279,712           | 275,971              |
| Less current portion of long-term debt           | (1,430 )          | (384 )               |
| Total long-term debt, net of unaccreted discount | \$ 278,282        | \$ 275,587           |

## Second Amended and Restated Credit Agreement

On October 22, 2015, the Company entered into a Second Amended and Restated Credit Agreement, which may be amended from time to time (the “2015 Credit Agreement”). Under the 2015 Credit Agreement, the amount of the Company’s prior revolving credit facility was increased to \$350 million (the “2015 Revolving Credit Facility”). The amounts available under the 2015 Revolving Credit Facility can be used for general corporate purposes, including acquisitions, and to repay existing indebtedness. The stated maturity of the 2015 Revolving Credit Facility is October 22, 2020.

The amounts available under the 2015 Revolving Credit Facility may be drawn upon in accordance with the terms of the 2015 Credit Agreement. All amounts outstanding under the 2015 Revolving Credit Facility are due on the stated maturity or such earlier time, if any, required under the 2015 Credit Agreement. The amounts owed under the 2015 Revolving Credit Facility may be prepaid at any time, subject to usual notification and breakage payment provisions. Interest on the amounts outstanding under the 2015 Revolving Credit Facility is calculated using either an ABR Rate or Eurodollar Rate, plus the applicable margin. The applicable margins for Eurodollar Loans are between 1.25% to 2.00%, and for ABR Loans are between 0.25% and 1.00%. The amounts of the margins are calculated based on either a consolidated total net leverage ratio (as defined in the 2015 Credit Agreement), or the then applicable rating(s) of the Company’s debt and then to the extent as provided in the 2015 Credit Agreement. The rate at December 31, 2015 was 1.5%. A portion of the 2015 Revolving Credit Facility may also be used for the issuance of letters of credit, and a portion of the amount of the 2015 Revolving Credit Facility is available for borrowings in certain agreed upon foreign currencies. The 2015 Credit Agreement contains various affirmative and negative covenants and restrictions, which among other things, will require the Borrowers (as defined in the 2015 Credit Agreement) to provide certain financial reports to the Lenders (as defined in the 2015 Credit Agreement), require the Company to maintain certain financial covenants relating to consolidated leverage and interest coverage, limit maximum annual capital expenditures, and limit the ability of the Company and its subsidiaries to incur or guarantee additional indebtedness, pay dividends or make other equity distributions, purchase or redeem capital stock or debt, make certain investments, sell assets, engage in certain transactions, and effect a consolidation or merger. The 2015 Credit Agreement also contains customary events of default.

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

On October 21, 2016, the Company entered into an agreement to amend the 2015 Credit Agreement. This amendment, which became effective upon closing of the purchase of Stromag on December 30, 2016, increased the 2015 Revolving Credit Facility by \$75 million to \$425 million. The Company used additional borrowings under the increased facility to finance its purchase of Stromag. In addition, the amendment increased the multicurrency sublimit to \$250 million and adjusted certain financial covenants. The pricing terms and maturity date under the 2015 Credit Agreement remain unchanged. The Company paid \$0.6 million in fees in connection with the October 2016 amendment, which is recorded in other non-current assets.

As of March 31, 2018, we had \$266.6 million outstanding on our 2015 Revolving Credit Facility including \$250 million outstanding on our USD tranche at an interest rate of 3.38% and €13.5 million or \$16.6 million outstanding on our Euro tranche at an interest rate of 1.88%. As of March 31, 2018 and December 31, 2017, we had \$4.3 million and \$3.5 million in letters of credit outstanding, respectively. We had \$154.2 million available to borrow under the 2015 Revolving Credit Facility at March 31, 2018 and have the ability to increase the facility by an additional \$150 million under certain circumstances.

Commitment Letter

On March 7, 2018, the Company and Fortive Corporation, a Delaware corporation (“Fortive”), agreed to enter into a transaction (the “Fortive Transaction”) pursuant to which, subject to the terms and conditions of certain definitive agreements, (1) Fortive will transfer certain assets and liabilities constituting a portion of its Automation & Specialty Platform (the “A&S Business”) to a newly created wholly-owned subsidiary of Fortive (“Newco”) and will cause any applicable subsidiaries of Fortive to convey to Fortive or its designated subsidiary (other than Newco or any of Newco’s subsidiaries) certain excluded assets and liabilities (the “Separation”); (2) Fortive will contribute all equity interests in each such subsidiary of Fortive holding assets and liabilities of the A&S Business to Newco in exchange for (i) a number of shares of common stock, par value \$0.01 per share of Newco (the “Newco Common Stock”), (ii) securities representing indebtedness of Newco in an aggregate principal amount determined pursuant to such definitive agreements (the “Newco Securities”) and (iii) a cash dividend in an aggregate amount determined pursuant to such definitive agreements (the “Cash Dividend”); (3) Fortive will distribute to its stockholders all of the issued and outstanding shares of Newco Common Stock held by Fortive, at Fortive’s option, by way of an exchange offer (the “Exchange Offer”) or a pro rata dividend, or a combination thereof (the “Distribution”) and (4) a wholly-owned subsidiary of the Company (“Merger Sub”) will merge with and into Newco (the “Merger”), with Newco surviving as a wholly-owned subsidiary of the Company and with the issued and outstanding shares of Newco Common Stock converted in the Merger into shares of common stock of the Company. In addition, as part of the Fortive Transaction, Fortive will transfer (the “Direct Sales”) certain non-U.S. assets, liabilities and entities of the A&S Business to certain subsidiaries of the Company, and the Company’s subsidiaries will assume substantially all of the liabilities associated with the transferred assets.

In connection with the Fortive Transaction, the Company entered into a commitment letter (the “Commitment Letter”), under which Goldman Sachs Bank USA committed to provide to the Company up to \$1,340 million in aggregate principal amount of senior secured term loans (the “GS Term Loans”) and a \$300 million senior secured revolving credit facility (the “GS Revolving Loans” and, together with the GS Term Loans, the “GS Loans”), subject to the terms and conditions of the Commitment Letter. The proceeds of the GS Term Loans will be used, together with cash on hand of the Company or its subsidiaries (if necessary), to, among other things, (i) consummate the Direct Sales, (ii) repay in

full and extinguish all outstanding indebtedness for borrowed money under the 2015 Credit Agreement and (iii) pay certain fees, costs and expenses in connection with the consummation of the Fortive Transaction.

The commitments under the Commitment Letter are subject to customary closing conditions. All obligations of the Company with respect to the GS Loans will be guaranteed by each direct or indirect wholly-owned domestic subsidiary of the Company, and following the effective time of the Merger, by Newco and its direct or indirect wholly-owned domestic subsidiaries, subject to customary exceptions.

#### Convertible Senior Notes

In March 2011, the Company issued Convertible Senior Notes (the “Convertible Notes”) due March 1, 2031. The Convertible Notes were guaranteed by the Company’s U.S. domestic subsidiaries. Interest on the Convertible Notes was payable semi-annually in arrears, on March 1 and September 1 of each year, commencing on September 1, 2011 at an annual rate of 2.75%. Proceeds from the offering were \$81.3 million, net of fees and expenses that were capitalized.

On December 12, 2016 the Company gave notice to the holders of the Convertible Notes of its intention to redeem all of the Convertible Notes outstanding on January 12, 2017 (the “Redemption Date”), pursuant to the optional redemption provisions in the Indenture. The redemption price for the Convertible Notes was 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the Redemption Date plus a Make-Whole Premium equal to the present values of the remaining

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

scheduled payments of interest on any Convertible Notes through March 1, 2018 (excluding interest accrued to, but excluding, the Redemption Date). In lieu of receiving the redemption price, holders of the Notes could surrender their Convertible Notes for conversion at any time before January 9, 2017. The conversion rate of the Convertible Notes was 39.0809 shares of the Company's common stock, for each \$1,000 of outstanding principal of the Convertible Notes. As of December 31, 2016, Convertible Notes with an outstanding principal of approximately \$39.3 million were converted resulting in the issuance of 1.5 million shares of the Company's common stock. As a result of the conversion, the Company incurred a loss on extinguishment of debt of approximately \$1.9 million and the carrying value of the Convertible Notes was \$42.9 million as of December 31, 2016. In January 2017, additional Convertible Notes with an outstanding principal of approximately \$44.7 million were converted resulting in the issuance of 1.7 million shares of the Company's common stock, and \$0.9 million of Convertible Notes were redeemed for cash. The Company incurred an additional loss on extinguishment of debt of approximately \$1.8 million during the quarter ended March 31, 2017. All Convertible Notes were converted or redeemed as of January 12, 2017.

Mortgages

Heidelberg Germany

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €1.5 million, or \$1.7 million, secured by its facility in Heidelberg, Germany to replace its previously existing mortgage. The mortgage has an interest rate of 1.79%, which is payable in monthly installments through August 2023. The mortgage had a remaining principal balance of €1.1 million, or \$1.4 million, at March 31, 2018.

Esslingen Germany

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €6.0 million, or \$6.7 million, secured by its facility in Esslingen, Germany. The mortgage has an interest rate of 2.5% per year, which is payable in annual interest payments of €0.1 million, or \$0.1 million, to be paid in monthly installments. The mortgage had a remaining principal balance of €6.0 million, or \$7.4 million, at March 31, 2018. The principal portion of the mortgage will be due in a lump-sum payment in May 2019.

Zlate Moravce Slovakia

During the quarter ended March 31, 2016, a foreign subsidiary of the Company entered into a loan with a bank to equip its facility in Zlate Moravce, Slovakia. As of March 31, 2018, the total principal outstanding was €1.8 million, or \$2.2 million, and is guaranteed by land security at its parent company facility in Esslingen, Germany. The loan is due in installments from 2016 through 2020, with an interest rate of 1.95%.

