

Altra Industrial Motion Corp.
Form 10-Q
July 29, 2014
Table of Contents

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 June 30, 2014

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
(State or other jurisdiction of
incorporation or organization)

61-1478870
(I.R.S. Employer
Identification No.)

300 Granite Street, Suite 201, Braintree, MA
(Address of principal executive offices)
(781) 917-0600

02184
(Zip Code)

(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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of July 28, 2014, 26,737,709 shares of Common Stock, \$0.001 par value per share, were outstanding.

Table of Contents

TABLE OF CONTENTS

	Page #
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	<u>3</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>35</u>
Item 4. <u>Controls and Procedures</u>	<u>35</u>
 <u>PART II - OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>36</u>
Item 1A. <u>Risk Factors</u>	<u>36</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>36</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>37</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>37</u>
Item 5. <u>Other Information</u>	<u>37</u>
Item 6. <u>Exhibits</u>	<u>37</u>
 <u>SIGNATURES</u>	 <u>38</u>
 <u>EXHIBITS</u>	 <u>39</u>
EX-31.1 Section 302 Certification of Chief Executive Officer	
EX-31.2 Section 302 Certification of Chief Financial Officer	
EX-32.1 Section 906 Certification of Chief Executive Officer	
EX-32.2 Section 906 Certification of Chief Financial Officer	
EX-101 Certain materials formatted in XBRL	

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Balance Sheets

Amounts in thousands, except share amounts

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$69,168	\$63,604
Trade receivables, less allowance for doubtful accounts of \$2,761 and \$2,245 at June 30, 2014 and December 31, 2013, respectively	125,412	109,084
Inventories	136,301	143,665
Deferred income taxes	9,742	9,754
Income tax receivable	2,754	5,032
Prepaid expenses and other current assets	14,192	18,066
Total current assets	357,569	349,205
Property, plant and equipment, net	155,905	157,535
Intangible assets, net	114,233	118,768
Goodwill	105,847	104,339
Deferred income taxes	925	934
Other non-current assets, net	4,220	4,895
Total assets	\$738,699	\$735,676
LIABILITIES, NON-CONTROLLING INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$53,339	\$51,180
Accrued payroll	23,958	23,983
Accruals and other current liabilities	35,962	34,979
Deferred income taxes	46	44
Income tax payable	6,900	12,963
Current portion of long-term debt	18,824	16,924
Total current liabilities	139,029	140,073
Long-term debt - less current portion and net of unaccreted discount	247,964	261,348
Deferred income taxes	53,882	53,813
Pension liabilities	7,873	8,025
Long-term taxes payable	753	1,038
Other long-term liabilities	993	1,055
Redeemable non-controlling interest	1,084	991
Commitment and Contingencies (See Note 17)		
Stockholders' equity:		
Common stock (\$0.001 par value, 90,000,000 shares authorized, 26,761,559 and 26,819,795 issued and outstanding at June 30, 2014 and December 31, 2013, respectively)	27	27
Additional paid-in capital	153,262	154,471
Retained earnings	151,444	133,231
Accumulated other comprehensive loss	(17,612)	(18,396)
Total stockholders' equity	287,121	269,333

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Total liabilities, redeemable non-controlling interest and stockholders' equity \$738,699 \$735,676

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

3

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Operations

Amounts in thousands, except per share data

	Quarter Ended		Year to Date Ended	
	June 30, 2014 (Unaudited)	June 29, 2013 (Unaudited)	June 30, 2014 (Unaudited)	June 29, 2013 (Unaudited)
Net sales	\$215,198	\$181,095	\$425,336	\$366,245
Cost of sales	148,728	126,676	297,070	256,327
Gross profit	66,470	54,419	128,266	109,918
Operating expenses:				
Selling, general and administrative expenses	40,499	32,628	78,761	65,070
Research and development expenses	4,012	3,214	7,901	6,148
Restructuring costs	—	238	—	558
	44,511	36,080	86,662	71,776
Income from operations	21,959	18,339	41,604	38,142
Other non-operating income and expense:				
Interest expense, net	2,972	2,658	5,991	5,263
Other non-operating expense (income), net	225	144	759	97
	3,197	2,802	6,750	5,360
Income before income taxes	18,762	15,537	34,854	32,782
Provision for income taxes	5,944	4,861	10,673	10,247
Net income	12,818	10,676	24,181	22,535
Net (income) loss attributable to non-controlling interest	(21	) 13	(19	) 34
Net income attributable to Altra Industrial Motion Corp.	\$12,797	\$10,689	\$24,162	\$22,569
Weighted average shares, basic	26,816	26,733	26,823	26,737
Weighted average shares, diluted	27,546	26,751	27,647	26,820
Net income per share:				
Basic net income attributable to Altra Industrial Motion Corp.	\$0.48	\$0.40	\$0.90	\$0.84
Diluted net income attributable to Altra Industrial Motion Corp.	\$0.46	\$0.40	\$0.87	\$0.84
Cash dividend declared	\$0.12	\$0.10	\$0.22	\$0.18

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

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statement of Comprehensive Income

Amounts in thousands

	Quarter Ended		Year to Date Ended	
	June 30, 2014 (Unaudited)	June 29, 2013 (Unaudited)	June 30, 2014 (Unaudited)	June 29, 2013 (Unaudited)
Net Income	\$12,818	\$10,676	\$24,181	\$22,535
Other Comprehensive income (loss):				
Foreign currency translation adjustment	958	202	904	(6,681)
Change in fair value of interest rate swap, net of tax	(125)	537	(120)	537
Other comprehensive income (loss)	833	739	784	(6,144)
Comprehensive income	13,651	11,415	24,965	16,391
Comprehensive (income) loss attributable to noncontrolling interest	(56)	13	(93)	34
Comprehensive income attributable to Altra Industrial Motion Corp.	\$13,595	\$11,428	\$24,872	\$16,425

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

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Cash Flows

Amounts in thousands

	Year to Date Ended	
	June 30, 2014	June 29, 2013
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net income	\$24,181	\$22,535
Adjustments to reconcile net income to net cash flows:		
Depreciation	11,481	10,667
Amortization of intangible assets	4,545	3,220
Amortization of deferred financing costs	466	423
Loss on foreign currency, net	137	155
Amortization of inventory fair value adjustment	2,151	—
Accretion of debt discount, net	1,669	1,540
Loss on disposal of fixed assets	235	—
Stock-based compensation	1,830	1,767
Changes in assets and liabilities:		
Trade receivables	(17,029	) (10,396
Inventories	5,021	2,561
Accounts payable and accrued liabilities	(655	) 2,407
Other current assets and liabilities	3,910	(235
Other operating assets and liabilities	(211	) (1,663
Net cash from operating activities	37,731	32,981
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,923	) (9,975
Net cash from investing activities	(10,923	) (9,975
Cash flows from financing activities		
Payments on term loan facility	(12,650	) (3,750
Payments on revolving credit facility	(6,190	) (39,304
Dividend payments	(5,403	) (2,152
Proceeds from equipment loan	1,610	1,635
Borrowing under revolving credit facility	5,000	—
Shares surrendered for tax withholding	(132) —
Payments on mortgages and other	(371	) (488
Purchases of common stock under share repurchase program	(2,907) —
Net cash from financing activities	(21,043	) (44,059
Effect of exchange rate changes on cash and cash equivalents	(201	) (2,594
Net change in cash and cash equivalents	5,564	(23,647
Cash and cash equivalents at beginning of year	63,604	85,154
Cash and cash equivalents at end of period	\$69,168	\$61,507
Cash paid during the period for:		
Interest	\$3,966	\$3,644
Income taxes	\$14,688	\$10,598

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

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Consolidated Statement of Stockholders' Equity

Amounts in thousands

(Unaudited)