Angers France

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €2.1 million, or \$2.3 million, secured by its facility in Angers, France. The mortgage has an interest rate of 1.85% per year which is payable in monthly installments until May 2025. The mortgage had a balance of €1.6 million, or \$2.0 million, at March 31, 2018.

#### Capital Leases

The Company leases certain equipment under capital lease arrangements, whose obligations are included in both short-term and long-term debt. Capital lease obligations amounted to approximately \$0.3 million at March 31, 2018 and approximately \$0.2 million at December 31, 2017. Assets subject to capital leases are included in property, plant and equipment with the related amortization recorded as depreciation expense.

#### Overdraft Agreements

Certain of our foreign subsidiaries maintain overdraft agreements with financial institutions. There were no borrowings as of March 31, 2018 or December 31, 2017 under any of the overdraft agreements.

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

13. Stockholders' Equity

Stock-Based Compensation

The Company's 2004 Equity Incentive Plan (the "2004 Plan") permitted the grant of various forms of stock based compensation to our officers and senior level employees. The 2004 Plan expired in 2014 and, upon expiration, there were 750,576 shares subject to outstanding awards under the 2004 Plan. The 2014 Omnibus Incentive Plan (the "2014 Plan") was approved by the Company's shareholders at its 2014 annual meeting. The 2014 Plan provides for various forms of stock based compensation to our directors, executive personnel and other key employees and consultants. Under the 2014 Plan, the total number of shares of common stock available for delivery pursuant to the grant of awards ("Awards") was originally 750,000. At the Company's 2017 Annual Meeting, its shareholders approved amendments to the 2014 Plan which, among other things, made an additional 750,000 shares of common stock available for grant under the 2014 Plan. Shares of our common stock subject to Awards awarded under the 2004 Plan and outstanding as of the effective date of the 2014 Plan (except for substitute awards) that terminate without being exercised, expire, are forfeited or canceled, are exchanged for Awards that did not involve shares of common stock, are not issued on the stock settlement of a stock appreciation right, are withheld by the Company or tendered by a participant (either actually or by attestation) to pay an option exercise price or to pay the withholding tax on any Award, or are settled in cash in lieu of shares will again be available for Awards under the 2014 Plan.

The restricted shares issued pursuant to the 2014 Plan generally vest ratably over a period ranging from immediately to five years from the date of grant, provided, that the vesting of the restricted shares may accelerate upon the occurrence of certain events. Common stock awarded under the 2014 Plan is generally subject to restrictions on transfer, repurchase rights, and other limitations and rights as set forth in the applicable award agreements. The fair value of the shares repurchased are measured based on the share price on the date of grant.

The 2014 Plan permits the Company to grant, among other things, restricted stock, restricted stock units, and performance share awards 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 2014 Plan are determined by the Personnel and Compensation Committee of the Board of Directors.

Stock-based compensation expense recorded during the quarters ended March 31, 2018 and 2017, was \$1.3 million and \$1.8 million, respectively. The Company recognizes stock-based compensation expense on a straight-line basis for the shares vesting ratably under the plan and uses the graded-vesting method of recognizing stock-based compensation expense for the performance share awards based on the probability of the specific performance metrics being achieved over the requisite service period.

The following table sets forth the activity of the Company's restricted stock and performance share grants in the quarter ended March 31, 2018:

| Shares | Weighted-average |
|--------|------------------|
|--------|------------------|



|                                      |           | grant date fair | value |
|--------------------------------------|-----------|-----------------|-------|
| Shares unvested January 1, 2018      | 221,313   | \$              | 31.42 |
| Shares granted                       | 140,852   |                 | 45.70 |
| Shares for which restrictions lapsed | (77,559 ) |                 | 45.96 |
| Shares unvested March 31, 2018       | 284,606   | \$              | 31.92 |

Total remaining unrecognized compensation cost was \$6.4 million as of March 31, 2018, which will be recognized over a weighted average remaining period of 3 years. The fair market value of the shares for which the restrictions have lapsed during the quarter ended March 31, 2018 was approximately \$3.6 million. Restricted shares granted are valued based on the fair market value of the stock on the date of grant.

#### Share Repurchase Program

On October 19, 2016, our board of directors approved a share repurchase program authorizing the buyback of up to \$30.0 million of the Company's common stock through December 31, 2019. This plan replaced the previous program which was terminated. The Company expects to purchase shares on the open market, through block trades, in privately negotiated transactions, in compliance with SEC Rule 10b-18 (including through Rule 10b5-1 plans), or in any other appropriate manner. The timing of the shares repurchased will be at the discretion of management and will depend on a number of factors, including price, market conditions and

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

regulatory requirements. Shares acquired through the repurchase program will be retired. The Company retains the right to limit, terminate or extend the share repurchase program at any time without prior notice. The Company expects to fund any further repurchases of its common stock through a combination of cash on hand and cash generated by operations. During the quarter ended March 31, 2018, the Company did not repurchase any of its common stock under the share repurchase program.

Dividends

The Company declared a dividend of \$0.17 per share of common stock related to the quarter ended March 31, 2018 which was accrued in the balance sheet at March 31, 2018.

Future declarations of quarterly cash dividends are subject to approval by the Board of Directors and to the Board's continuing determination that the declaration of dividends are in the best interest of the Company's stockholders and are in compliance with all laws and agreements of the Company applicable to the declaration and payment of cash dividends.

14. Restructuring, Asset Impairment, and Transition Expenses

From time to time, the Company has initiated various restructuring programs and incurred severance and other restructuring costs.

During 2015, the Company commenced a restructuring plan ("2015 Altra Plan") as a result of weak demand in Europe and to make certain adjustments to improve business effectiveness, reduce the number of facilities and streamline the Company's cost structure. The actions taken pursuant to the 2015 Altra Plan included reducing headcount, facility consolidations and related asset impairments, and limiting discretionary spending to improve profitability.

The following table details restructuring charges incurred by segment for the periods presented under the 2015 Altra Plan.

|                                   | Quarter<br>Ended<br>March 31,<br>2018 | March 31,<br>2017 |
|-----------------------------------|---------------------------------------|-------------------|
| Couplings, Clutches & Brakes      | \$—                                   | \$ 1,361          |
| Electromagnetic Clutches & Brakes | —                                     | —                 |
| Gearing                           | —                                     | 296               |
| Corporate (1)                     | —                                     | 241               |

|       |             |
|-------|-------------|
| Total | \$—\$ 1,898 |
|-------|-------------|

(1) Certain expenses are maintained at the corporate level and not allocated to the segments. These include various administrative expenses related to corporate headquarters, depreciation on capitalized software costs, non-capitalizable software implementation costs and acquisition related expenses and non-cash partial pension settlements.

There were no costs incurred under the 2015 Altra Plan for the quarter ended March 31, 2018.

During the quarter ended September 30, 2017, the Company commenced a new restructuring plan (“2017 Altra Plan”) as a result of the Stromag acquisition and to rationalize its global renewable energy business. The actions taken pursuant to the 2017 Altra Plan included reducing headcount, facility consolidations and the elimination of certain costs.

The following table details restructuring charges incurred by segment for the periods presented under the 2017 Altra Plan.

|                                   | Quarter Ended  |                |
|-----------------------------------|----------------|----------------|
|                                   | March 31, 2018 | March 31, 2017 |
| Couplings, Clutches & Brakes      | \$ 943         | \$ —           |
| Electromagnetic Clutches & Brakes | —              | —              |
| Gearing                           | —              | —              |
| Corporate (1)                     | —              | —              |
| Total                             | \$ 943         | \$ —           |

## ALTRA INDUSTRIAL MOTION CORP.

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

(1) Certain expenses are maintained at the corporate level and not allocated to the segments. These include various administrative expenses related to corporate headquarters, depreciation on capitalized software costs, non-capitalizable software implementation costs and acquisition related expenses and non-cash partial pension settlements.

The amounts for the quarter ended March 31, 2018 were comprised primarily of severance costs, and are classified in the accompanying unaudited condensed consolidated statement of income as restructuring costs.

The following is a reconciliation of the accrued restructuring costs between January 1, 2018 and March 31, 2018.

|                                | 2015  | 2017  | Total   |
|--------------------------------|-------|-------|---------|
|                                | Plan  | Plan  | All     |
|                                |       |       | Plans   |
| Balance at January 1, 2018     | \$800 | \$208 | \$1,008 |
| Restructuring expense incurred | —     | 943   | 943     |
| Cash payments                  | (136) | (453) | (589)   |
| Balance at March 31, 2018      | \$664 | \$698 | \$1,362 |

The total accrued restructuring reserve as of March 31, 2018 relates to severance costs to be paid to former employees which are expected to be paid during 2018 and are recorded in accruals and other current liabilities on the accompanying unaudited condensed consolidated balance sheet. The Company does not expect to incur any additional material restructuring expenses related to the 2015 Altra Plan. The company expects to incur approximately \$1.0 to \$3.0 million in expense under the 2017 Altra Plan through 2019.

## 15. Segments, Concentrations and Geographic Information

### Segments

The Company currently operates through three business segments that are aligned with key product types and end markets served:

#### • Couplings, Clutches & Brakes.

Couplings are the interface between two shafts, which enable power to be transmitted from one shaft to the other. Clutches in this segment are devices which use mechanical, hydraulic, pneumatic, or friction type connections to facilitate engaging or disengaging two rotating members. Brakes are combinations of interacting parts that work to

slow or stop machinery. Products in this segment are generally used in heavy industrial applications and energy markets.

◆ **Electromagnetic Clutches & Brakes.**

Products in this segment include brakes and clutches that are used to electronically slow, stop, engage or disengage equipment utilizing electromagnetic friction type connections. Products in this segment are used in industrial and commercial markets including agricultural machinery, material handling, motion control, and turf & garden.

◆ **Gearing.**

Gears are utilized to reduce the speed and increase the torque of an electric motor or engine to the level required to drive a particular piece of equipment. Gears produced by the Company are primarily utilized in industrial applications.

## ALTRA INDUSTRIAL MOTION CORP.

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

Segment financial information and a reconciliation of segment results to consolidated results follows:

|  | Quarter Ended |            |
|--|---------------|------------|
|  | March 31,     |            |
|  | 2018          | 2017       |
| Net Sales:                                 |               |            |
| Couplings, Clutches & Brakes               | \$ 120,173    | \$ 106,232 |
| Electromagnetic Clutches & Brakes          | 69,107        | 63,878     |
| Gearing                                    | 53,885        | 47,028     |
| Inter-segment eliminations                 | (2,780 )      | (1,703 )   |
| Net sales                                  | \$240,385     | \$215,435  |
| Income from operations:                    |               |            |
| Segment earnings:                          |               |            |
| Couplings, Clutches & Brakes               | \$ 13,420     | \$ 8,345   |
| Electromagnetic Clutches & Brakes          | 8,668         | 7,593      |
| Gearing                                    | 6,116         | 5,525      |
| Corporate expenses (1)                     | (7,581 )      | (1,903 )   |
| Restructuring                              | (943 )        | (1,898 )   |
| Income from operations                     | \$ 19,680     | \$ 17,662  |
| Other non-operating (income) expense:      |               |            |
| Loss on settlement of pension plan         | 5,086         | —          |
| Net interest expense                       | \$ 1,834      | \$ 1,705   |
| Other non-operating expense (income), net  | (146 )        | (530 )     |
| Loss on extinguishment of convertible debt | —             | 1,797      |
|  | 6,774         | 2,972      |
| Income before income taxes                 | 12,906        | 14,690     |
| Provision for income taxes                 | 3,905         | 4,364      |
| Net income                                 | \$9,001       | \$ 10,326  |

(1) Certain expenses are maintained at the corporate level and not allocated to the segments. These include various administrative expenses related to corporate headquarters, depreciation on capitalized software costs, non-capitalizable software implementation costs and acquisition related expenses.

Selected information by segment (continued)

|                                | Quarter Ended |           |
|--------------------------------|---------------|-----------|
|                                | March 31,     | March 31, |
|                                | 2018          | 2017      |
| Depreciation and amortization: |               |           |

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|                                     |           |           |
|-------------------------------------|-----------|-----------|
| Couplings, Clutches & Brakes        | \$5,726   | \$5,137   |
| Electromagnetic Clutches & Brakes   | 930       | 1,215     |
| Gearing                             | 1,878     | 1,651     |
| Corporate                           | 869       | 803       |
| Total depreciation and amortization | \$9,403   | \$8,806   |
|                                     | March 31, | March 31, |
|                                     | 2018      | 2017      |
| Total assets:                       |           |           |
| Couplings, Clutches & Brakes        | \$585,667 | \$541,343 |
| Electromagnetic Clutches & Brakes   | 166,126   | 176,167   |
| Gearing                             | 157,109   | 132,971   |
| Corporate (2)                       | 29,625    | 27,047    |
| Total assets                        | \$938,527 | \$877,528 |

(2) Corporate assets are primarily cash and cash equivalents, tax related asset accounts, certain capitalized software costs, property, plant and equipment and deferred financing costs.

19

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## ALTRA INDUSTRIAL MOTION CORP.

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

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

|                                | Net Sales     |            |
|--------------------------------|---------------|------------|
|                                | Quarter Ended |            |
|                                | March 31,     | March 31,  |
|                                | 2018          | 2017       |
| North America (primarily U.S.) | \$ 125,694    | \$ 115,140 |
| Europe                         | 93,481        | 83,294     |
| Asia and other                 | 21,210        | 17,001     |
| Total                          | \$ 240,385    | \$ 215,435 |

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

#### Concentrations

Financial instruments, which are potentially subject to counter party performance and concentrations of credit risk, consist primarily of trade accounts receivable. The Company manages these risks by conducting credit evaluations of customers prior to delivery or commencement of services. When the Company enters into a sales contract, collateral is normally not required from the customer. Payments are typically due within 30 days of billing. An allowance for potential credit losses is maintained, and losses have historically been within management's expectations. While the Company did not have any customers that represented total sales greater than 10% for each of the quarters ended March 31, 2018 and 2017, the Gearing business had one customer that approximated 10% of total sales for that segment during the quarter ended March 31, 2018.

The Company is also subject to counter party performance risk of loss in the event of non-performance by counterparties to financial instruments, such as cash and investments. Cash and cash equivalents are held by well-established financial institutions and excess amounts are invested in AAA rated mutual funds. The Company is also exposed to swap counterparty credit risk with well-established financial institutions.

#### 16. Derivative Financial Instruments

The Company enters into contractual derivative arrangements to manage changes in market conditions related to interest on debt obligations, and foreign currency exposures. Derivative instruments utilized during the period include



interest rate swap agreements and foreign currency contracts. All derivative instruments are recognized as either assets or liabilities on the balance sheet at fair value at the end of each period. The counterparties to the Company's contractual derivative agreements are all major international financial institutions. The Company is exposed to credit loss in the event of nonperformance by these counterparties. The Company continually monitors its positions and the credit ratings of its counterparties, and does not anticipate nonperformance by the counterparties. For designated hedging relationships, the Company formally documents the hedging relationship and its risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items.

#### Cross Currency Interest Rate Swaps

The Company is exposed to foreign currency and interest rate cash flow exposure related to non-functional currency long-term debt of the Company's wholly owned Dutch subsidiary. The currency adjustments related to this loan are recorded in Other non-operating (income) expense, net. The offsetting gains and losses on the related derivative contracts are also recorded in Other non-operating (income) expense, net. To manage this foreign currency and interest rate cash flow exposure, the Company entered into a cross-currency interest rate swap that converts \$100.0 million of U.S. dollar denominated floating interest payments to functional currency (euro) fixed interest payments during the life of the hedging instrument. In addition, the Company entered into two cross-currency interest rate swaps that convert an additional \$70.0 million of the U.S. dollar denominated floating interest payments to functional currency (euro) floating interest payments during the life of the hedging instruments. The effective period of one of the cross-currency interest rate swaps, in the amount of \$30 million, expired as of December 31, 2017. The effective period of the second of these two cross-currency interest rate swaps, in the original amount of \$40 million, now currently \$30 million, expires on December 31, 2018. As changes in foreign exchange and interest rates impact the future cash flow of interest payments, the hedges are intended to offset changes in cash flows attributable to interest rate and foreign exchange movements.

## ALTRA INDUSTRIAL MOTION CORP.

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

The Company designated the \$100.0 million swap as a cash flow hedge, with the effective portion of the gain or loss on the derivative reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction impacts earnings. There were no amounts recorded for ineffectiveness for the periods reported herein related to the cross-currency interest rate swaps.

Changes in the fair value of a derivative that is designated as and meets all the required criteria for a cash flow hedge are recorded in accumulated other comprehensive income and reclassified into earnings as the underlying hedged item affects earnings. As of March 31, 2018 and 2017, approximately \$0.6 million and \$0.1 million of net unrealized gains related to the cross-currency interest rate swaps were included in accumulated other comprehensive income (loss), respectively.

## Interest Rate Swap

In January 2017, the Company entered into an interest rate swap agreement designed to fix the variable interest rate payable on a portion of its outstanding borrowings under the 2015 Credit Agreement, for a notional value of \$50.0 million, at 1.625%. The effective date was January 31, 2017 and the maturity date is January 31, 2020.

The interest rate swap agreement was designed to manage exposure to interest rates on the Company's variable rate indebtedness. The Company recognizes all derivatives on its balance sheet at fair value. The Company has designated this interest rate swap agreement as a cash flow hedge. Changes in the fair value of the swap will be recognized in other comprehensive income until the hedged items are recognized in earnings. Hedge ineffectiveness, if any, associated with the swap will be reported by the Company in interest expense. As of March 31, 2018, approximately \$65 thousand of unrealized gain related to the interest rate swap was included in accumulated other comprehensive income.