	Common Stock	Shares	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Redeemable Non-Controlling Interest
Balance at January 1, 2013	\$27	26,724	\$152,188	\$103,200	\$(23,403)	\$232,012	\$1,239
Stock-based compensation and vesting of restricted stock	—	19	1,767	—	—	1,767	—
Net income attributable to Altra Industrial Motion Corp.	—	—	—	22,569	—	22,569	—
Net loss attributable to non-controlling interest	—	—	—	—	—	—	(34)
Dividends declared	—	—	—	(4,863)	—	(4,863)	—
Change in fair value of interest rate swap	—	—	—	—	537	537	—
Cumulative foreign currency translation adjustment	—	—	—	—	(6,681)	(6,681)	—
Balance at June 29, 2013	\$27	26,743	\$153,955	\$120,906	\$(29,547)	\$245,341	\$1,205
Balance at January 1, 2014	\$27	26,820	\$154,471	\$133,231	\$(18,396)	\$269,333	\$991
Stock-based compensation and vesting of restricted stock	—	24	1,698	—	—	1,698	—
Net income loss attributable to Altra Industrial Motion Corp.	—	—	—	24,162	—	24,162	—
Net income attributable to non-controlling interest	—	—	—	—	—	—	19
Dividends declared	—	—	—	(5,949)	—	(5,949)	—
Change in fair value of interest rate swap	—	—	—	—	(120)	(120)	—
Cumulative foreign currency translation adjustment	—	—	—	—	904	904	74
Repurchases of common stock - 81,642 shares	—	(82)	(2,907)	—	—	(2,907)	—
Balance at June 30, 2014	\$27	26,762	\$153,262	\$151,444	\$(17,612)	\$287,121	\$1,084

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

Table of Contents

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" or "Altra"), through its wholly-owned subsidiary Altra Power Transmissions, Inc. ("APT"), 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 41 product lines with production facilities in eleven 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, Svendborg Brakes, TB Wood's, Twiflex, Warner Electric, Warner Linear, and Wichita Clutch.

In November 2013, Altra Holdings, Inc. changed its name to Altra Industrial Motion Corp., and Altra Industrial Motion, Inc., the Company's wholly owned subsidiary, changed its name to Altra Power Transmission, Inc.

2. Basis of Presentation

The Company was formed on November 30, 2004 following acquisitions of The Kilian Company ("Kilian") and certain subsidiaries of Colfax Corporation ("Colfax"). During 2006, the Company acquired Hay Hall Holdings Limited ("Hay Hall") and Bear Linear. On April 5, 2007, the Company acquired TB Wood's Corporation ("TB Wood's"), and on October 5, 2007, the Company acquired substantially all of the assets of All Power Transmission Manufacturing, Inc. On May 29, 2011, the Company acquired substantially all of the assets of Danfoss Bauer GmbH relating to its gear motor business ("Bauer"). On July 11, 2012, the Company acquired 85% of privately held Lamiflex do Brasil Equipamentos Industriais Ltda. ("Lamiflex"). On December 17, 2013, the Company completed the acquisition of Svendborg Brakes A/S, now known as Svendborg Brakes ApS, and S.B. Patent Holding ApS (together "Svendborg"). The Company acquired all the issued and outstanding shares of Svendborg from Friction Holding A/S.

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, 2013. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of June 30, 2014 and December 31, 2013, results of operations for the quarters and year to date periods ended June 30, 2014 and June 29, 2013, and cash flows for the year to date periods ended June 30, 2014 and June 29, 2013.

The Company modified its quarterly reporting calendar effective at the beginning of fiscal year 2014 to report on a calendar month-end basis with all quarters ending on the last day of the final month of each quarter. Historically, the Company's reporting calendar for all quarters presented has consisted of thirteen weeks of operations per quarter. The Company's fiscal year end will remain December 31. The effects of the change in the reporting periods did not have a significant impact on the consolidated financial statements.

3. Fair Value of Financial Instruments

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 Credit Agreement including a Term Loan Facility and a Revolving Credit Facility approximate the fair values due to the variable rate nature at current market rates.

The carrying amount of the 2.75% Convertible Notes (the "Convertible Notes") was \$85 million at each of June 30, 2014 and December 31, 2013. The estimated fair value of the Convertible Notes at June 30, 2014 and December 31, 2013 was \$122.1 million and \$116.5 million, respectively, based on inputs other than quoted prices that are observable

for the Convertible Notes (level 2).

Included in cash and cash equivalents as of June 30, 2014 and December 31, 2013 are money market fund investments of \$0.3 million and \$16.6 million, respectively, which are reported at fair value based on quoted market prices for such investments (level 1).