The following table summarizes outstanding swaps which the Company has recorded at March 31, 2018.

| Date Entered | Derivative Financial Instrument | Initial US\$ Notional Amount (thousands) | Floating Leg (swap counterparty)           | Fixed Rate | Floating Leg (Company) | Settlement Dates                              | Effective Period of swap |
|--------------|---------------------------------|--|--|------------|------------------------|---|--------------------------|
| 12/21/2016   | Cross currency interest rate    | \$ 100,000                               | Variable rate 1-month USD Libor plus 1.50% | 1.027%     | N/A                    | Monthly on the last banking day of each month | 12/23/2016 - 12/31/2019  |

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| swap       |  |        | to 3/31/17 and<br>1.75% thereafter   |               |   | commencing<br>December 30,<br>2016  |                            |
|------------|--|--------|--|---------------|---|---|----------------------------|
| 12/21/2016 | Cross<br>currency<br>interest rate<br>swap | 40,000 | Variable rate<br>1-month USD<br>Libor plus 1.50%<br>to 3/31/17 and<br>1.75% thereafter | N/A           | Variable rate<br>1-month<br>EURIBOR,<br>floored at<br>0.00%, plus<br>0.920% | Monthly on the<br>last banking day<br>of each month<br>commencing<br>December 30,<br>2016 | 12/23/2016 -<br>12/31/2018 |
| 1/31/2017  | Interest rate<br>swap                      | 50,000 | Variable rate<br>1-month USD<br>Libor  | 1.625%<br>USD | N/A   | Monthly on the<br>last banking day<br>of each month<br>commencing<br>February 28, 2017    | 1/31/2017 -<br>1/31/2020   |

The following table summarizes the location and fair value, using Level 2 inputs (see Note 5 for a description of the fair value levels), of the Company's derivatives designated and not designated as hedging instruments in the unaudited condensed consolidated balance sheets (in thousands).

|   | Balance Sheet Location         | March 31,<br>2018 | December,<br>31<br>2017 |
|---|--------------------------------|-------------------|-------------------------|
| <b>Designated as hedging instruments:</b>     |                                |                   |                         |
| Cross currency swap agreements                | Other long-term liabilities    | \$ 18,711         | \$ 15,569               |
| Interest rate swap agreement                  | Other long-term assets         | 632               | 345                     |
| <b>Not designated as hedging instruments:</b> |                                |                   |                         |
| Cross currency swap agreements                | Accruals and other liabilities | 5,488             | 4,597                   |
|   |                                | \$ 23,567         | \$ 19,821               |

The following table summarizes the location of (gain) loss reclassified from Accumulated other comprehensive loss into earnings for derivatives designated as hedging instruments and the location of (gain) loss for our derivatives not designated as hedging instruments in the unaudited condensed consolidated statements of income (in thousands).

## ALTRA INDUSTRIAL MOTION CORP.

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

|  | Income Statement Location                 | March 31,<br>2018 |
|--|---|-------------------|
| Designated as hedging instruments:     |   |                   |
| Cross currency swap agreements         | Other non-operating (income) expense, net | \$ 2,839          |
| Not designated as hedging instruments: |   |                   |
| Cross currency swap agreements         | Other non-operating (income) expense, net | 891               |
|  |   | \$ 3,730          |

## 17. Commitments and Contingencies

## General Litigation

The Company is involved in various pending legal proceedings arising out of the ordinary course of business. These proceedings primarily involve commercial claims, product liability claims, personal injury claims, and workers' compensation claims. None of these legal proceedings are expected to have a material adverse effect on the results of operations, cash flows, or financial condition of the Company. With respect to these proceedings, management believes that the Company will prevail, has adequate insurance coverage or has established appropriate reserves to cover potential liabilities. Any costs that management estimates may be paid related to these proceedings or claims are accrued when the liability is considered probable and the amount can be reasonably estimated. There can be no assurance, however, as to the ultimate outcome of any of these matters, and if all or substantially all of these legal proceedings were to be determined adversely to the Company, there could be a material adverse effect on the results of operations, cash flows, or financial condition of the Company. We have established loss provisions for matters in which losses are probable and can be reasonably estimated. There were no material amounts accrued in the accompanying unaudited condensed consolidated balance sheet for potential litigation as of March 31, 2018 or December 31, 2017. For matters where a reserve has not been established and for which we believe a loss is reasonably possible, as well as for matters where a reserve has been recorded but for which an exposure to loss in excess of the amount accrued is reasonably possible, we believe that such losses, individually and in the aggregate, will not have a material effect on our unaudited condensed consolidated financial statements.

The Company also risks exposure to product liability claims in connection with products it has sold and those sold by businesses that the Company acquired. Although in some cases third parties have retained responsibility for product liability claims relating to products manufactured or sold prior to the acquisition of the relevant business and in other cases the persons from whom the Company has acquired a business may be required to indemnify the Company for certain product liability claims subject to certain caps or limitations on indemnification, the Company cannot assure that those third parties will in fact satisfy their obligations with respect to liabilities retained by them or their indemnification obligations. If those third parties become unable to or otherwise do not comply with their respective obligations including indemnity obligations, or if certain product liability claims for which the Company is obligated were not retained by third parties or are not subject to these indemnities, the Company could become subject to

significant liabilities or other adverse consequences. Moreover, even in cases where third parties retain responsibility for product liability claims or are required to indemnify the Company, significant claims arising from products that have been acquired could have a material adverse effect on the Company's ability to realize the benefits from an acquisition, could result in the reduction of the value of goodwill that the Company recorded in connection with an acquisition, or could otherwise have a material adverse effect on the Company's business, financial condition, or operations.

#### Termination of Defined Benefit Plan

The Company commenced its plan to terminate the Altra Industrial Motion, Inc. Retirement Plan (the "Plan"), its frozen U.S. defined benefit pension plan in June 2017 and distributed a portion of the Plan assets during the fourth quarter of 2017 as a partial plan settlement. See Note 8 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017. During the first quarter of 2018, the Company completed the plan termination and made a final contribution of \$1.1 million to fully fund the benefit obligation prior to settlement. The Company settled the remaining benefit obligation of approximately \$18.7 million by transferring the remaining plan assets and liability obligations to a third party. The Company recorded an additional settlement loss of \$5.1 million in the quarter ended March 31, 2018.

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

18. Subsequent Events

Dividend

On April 24, 2018, the Company declared a dividend of \$0.17 per share for the quarter ended June 30, 2018, payable on July 3, 2018, to shareholders of record as of June 18, 2018.

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

Cautionary Statement Regarding Forward-Looking Statements

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

- the effects of intense competition in the markets in which we operate;
- the cyclical nature of the markets in which we operate;
- the loss of independent distributors on which we rely;
- changes in market conditions in which we operate that would influence the value of the Company's stock;
- the Company's ability to achieve its business plans, including with respect to an uncertain economic environment;
- the risks associated with international operations, including currency risks;
- the Company's ability to retain existing customers and our ability to attract new customers for growth of our business;
- the effects of the loss or bankruptcy of or default by any significant customer, suppliers, or other entity relevant to the Company's operations;
- political and economic conditions nationally, regionally, and in the markets in which we operate;
- natural disasters, war, civil unrest, terrorism, fire, floods, tornadoes, earthquakes, hurricanes, or other matters beyond the Company's control;
- the Company's risk of loss not covered by insurance;
- the accuracy of estimated forecasts of OEM customers and the impact of the current global and European economic environment on our customers;
- the risks associated with certain minimum purchase agreements we have with suppliers;
- disruption of our supply chain;
- fluctuations in the costs of raw materials used in our products;
- the outcome of litigation to which the Company is a party from time to time, including product liability claims;
- work stoppages and other labor issues;
- changes in employment, environmental, tax and other laws, including enactment of the Tax Cuts and Jobs Act, and changes in the enforcement of laws;
- the Company's ability to attract and retain key executives and other personnel;
- the Company's ability to successfully pursue the Company's development activities and successfully integrate new operations and systems, including the realization of revenues, economies of scale, cost savings, and productivity gains associated with such operations;
- the Company's ability to obtain or protect intellectual property rights and avoid infringing on the intellectual property rights of others;

the risks associated with the portion of the Company's total assets comprised of goodwill and indefinite lived intangibles;

24

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- changes in market conditions that would result in the impairment of goodwill or other assets of the Company;
- changes in accounting rules and standards, audits, compliance with the Sarbanes-Oxley Act, and regulatory investigations;
- the effects of changes to critical accounting estimates;
- changes in volatility of the Company's stock price and the risk of litigation following a decline in the price of the Company's stock;
- failure of the Company's operating equipment or information technology infrastructure;
- the Company's ability to implement our Enterprise Resource Planning (ERP) system;
- the Company's access to capital, credit ratings, indebtedness, and ability to raise additional capital and operate under the terms of the Company's debt obligations;
- the risks associated with our debt;
- the risks associated with the Company's exposure to variable interest rates and foreign currency exchange rates;
- the risks associated with interest rate swap contracts;
- the risks associated with the Company's being subject to tax laws and regulations in various jurisdictions;
- the risks associated with the Company's exposure to renewable energy markets;
- the risks related to regulations regarding conflict minerals;
- the risks associated with the volatility and disruption in the global financial markets;
- the Company's ability to successfully execute, manage and integrate key acquisitions and mergers, including the Svendborg Acquisition, and the Stromag Acquisition;
- the Company's ability to achieve the efficiencies, savings and other benefits anticipated from our cost reduction, margin improvement, restructuring, plant consolidation and other business optimization initiatives;
- the risk associated with the UK vote to leave the European Union; and
- The risks related to the pending Fortive Transaction
- other factors, risks, and uncertainties referenced in the Company's filings with the Securities and Exchange Commission, including the "Risk Factors" set forth in this document.

ALL FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE OF THIS REPORT. EXCEPT AS REQUIRED BY LAW, WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE OR RELEASE ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS TO REFLECT ANY EVENTS OR CIRCUMSTANCES AFTER THE DATE OF THIS REPORT OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO US OR ANY PERSON ACTING ON THE COMPANY'S BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS CONTAINED OR REFERRED TO IN THIS SECTION AND IN OUR RISK FACTORS SET FORTH IN PART I, ITEM 1A OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2017, AND IN OTHER REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BY THE COMPANY.

The following discussion of the financial condition and results of operations of Altra Industrial Motion Corp. and its subsidiaries should be read together with the audited financial statements of Altra Industrial Motion Corp. and its subsidiaries and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Unless the context requires otherwise, the terms "Altra," "Altra Industrial Motion Corp.," "the Company," "we," "us," and "our" refer to Altra Industrial Motion Corp. and its subsidiaries.

General

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

Business Segments

The Company currently operates through three business segments that are aligned with key product types and end markets served:

◆ Couplings, Clutches & Brakes.

Couplings are the interface between two shafts, which enable power to be transmitted from one shaft to the other. Clutches in this segment are devices which use mechanical, hydraulic, pneumatic, or friction type connections to facilitate engaging or disengaging two rotating members. Brakes are combinations of interacting parts that work to slow or stop machinery. Products in this segment are generally used in heavy industrial applications and energy markets.

◆ Electromagnetic Clutches & Brakes.

Products in this segment include brakes and clutches that are used to electronically slow, stop, engage or disengage equipment utilizing electromagnetic friction type connections. Products in this segment are used in industrial and commercial markets including agricultural machinery, material handling, motion control, and turf & garden.

◆ Gearing.

Gears are utilized to reduce the speed and increase the torque of an electric motor or engine to the level required to drive a particular piece of equipment. Gears produced by the Company are primarily utilized in industrial applications.

The following tables show the percentage of net sales and operating income generated by each of our three segments for the quarters and year to date periods ended March 31, 2018 and 2017:

|                                   | Net Sales      |                |
|-----------------------------------|----------------|----------------|
|                                   | Quarter Ended  |                |
|                                   | March 31, 2018 | March 31, 2017 |
| Couplings, Clutches & Brakes      | 50%            | 50%            |
| Electromagnetic Clutches & Brakes | 29%            | 30%            |
| Gearing                           | 21%            | 20%            |

Operating Income

Quarter Ended

March 31, 2018    March 31, 2017

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|                                   |     |     |
|-----------------------------------|-----|-----|
| Couplings, Clutches & Brakes      | 48% | 39% |
| Electromagnetic Clutches & Brakes | 31% | 35% |
| Gearing                           | 21% | 26% |

Our Internet address is [www.altramotion.com](http://www.altramotion.com). By following the link “Investor Relations” and then “SEC filings” on our Internet website, we make available, free of charge, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as soon as reasonably practicable after such forms are filed with or furnished to the Securities and Exchange Commission. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this Quarterly Report on Form 10-Q.

## Business Outlook

During the quarter ended March 31, 2018, we saw strong sales growth as we benefitted from both our organic growth initiatives and the ongoing strength in the industrial economy. Nearly all of our end markets, with the notable exception of wind energy, performed well and we anticipate further improvement should customers begin to increase capital spending in earnest. We continued to make progress in leveraging our margin improvement initiatives into enhanced profitability and we expect to accelerate the flow-through to the bottom line as we progress through the year, especially as the wind market improves. Operational excellence continued to contribute to our results as many of our businesses had significant improvement in their operating performance driven by our business system and improving market conditions. Finally, we also continue to focus on developmental activities that we expect to contribute to our organic growth going forward.

On March 7, 2018, the Company and Fortive agreed to enter into the Fortive Transaction to effect the transfer of the A&S Business to the Company. The Fortive Transaction provides for (i) the separation and distribution of a portion of the A&S Business and the subsequent merger of Merger Sub with and into Newco, with Newco, as the surviving entity, a wholly-owned subsidiary of the Company and (ii) the Direct Sales, pursuant to which the Company will acquire the remaining portion of the A&S Business. In order to effect the Separation, the Distribution, the Direct Sales and the Merger, Fortive, Newco, the Company and Merger Sub entered into an Agreement and Plan of Merger and Reorganization, dated as of March 7, 2018 (the “Merger Agreement”), and Fortive, Newco and the Company entered into a Separation and Distribution Agreement, dated as of March 7, 2018 (the “Separation Agreement”). In addition, Fortive, Newco, the Company and certain of their respective affiliates entered into, or will enter into, an Employee Matters Agreement, dated March 7, 2018, a Tax Matters Agreement, a Transition Services Agreement, a Cross-License Agreement and any other agreements mutually agreed to. These agreements govern the relationship among Fortive, Newco, the Company, Merger Sub and their respective affiliates after the consummation of Separation, the Distribution, the Direct Sales and the Merger.

Prior to the Distribution and the Merger, Fortive will (1) convey to Newco or one or more subsidiaries of Fortive certain assets and liabilities constituting a portion of the A&S Business, and will cause any applicable subsidiary of Fortive to convey to Fortive or its designated subsidiary (other than Newco or any of Newco’s subsidiaries) certain excluded assets and excluded liabilities in order to separate and consolidate a portion of the A&S Business and (2) Fortive will contribute all the equity interests in each such subsidiary of Fortive holding assets and liabilities constituting a portion of the A&S Business to Newco in exchange for (i) shares of Newco common stock, (ii) the Newco Securities and (iii) the Cash Dividend. In total, Newco will make distributions to Fortive of cash and debt instruments of Newco with an aggregate value of \$400 million, of which \$150 million (subject to adjustment as provided in the Separation Agreement) is expected to be the Cash Dividend, and \$250 million (subject to adjustment as provided in the Separation Agreement) is expected to be issued as Newco Securities. In addition, pursuant to the Merger Agreement, Fortive will transfer certain non-U.S. assets, liabilities and entities constituting the remaining portion of the A&S Business directly to the Company or one or more subsidiaries of the Company and the Company subsidiaries will assume substantially all of the liabilities associated with the transferred assets and pay Fortive \$1,000,000,000. Fortive will transfer the Newco Securities to certain parties (the “Debt Exchange Parties”) in exchange (the “Debt Exchange”) for certain outstanding debt obligations of Fortive held by the Debt Exchange Parties. Following the Debt Exchange, the Debt Exchange Parties are expected to sell the Newco Securities to third-party investors.

On the closing date of the Merger, Fortive will distribute all of the issued and outstanding shares of Newco Common Stock held by Fortive to its participating stockholders in the Exchange Offer. If the Exchange Offer is consummated but is not fully subscribed, Fortive will distribute the remaining shares of Newco Common Stock on a pro rata basis to Fortive stockholders whose shares of Fortive common stock remain outstanding after consummation of the Exchange

Offer. Any Fortive stockholder who validly tenders (and does not properly withdraw) shares of Fortive common stock for shares of Newco Common Stock in the Exchange Offer will waive their rights with respect to such shares to receive, and forfeit any rights to, shares of Newco Common Stock distributed on a pro rata basis to Fortive stockholders in the event the Exchange Offer is not fully subscribed. If there is a pro rata distribution, the Exchange Offer agent will calculate the exact number of shares of Newco Common Stock not exchanged in the Exchange Offer and to be distributed on a pro rata basis, and the number of shares of common stock of the Company into which the remaining shares of Newco Common Stock will be converted in the Merger will be transferred to Fortive stockholders (after giving effect to the consummation of the Exchange Offer) as promptly as practicable thereafter.

Immediately after the Distribution and on the closing date of the Merger, Merger Sub will merge with and into Newco, whereby the separate corporate existence of Merger Sub will cease and Newco will continue as the surviving company and as a wholly-owned subsidiary of the Company. In the Merger, each share of Newco Common Stock will be converted into the right to receive shares of common stock of the Company based on the exchange ratio set forth in the Merger Agreement. After the consummation of the Merger and the Direct Sales, the Company will own and operate the A&S Business through Newco and the purchasers in the Direct Sales, and will also continue the Company's current businesses. All shares of common stock of the Company, including those issued in the Merger, will be listed on Nasdaq under the Company's current trading symbol "AIMC."

In connection with the Merger, the Company expects to issue 35 million shares of common stock of the Company to Fortive stockholders that receive shares of Newco Common Stock in the Distribution. Immediately after the consummation of the Merger, approximately 54% of the outstanding shares of common stock of the Company are expected to be held by pre-Merger holders of shares of Newco Common Stock and approximately 46% of the outstanding shares of common stock of the Company are expected to be held by pre-Merger stockholders of the Company.

The Fortive Transaction is expected to be completed in 2018 and remains subject to the approval of the issuance of shares of common stock of the Company in the Merger by the Company's stockholders and the satisfaction of customary closing conditions, including regulatory approvals and the absence of a Material Adverse Effect (as defined in the Merger Agreement) with respect to either the A&S Business or the Company.

In connection with the Fortive Transaction, we expect to incur a significant amount of acquisition expenses. The Company intends to finance the Fortive Transaction through a combination of cash on hand and new debt, and has received approximately \$2.0 billion of committed financing from Goldman Sachs Bank USA ("GS") subject to customary terms and conditions to facilitate the Fortive Transaction close.

#### Critical Accounting Policies

The preparation of our unaudited condensed consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect our reported amounts of assets, revenues and expenses, as well as related disclosures of contingent assets and liabilities. We base our estimates on past experiences and other assumptions we believe to be appropriate, and we evaluate these estimates on an on-going basis. See the discussion of critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no changes in the identification or application of the Company's critical accounting policies during the quarter ended March 31, 2018.

#### Recent Accounting Standards

See Part 1, Notes to Unaudited Condensed Consolidated Interim Financial Statements, Note 3 – Recent Accounting Standards.