8

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

4. Changes in Accumulated Other Comprehensive Income (Loss) by Component

The following is a reconciliation of changes in Accumulated Other Comprehensive Income (Loss) by Component for the periods presented:

	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Cumulative Foreign Currency Translation Adjustment	Total
Accumulated Other Comprehensive Income (Loss) by Component, January 1, 2013	\$—	\$(4,607	) \$(18,796	) \$(23,403
Net current-period Other Comprehensive Income (Loss)	537	—	(6,681	) (6,144
Accumulated Other Comprehensive Income (Loss) by Component, Balance at June 29, 2013	\$537	\$(4,607	) \$(25,477	) \$(29,547

	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Cumulative Foreign Currency Translation Adjustment	Total
Accumulated Other Comprehensive Income (Loss) by Component, January 1, 2014	\$135	\$(3,133	) \$(15,398	) \$(18,396
Net current-period Other Comprehensive Income (Loss)	(120	) —	904	784
Accumulated Other Comprehensive Income (Loss) by Component, Balance at June 30, 2014	\$15	\$(3,133	) \$(14,494	) \$(17,612

5. Net Income per Share

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

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

	Quarter Ended		Year to Date Ended	
	June 30, 2014	June 29, 2013	June 30, 2014	June 29, 2013
Net income attributable to Altra Industrial Motion Corp.	\$12,797	\$10,689	\$24,162	\$22,569
Shares used in net income per common share - basic	26,816	26,733	26,823	26,737
Dilutive effect of the equity premium on Convertible Notes at the average price of common stock	705	—	737	—
Incremental shares of unvested restricted common stock	25	18	87	83
Shares used in net income per common share - diluted	27,546	26,751	27,647	26,820

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Earnings per share:

Basic net income attributable to Altra Industrial Motion Corp.	\$0.48	\$0.40	\$0.90	\$0.84
Diluted net income attributable to Altra Industrial Motion Corp.	\$0.46	\$0.40	\$0.87	\$0.84

During the year to date period ended June 30, 2014, the average price of the Company's common stock exceeded the current conversion price of the Company's Convertible Notes of \$26.93 resulting in an additional 737,000 shares being included in the shares used in net income per common share in the diluted earnings per share calculation above (See Note 12).

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

6. Acquisitions

In December 2013, the Company consummated an agreement (the “Purchase Agreement”) to acquire all of the issued and outstanding shares of Svendborg Brakes A/S, now known as Svendborg Brakes ApS, and S.B. Patent Holding ApS (together “Svendborg”) for cash consideration of €80.1 million (\$110.2 million), less the cash remaining on the balance sheet at close of €5.4 million (\$7.5 million). This transaction is referred to as the Svendborg Acquisition. Through the Svendborg Acquisition, the Company acquired the leading global manufacturer of premium quality caliper brakes. With the Svendborg Acquisition, in addition to a presence in Denmark, the Company acquired Svendborg’s well-established sales network in 7 additional countries in Western Europe, China, South America, Australia and the United States as well as a manufacturing facility in China.

Altra financed the transaction through a combination of cash and additional borrowings under its Credit Agreement. Under the Purchase Agreement, the seller agreed to provide the Company with a limited set of representations and warranties, including with respect to outstanding and potential liabilities. Claims for a breach of a representation or warranty are secured by a limited escrow and warranty and indemnity insurance. Damages resulting from a breach of a representation or warranty could have a material and adverse effect on the Company’s financial condition and results of operations, and there is no guarantee that the Company would actually be able to recover all or any portion of the sums payable in connection with such breach.

Under the Purchase Agreement, the seller agreed to provide the Company with an indemnification for certain tax liabilities related to transfer pricing (the “Transfer Pricing Claims”) identified as part of an ongoing tax audit in Denmark. As part of the Purchase Agreement, an escrow in the amount of approximately €8.5 million (\$11.6 million) was established for the Transfer Pricing Claims. The Company estimated this liability to be \$8.1 million and as a result has recorded a liability included in taxes payable and an escrow receivable in other current assets. The purchase price in the reconciliation below represents cash consideration less the estimated escrow receivable for which the Company expects to be indemnified.

During the quarter ended June 30, 2014, the Company paid the amount of approximately €4.2 million (\$5.8 million) to settle a portion of the Transfer Pricing Claims and received a corresponding amount from the escrow established for the Transfer Pricing Claims. The Company has included a remaining liability of approximately \$2.3 million in taxes payable and an escrow receivable for unsettled transfer pricing years.

The closing date of the Svendborg Acquisition was December 17, 2013, and as a result, the Company’s consolidated financial statements reflect Svendborg’s results of operations from the beginning of business on December 17, 2013 forward.