#### Results of Operations

(Amounts in thousands, unless otherwise noted)

|               | Quarter Ended     |                   |
|---------------|-------------------|-------------------|
|               | March 31,<br>2018 | March 31,<br>2017 |
| Net sales     | \$240,385         | \$215,435         |
| Cost of sales | 166,159           | 149,268           |
| Gross profit  | 74,226            | 66,167            |

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|  |         |   |          |   |
|--|---------|---|----------|---|
| Gross profit percentage                      | 30.9    | % | 30.7     | % |
| Selling, general and administrative expenses | 47,130  |   | 40,384   |   |
| Research and development expenses            | 6,473   |   | 6,223    |   |
| Restructuring and consolidation costs        | 943     |   | 1,898    |   |
| Income from operations                       | 19,680  |   | 17,662   |   |
| Loss on settlement of pension plan           | 5,086   |   | —        |   |
| Interest expense, net                        | 1,834   |   | 1,705    |   |
| Other non-operating income (loss), net       | (146    | ) | (530     | ) |
| Loss on extinguishment of debt               | —       |   | 1,797    |   |
| Income before income taxes                   | 12,906  |   | 14,690   |   |
| Provision for income taxes                   | 3,905   |   | 4,364    |   |
| Net income                                   | \$9,001 |   | \$10,326 |   |

Quarter Ended March 31, 2018 compared with Quarter Ended March 30, 2017

(Amounts in thousands, unless otherwise noted)

| Amounts in thousands, except percentage data | Quarter-Ended  |                |          |       |
|--|----------------|----------------|----------|-------|
|  | March 31, 2018 | March 31, 2017 | Change   | %     |
| Net sales                                    | \$240,385      | \$215,435      | \$24,950 | 11.6% |

The increase in sales during the quarter ended March 31, 2018 was partially due to the favorable effect of changes in foreign exchange rates of \$13.3 million and price increases of approximately \$1.7 million. The remainder of the increase related to a recovery in sales levels in various end markets in the Couplings, Clutches, and Brakes and Gearing business segments.

| Amounts in thousands, except percentage data | Quarter Ended  |                |         |       |
|--|----------------|----------------|---------|-------|
|  | March 31, 2018 | March 31, 2017 | Change  | %     |
| Gross Profit                                 | \$74,226       | \$66,167       | \$8,059 | 12.2% |
| Gross Profit as a percent of sales           | 30.9 %         | 30.7 %         |         |       |

Gross profit as a percentage of sales improved slightly during the quarter ended March 31, 2018. The increase was due to improvements realized from price increases and improving end markets, partially offset by commodity cost and freight cost increases.

| Amounts in thousands, except percentage data         | Quarter Ended  |                |         |       |
|--|----------------|----------------|---------|-------|
|  | March 31, 2018 | March 31, 2017 | Change  | %     |
| Selling, general and administrative expense ("SG&A") | \$47,130       | \$40,384       | \$6,746 | 16.7% |
| SG&A as a percent of sales                           | 19.6 %         | 18.7 %         |         |       |

The increase in SG&A is primarily due to an increase in acquisition related expenses of \$5.4 million as well as the impact of changes in foreign exchange rates. The Company expects to incur between \$30-\$50 million in acquisition related expense in conjunction with the Fortive transaction.

| Amounts in thousands, except percentage data | Quarter Ended  |                |        |      |
|--|----------------|----------------|--------|------|
|  | March 31, 2018 | March 31, 2017 | Change | %    |
| Research and development expenses ("R&D")    | \$6,473        | \$6,223        | \$250  | 4.0% |



The increase in R&D is due to the impact of changes in foreign exchange rates for the quarter ended March 31, 2018.

| Amounts in thousands, except percentage data | Quarter Ended |          |           |         |
|--|---------------|----------|-----------|---------|
|  | March 31,     |          | Change    | %       |
|  | 2018          | 2017     |           |         |
| Restructuring Costs                          | \$943         | \$ 1,898 | \$ (955 ) | (50.3)% |

During 2015 the Company adopted a restructuring plan (“2015 Altra Plan”) in response to weak demand in Europe and to make certain adjustments to improve business effectiveness, reduce the number of facilities and streamline the Company’s cost structure. The actions taken pursuant to the 2015 Altra Plan included reducing headcount, facility consolidations and related asset impairments and limiting discretionary spending to improve profitability. The Company does not expect to incur any additional material costs as a result of the 2015 Plan.

During the quarter ended September 30, 2017, the Company commenced a new restructuring plan (“2017 Altra Plan”) as a result of the Stromag acquisition and to rationalize its global renewable energy business. The actions taken pursuant to the 2017 Altra Plan include reducing headcount, facility consolidations and the elimination of certain costs. The company expects to incur approximately \$1.0 to \$3.0 million in additional expense through 2019 related to the 2017 Altra Plan.

| Amounts in thousands, except percentage data | Quarter Ended |          |        |      |
|--|---------------|----------|--------|------|
|  | March 31,     |          | Change | %    |
|  | 2018          | 2017     |        |      |
| Interest Expense, net                        | \$1,834       | \$ 1,705 | \$ 129 | 7.6% |

Interest expense increased slightly due to the higher interest rate of the Company's variable rate borrowing under our 2015 Revolving Credit Facility.

| Amounts in thousands, except percentage data | Quarter Ended  |                | Change | %     |
|--|----------------|----------------|--------|-------|
|  | March 31, 2018 | March 31, 2017 |        |       |
| Other non-operating income, net              | \$(146)        | \$ (530 )      | \$ 384 | 72.5% |

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

| Amounts in thousands, except percentage data       | Quarter Ended  |                | Change    | %       |
|--|----------------|----------------|-----------|---------|
|  | March 31, 2018 | March 31, 2017 |           |         |
| Provision for income taxes                         | \$3,905        | \$ 4,364       | \$ (459 ) | (10.5)% |
| Provision for income taxes as a % of income before |                |                |           |         |
| income taxes                                       | 30.3 %         | 29.7 %         |           |         |

The provision for income tax, as a percentage of income before taxes, marginally increased for the quarter ended March 31, 2018 as compared to the quarter ended March 31, 2017. This increase is the result of the U.S. tax on non deductible acquisition expenses related to the Fortive Transaction, this is offset by the benefit of the lower U.S. tax rate as part of the 2017 Tax Act.

#### Segment Performance.

Amounts in thousands

|                                   | Quarter Ended  |                |
|-----------------------------------|----------------|----------------|
|                                   | March 31, 2018 | March 31, 2017 |
| Net Sales:                        |                |                |
| Couplings, Clutches & Brakes      | \$120,173      | \$106,232      |
| Electromagnetic Clutches & Brakes | 69,107         | 63,878         |
| Gearing                           | 53,885         | 47,028         |
| Intra-segment eliminations        | (2,780 )       | (1,703 )       |
| Net sales                         | \$240,385      | \$215,435      |
| Income from operations:           |                |                |
| Segment earnings:                 |                |                |
| Couplings, Clutches & Brakes      | \$13,420       | \$8,345        |
| Electromagnetic Clutches & Brakes | 8,668          | 7,593          |

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|                                       |          |          |
|---------------------------------------|----------|----------|
| Gearing                               | 6,116    | 5,525    |
| Corporate expenses (1)                | (7,581 ) | (1,903 ) |
| Restructuring and consolidation costs | (943 )   | (1,898 ) |
| Income from operations                | \$19,680 | \$17,662 |

(1) Certain expenses are maintained at the corporate level and not allocated to the segments. These include various administrative expenses related to the corporate headquarters, depreciation on capitalized software costs, non-capitalizable software implementation costs and acquisition related expenses.

Couplings, Clutches & Brakes

Net sales in the Couplings, Clutches & Brakes segment were \$120.2 million in the quarter ended March 31, 2018, an increase of approximately \$13.9 million or 13.1%, from the quarter ended March 31, 2017. The increase is due to the positive impact of foreign exchange rates and continued recovery in certain of our more profitable end markets. Segment operating income increased approximately \$5.1 million compared to the prior period primarily as a result of the increased sales and plant consolidations.

Electromagnetic Clutches & Brakes

Net sales in the Electromagnetic Clutches & Brakes segment were \$69.1 million in the quarter ended March 31, 2018, an increase of approximately \$5.2 million, or 8.2%, from the quarter ended March 31, 2017. The increase is due to

the positive impact of changes in foreign exchange rates and an increase in sales to the agriculture end market. Segment operating income increased \$1.1 million compared to the prior period primarily as a result of the impact of foreign exchange.

### Gearing

Net sales in the Gearing segment were \$53.9 million in the quarter ended March 31, 2018, an increase of \$6.9 million or 14.6% from the quarter ended March 31, 2017. The increase is due to the positive impact of changes in foreign exchange rates and the improvement of the North American distribution market. Segment operating income increased \$0.6 million compared to the prior period primarily as a result of the impact of foreign exchange.

### Liquidity and Capital Resources

#### Overview

We finance our capital and working capital requirements through a combination of cash flows from operating activities and borrowings under our 2015 Revolving Credit Facility (defined below). We expect that our primary ongoing requirements for cash will be for working capital, debt service, capital expenditures, acquisitions, pensions, dividends and share repurchases. In the event additional funds are needed for operations, we could borrow additional funds available under our existing 2015 Revolving Credit Facility, request an expansion by up to \$150 million of the amount available to be borrowed under the 2015 Credit Agreement, attempt to secure new debt, attempt to refinance our loans under the 2015 Credit Agreement, or attempt to raise capital in the equity markets. At March 31, 2018, we have the ability under our 2015 Revolving Credit Facility to borrow an additional \$154.2 million based on current availability calculations. There can be no assurance however that additional debt financing will be available on commercially acceptable terms, if at all. Similarly, there can be no assurance that equity financing will be available on commercially acceptable terms, if at all. We announced the Fortive Transaction on March 7, 2018 and expect to raise approximately \$1,740 million in secured and unsecured debt to pay a portion of the purchase price and refinance our existing 2015 Revolving Credit Facility.

#### Second Amended and Restated Credit Agreement

On October 22, 2015, the Company entered into a Second Amended and Restated Credit Agreement by and among the Company, Altra Industrial Motion Netherlands, B.V. (“Altra Netherlands”), one of the Company’s foreign subsidiaries (collectively with the Company, the “Borrowers”), the lenders party to the Second Amended and Restated Credit Agreement from time to time (collectively, the “Lenders”), J.P. Morgan Securities LLC, Wells Fargo Securities, LLC, and KeyBanc Capital Markets, Inc., as joint lead arrangers and joint bookrunners, and JPMorgan Chase Bank, N.A., as administrative agent (the “Administrative Agent”), to be guaranteed through a Guarantee Agreement by certain domestic subsidiaries of the Company (each a “Guarantor” and collectively the “Guarantors”; the Guarantors collectively with the Borrowers, the “Loan Parties”), and which may be amended from time to time (the “2015 Credit Agreement”).

Under the 2015 Credit Agreement, the amount of our Revolving Credit Facility was increased to \$350 million (the “2015 Revolving Credit Facility”). The amounts available under the 2015 Revolving Credit Facility can be used for general corporate purposes, including acquisitions, and to repay existing indebtedness. The stated maturity of the 2015 Credit Facility is October 22, 2020.

The amounts available under the 2015 Revolving Credit Facility may be drawn upon in accordance with the terms of the 2015 Credit Agreement. All amounts outstanding under the 2015 Revolving Credit Facility are due on the stated maturity or such earlier time, if any, required under the 2015 Credit Agreement. The amounts owed under the 2015 Revolving Credit Facility may be prepaid at any time, subject to usual notification and breakage payment provisions. Interest on the amounts outstanding under the credit facilities is calculated using either an ABR Rate or Eurodollar Rate, plus the applicable margin. The applicable margins for Eurodollar Loans are between 1.25% to 2.00%, and for ABR Loans are between 0.25% and 1.00%. The amounts of the margins are calculated based on either a consolidated total net leverage ratio (as defined in the 2015 Credit Agreement), or the then applicable rating(s) of the Company’s debt if and then to the extent as provided in the 2015 Credit Agreement. A portion of the 2015 Revolving Credit Facility may also be used for the issuance of letters of credit, and a portion of the amount of the 2015 Revolving Credit Facility is available for borrowings in certain agreed upon foreign currencies. The 2015 Credit Agreement contains various affirmative and negative covenants and restrictions, which among other things, will require the Borrowers to provide certain financial reports to the Lenders, require the Company to maintain certain financial covenants relating to consolidated leverage and interest coverage, limit maximum annual capital expenditures, and limit the ability of the Company and its subsidiaries to incur or guarantee additional indebtedness, pay dividends or make other equity distributions, purchase or redeem capital stock or debt, make certain investments, sell assets, engage in certain transactions, and effect a consolidation or merger. The 2015 Credit Agreement also contains customary events of default.

On October 21, 2016, the Company entered into an agreement to amend its 2015 Credit Agreement. This amendment, which became effective upon closing of Altra's purchase of Stromag, which was December 30, 2016, increased the Company's 2015 Revolving Credit Facility by \$75 million to \$425 million. The Company borrowed additional funds under the increased facility to finance its purchase of Stromag. The amendment also reset the possible expansion of up to \$150 million of additional future loan commitments. In addition, the amendment increased the multicurrency sublimit to \$250 million and adjusted certain financial covenants

#### Ratification Agreement

Pursuant to an Omnibus Reaffirmation and Ratification and Amendment of Collateral Documents entered into on October 22, 2015 in connection with the 2015 Credit Agreement by and among the Company, the Loan Parties and the Administrative Agent (the "Ratification Agreement"), the Loan Parties (exclusive of the foreign subsidiary Borrower) have reaffirmed their obligations to the Lenders under the Pledge and Security Agreement dated November 20, 2012 (the "Pledge and Security Agreement"), pursuant to which each Loan Party pledges, assigns and grants to the Administrative Agent, on behalf of and for the ratable benefit of the Lenders, a security interest in all of its right, title and interest in, to and under all personal property, whether now owned by or owing to, or after acquired by or arising in favor of such Loan Party (including under any trade name or derivations), and whether owned or consigned by or to, or leased from or to, such Loan Party, and regardless of where located, except for specific excluded personal property identified in the Pledge and Security Agreement (collectively, the "Collateral"). Notwithstanding the foregoing, the Collateral does not include, among other items, more than 65% of the capital stock of the first tier foreign subsidiaries of the Company. The Pledge and Security Agreement contains other customary representations, warranties and covenants of the parties. The 2015 Credit Agreement provides that the obligation to grant the security interest can cease upon the obtaining of certain corporate family credit ratings for the Company, but the obligation to grant a security interest is subject to subsequent reinstatement if the ratings are not maintained as provided in the 2015 Credit Agreement.

Pursuant to the Ratification Agreement, the Loan Parties (other than the foregoing subsidiary Borrower) have also reaffirmed their obligations under each of the Patent Security Agreement and a Trademark Security Agreement in favor of the Administrative Agent dated November 20, 2012 (the "2012 Security Agreements") pursuant to which each of the Loan Parties signatory thereto pledges, assigns and grants to the Administrative Agent, on behalf of and for the ratable benefit of the Lenders, a security interest in all of its right, title and interest in, to and under all registered patents, patent applications, registered trademarks and trademark applications owned by such Loan Parties.

#### Additional Trademark Security Agreement and Patent Security Agreement

In connection with the reaffirmation of the Pledge and Security Agreement, certain of the Loan Parties delivered a new Patent Security Agreement and a new Trademark Security Agreement in favor of the Administrative Agent pursuant to which each of the Loan Parties signatory thereto pledges, assigns and grants to the Administrative Agent, on behalf of and for the ratable benefit of the Lenders, a security interest in all of its right, title and interest in, to and under all registered patents, patent applications, registered trademarks and trademark applications owned by such Loan Parties and not covered by the 2012 Security Agreements.

As of March 31, 2018, and December 31, 2017, we had \$266.6 million and \$262.9 million outstanding on our 2015 Revolving Credit Facility, respectively. As of March 31, 2018 and December 31, 2017, we had \$4.3 million and \$3.5 million in letters of credit outstanding, respectively. We were in compliance in all material respects with all covenants of the indenture governing the 2015 Credit Agreement at March 31, 2018.

#### Commitment Letter

In connection with the Fortive Transaction, the Company entered into a commitment letter (the “Commitment Letter”), under which GS committed to provide to the Company up to \$1,340 million in aggregate principal amount of senior secured term loans (the “GS Term Loans”) and a \$300 million senior secured revolving credit facility (the “GS Revolving Loans” and, together with the GS Term Loans, the “GS Loans”), subject to the terms and conditions of the Commitment Letter. The proceeds of the GS Term Loans will be used, together with cash on hand of the Company or its subsidiaries (if necessary), to, among other things, (i) consummate the Direct Sales, (ii) repay in full and extinguish all outstanding indebtedness for borrowed money under the 2015 Credit Agreement and (iii) pay certain fees, costs and expenses in connection with the consummation of the Fortive Transaction.

The commitments under the Commitment Letter are subject to customary closing conditions. All obligations of the Company with respect to the GS Loans will be guaranteed by each direct or indirect wholly-owned domestic subsidiary of the Company, and following the effective time of the Merger, by Newco and its direct or indirect wholly-owned domestic subsidiaries, subject to customary exceptions.

### Convertible Senior Notes

In March 2011, the Company issued Convertible Senior Notes (the “Convertible Notes”) due March 1, 2031. The Convertible Notes were guaranteed by the Company’s U.S. domestic subsidiaries. Interest on the Convertible Notes was payable semi-annually in arrears, on March 1 and September 1 of each year, commencing on September 1, 2011 at an annual rate of 2.75%. Proceeds from the offering were \$81.3 million, net of fees and expenses that were capitalized.

On December 12, 2016, the Company gave notice to The Bank of New York Mellon Trust Company, N.A., the Trustee, under the Indenture governing the Convertible Notes of its intention to redeem all of the Convertible Notes outstanding on January 12, 2017 (the “Redemption Date”), pursuant to the optional redemption provisions in the Indenture. The redemption price for the Convertible Notes was 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the Redemption Date plus a Make-Whole Premium equal to the present values of the remaining scheduled payments of interest on any Convertible Notes through March 1, 2018 (excluding interest accrued to, but excluding, the Redemption Date). In lieu of receiving the redemption price, holders of the Notes could surrender their Convertible Notes for conversion at any time before January 9, 2017. The Conversion Rate of the notes was 39.0809 shares of the Company’s common stock for each \$1,000 of outstanding principal of the Convertible Notes. As of December 31, 2016, Convertible Notes with a principal value of approximately \$39.3 million were surrendered for conversion resulting in the issuance of approximately 1.5 million shares. As a result of the conversion, the Company incurred a loss on extinguishment of debt of approximately \$1.9 million and the carrying value of the remaining Convertible Notes was \$42.9 million net of unamortized discount as of December 31, 2016. In January 2017, additional Convertible Notes with an outstanding principal of approximately \$44.7 million were converted resulting in the issuance of 1.7 million shares of the Company’s common stock, and \$0.9 million of Convertible Notes were redeemed for cash. All Convertible Notes were converted or redeemed as of January 12, 2017.

### Borrowings

|                           | Amounts in millions |                   |
|---------------------------|---------------------|-------------------|
|                           | March 31, 2018      | December 31, 2017 |
| Debt:                     |                     |                   |
| Revolving Credit Facility | \$266.6             | \$ 262.9          |
| Mortgages                 | 12.9                | 12.8              |
| Capital leases            | 0.2                 | 0.2               |
| Total debt                | \$279.7             | \$ 275.9          |

### Cash and Cash Equivalents

The following is a summary of our cash balances and cash flows (in thousands) as of and for quarter ended March 31, 2018 and March 31, 2017, respectively:

|  | March 31, 2018 | March 31, 2017 | Change |
|--|----------------|----------------|--------|
|--|----------------|----------------|--------|



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|  |           |           |            |
|--|-----------|-----------|------------|
| Cash and cash equivalents at the beginning of the year       | \$ 51,994 | \$ 69,118 | \$(17,124) |
| Cash flows used in operating activities                      | 3,664     | 3,022     | 642        |
| Cash flows used in investing activities                      | (6,975 )  | (7,333 )  | 358        |
| Cash flows used in financing activities                      | (3,658 )  | (13,747 ) | 10,089     |
| Effect of exchange rate changes on cash and cash equivalents | 1,371     | 1,877     | (506 )     |
| Cash and cash equivalents at the end of the period           | \$ 46,396 | \$ 52,937 | \$(6,541 ) |

Cash Flows for 2018

Net cash provided from operating activities was approximately \$3.6 million for the quarter ended March 31, 2018. This was generated by net income of \$9.0 and the net impact of the add-back of certain items including non-cash depreciation, amortization of intangible assets, stock-based compensation, amortization of deferred financing costs, loss on settlement of pension plan, loss on disposal of fixed assets, and non-cash loss on foreign currency which totaled approximately \$16.0 million. This was mostly offset by a net increase in assets and liabilities of approximately \$21.3 million.

Net cash used in investing activities for the quarter ended March 31, 2018 decreased approximately \$0.4 million compared to the quarter ended March 31, 2017. The decrease is attributed to higher purchases of manufacturing equipment and plant construction projects at certain facilities in 2017.

Net cash used in financing activities in the quarter ended March 31, 2018 as compared to the year to date period ended March 31, 2017 decreased by \$10.1 million. This decrease relates primarily to lower net debt payments on the Revolving Credit Facility in the quarter ended March 31, 2018 partially offset by an increase in dividend payments of \$1.1 million and higher impact of shares surrendered.

We intend to use our remaining cash and cash equivalents and cash flow from operations to provide for our working capital needs, to fund potential future acquisitions, to service our debt, including principal payments, for capital expenditures, for pension funding, share repurchases and to pay dividends to our stockholders. As of March 31, 2018 we have approximately \$42.3 million of cash and cash equivalents held by foreign subsidiaries that are generally subject to U.S. income taxation on repatriation to the U.S. We believe our future operating cash flows will be sufficient to meet our future operating and investing cash needs. Furthermore, the existing cash balances and the availability of additional borrowings under our 2015 Revolving Credit Facility provide additional potential sources of liquidity should they be required.

#### Contractual Obligations

There were no material changes in our contractual obligations during the period ended March 31, 2018.

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

We are exposed to various market risk factors such as fluctuating interest rates, changes in foreign currency rates, and changes in commodity prices. During the reporting period, there have been no material changes to the quantitative and qualitative disclosures regarding our market risk set forth in our Annual Report on Form 10-K for the year ended December 31, 2017.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

As of March 31, 2018, our management, under the supervision and with the participation of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed under the Exchange Act, such as this Form 10-Q, is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including the principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosures. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of March 31, 2018, our disclosure controls and procedures are effective at a reasonable assurance level.

#### Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our fiscal quarter ended March 31, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings

We are, from time to time, party to various legal proceedings arising out of our business. During the reporting period, there have been no material changes to the description of legal proceedings set forth in our Annual Report on Form 10-K for the year ended December 31, 2017.

## Item 1A. Risk Factors

The reader should carefully consider the Risk Factors described in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission. Those risk factors described elsewhere in this report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017 are not the only ones we face, but are considered to be the most material. These risk factors could cause our actual results to differ materially from those stated in forward looking statements contained in this Form 10-Q and elsewhere. All risk factors stated in our Annual Report on Form 10-K for the year ended December 31, 2017 are incorporated herein by reference.

During the reporting period there were no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

The following table summarizes our share repurchase activity by month for the quarter ended March 31, 2018.

| Period                                | Total Number of Shares Purchased | Average Price Paid per Share | Part of Publicly Announced Plans or Programs (1) | Approximate  |
|---------------------------------------|----------------------------------|------------------------------|--|--|
|                                       |                                  |                              |  | Dollar Value of Shares That May Yet be Purchased Under The Plans or Programs |
| January 1, 2018 to January 31, 2018   | —                                | \$ —                         | —  | \$ 30,000,000  |
| February 1, 2018 to February 28, 2018 | —                                | \$ —                         | —  | \$ —   |
| March 1, 2018 to March 31, 2018       | —                                | \$ —                         | —  | \$ —   |

(1) On October 19, 2016, our board of directors approved a new share repurchase program authorizing the buyback of up to \$30.0 million of the Company's common stock through December 31, 2019. This plan, which was announced on October 21, 2016, replaces the previous share repurchase program which was terminated. The Company expects to purchase shares on the open market, through block trades, in privately negotiated transactions, in compliance

with SEC Rule 10b-18 (including through Rule 10b5-1 plans), or in any other appropriate manner. The timing of the shares repurchased will be at the discretion of management and will depend on a number of factors, including price, market conditions and regulatory requirements. Shares acquired through the repurchase program will be retired. The Company retains the right to limit, terminate or extend the share repurchase program at any time without prior notice. The Company expects to fund any further repurchases of its common stock through a combination of cash on hand and cash generated by operations.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Disclosure of Activities Under Section 13(r) of the Securities Exchange Act of 1934

Under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) to the Securities Exchange Act of 1934, as amended, we are required to disclose whether Altra or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or certain designated individuals or entities. Disclosure is required even when the activities were conducted outside the United States by non-U.S. entities and even when such activities were conducted in compliance with applicable law. The following information is disclosed pursuant to Section 13(r). None of the following activities involved U.S. affiliates of Altra.

During the reporting period, Bibby Transmissions Limited, a subsidiary of Altra organized and existing under the laws of England (“Bibby”), sold couplings to a customer in the United Kingdom, for ultimate re-sale to an Iranian end user for use in a gas treating plant. Gross revenues received by Bibby in connection with this transaction were approximately GBP 31.9 thousand and net profits were approximately GBP 3.2 thousand. Bibby intends to continue pursuing opportunities with this direct customer and end user, to the extent compliant with applicable law.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”). This ASU changes the income statement presentation of defined benefit and post-retirement benefit plan expense by requiring separation between operating expense (service cost component of net periodic benefit expense) and non-operating expense (all other components of net periodic benefit expense, including interest cost, amortization of prior service cost, curtailments and settlements, etc.). The guidance is effective for interim and annual periods for the Company on January 1, 2018. The operating expense component is reported with similar compensation costs while the non-operating components are reported outside of operating income. The Company adopted the amendments in the first quarter of 2018 using a retrospective transition method. The impact of the adoption on the years ended December 31, 2017, 2016 and 2015 was a reclassification of \$2.8M, \$.7M and \$.7M respectively, from income from operations to other non-operating expenses. The adoption of this standard did not impact reported net income, the consolidated balance sheet or the statement of cash flows.

#### Item 6. Exhibits

The following exhibits are filed as part of this report:

#### Exhibit

#### Number Description

- 2.1(1) Agreement and Plan of Merger and Reorganization, dated as of March 7, 2018, among Fortive Corporation, Stevens Holding Company, Inc., Altra Industrial Motion Corp. and McHale Acquisition Corp.
- 3.1(2) Second Amended and Restated Certificate of Incorporation of the Registrant
- 3.2(3) Second Amended and Restated Bylaws of the Registrant
- 10.1(1) Separation and Distribution Agreement, dated as of March 7, 2018, among Fortive corporation, Stevens Holding Company, Inc. and Altra Industrial Motion Corp.
- 10.2\* A&R Commitment Letter, dated as of March 28, 2018 among Fortive corporation, Stevens Holding Company, Inc. and Altra Industrial Motion Corp.
- 10.3\*

Employee Matters Agreement, dated as of March 7, 2018 among Fortive corporation, Stevens Holding Company, Inc. and Altra Industrial Motion Corp.

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.

101\* The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Statement of Operations, (ii) the Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss), (iii) the Unaudited Condensed Consolidated Balance Sheet, (iv) the Unaudited Condensed Consolidated Statement of Cash Flows, (v) the Unaudited Consolidated Statement of Stockholders' Equity and (vi) Notes to Unaudited Condensed Consolidated Interim Financial Statements.

\*Filed herewith.

\*\*Furnished herewith.

- (1) Incorporated by reference to Altra Industrial Motion Corp.'s Current Report on Form 8-K filed on March 9, 2018.
- (2) Incorporated by reference to Altra Industrial Motion Corp.'s (formerly known as Altra Holdings, Inc.) Registration Statement on Form S-1A, as amended, filed with the Securities and Exchange Commission on December 4, 2006.
- (3) Incorporated by reference to Altra Industrial Motion Corp.'s Current Report on Form 8-K filed on October 27, 2008.

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 INDUSTRIAL MOTION CORP.

May 9, 2018 By: /s/ Carl R. Christenson

Name: Carl R. Christenson

Title Chairman and Chief Executive Officer

May 9, 2018 By: /s/ Christian Storch

Name: Christian Storch

Title Vice President and Chief Financial Officer

May 9, 2018 By: /s/ Todd B. Patriacca

Name: Todd B. Patriacca

Title Vice President of Finance, Corporate Controller and Treasurer