As of June 30, 2014, the allocation of the purchase price for the Svendborg Acquisition is preliminary. The fair value of all the acquired identifiable assets and liabilities summarized below is provisional pending finalization of the Company’s acquisition accounting. Measurement period adjustments reflect new information obtained about facts and circumstances that existed as of the acquisition date. The Company believes that such preliminary allocations provide a reasonable basis for estimating the fair values of assets acquired and liabilities assumed. The Company is in the process of finalizing the valuation of certain intangibles, related tax impact and the valuation of certain tax information to finalize fair value.

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

	At Acquisition Date	Measurement Period Adjustments	At Acquisition Date (As Adjusted)
Purchase price, excluding acquisition costs of approximately \$2.5 million	\$ 102,096	\$—	\$ 102,096
Cash and cash equivalents	7,483	—	7,483
Trade receivables	21,575	(809)	20,766
Inventories	25,452	(224)	25,228
Prepaid and other	5,511	(76)	5,435
Property, plant and equipment	12,216	—	12,216
Other assets	1,133	—	1,133
Intangible assets	48,893	—	48,893
Total assets acquired	\$ 122,263	\$(1,109)	\$ 121,154
Accounts payable	4,833	—	4,833
Accrued expenses and other current liabilities	9,620	168	9,788
Taxes payable	10,254	—	10,254
Deferred tax liability	11,483	—	11,483
Total liabilities assumed	\$ 36,190	\$ 168	\$ 36,358
Net assets acquired	86,073	(1,277)	84,796
Excess of purchase price over fair value of net assets acquired	\$ 16,023	\$ 1,277	\$ 17,300

The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. This goodwill is not deductible for income tax purposes. The Company expects to develop synergies, such as lower cost country sourcing, global procurement, the ability to cross-sell product, and the ability to penetrate certain geographic areas, as a result of the acquisition of Svendborg.

The Company updated the acquisition accounting for the measurement period adjustments noted in the table above during the year to date period ended June 30, 2014.

Customer relationships, subject to amortization	\$40,050
Trade names and trademarks, not subject to amortization	8,500
Patents	343
Total intangible assets	\$48,893

Customer relationships are subject to amortization which will be amortized on a straight-line basis over their estimated useful lives of 17 years, which represents the anticipated period over which the Company estimates it will benefit from the acquired assets.

The following table sets forth the unaudited pro forma results of operations of the Company for the quarter and year to date periods ended June 29, 2013, as if the Company had acquired Svendborg at the beginning of the periods. The pro forma information contains the actual operating results of the Company, including Svendborg, adjusted to include the pro forma impact of (i) additional depreciation expense as a result of estimated depreciation based on the fair value of fixed assets and; (ii) additional expense as a result of the estimated amortization of identifiable intangible assets; (iii) additional interest expense for borrowings under the Credit Agreement associated with the Svendborg Acquisition. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred at the beginning of the period or that may be obtained in the future.

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

	Pro Forma (unaudited) Quarter Ended June 29, 2013	Pro Forma (unaudited) Year to Date Period Ended June 29, 2013
Total revenues	\$204,618	\$409,737
Net income attributable to Altra Industrial Motion Corp.	\$13,552	\$26,364
Basic earnings per share:		
Net income attributable to Altra Industrial Motion Corp.	\$0.51	\$0.99
Diluted earnings per share:		
Net income attributable to Altra Industrial Motion Corp.	\$0.51	\$0.98

7. Inventories

Inventories are generally stated at the lower of cost or market, using the first-in, first-out (“FIFO”) method. Market is defined as net realizable value. Inventories located at certain subsidiaries are stated at the lower of cost or market, principally using the last-in, first-out (“LIFO”) method. Inventories at June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014	December 31, 2013
Raw materials	\$42,200	\$56,824
Work in process	18,909	18,432
Finished goods	75,192	68,409
	\$136,301	\$143,665

Approximately 6.9% and 7.5% of total inventories were valued using the LIFO method as of June 30, 2014 and December 31, 2013, respectively. The Company recorded a \$0.2 million adjustment as a component of cost of sales to value the inventory on a LIFO basis for the year to date period ended June 30, 2014. There was no provision recorded as a component of cost of sales to value the inventory on a LIFO basis for the quarter and year to date periods ended June 29, 2013.

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

8. Goodwill and Intangible Assets

Changes to goodwill from January 1, through June 30, 2014 were as follows:

	2014
Gross goodwill balance as of January 1	\$136,149
Impact of changes in foreign currency	231
Measurement period adjustments related to acquisition of Svendborg (See Note 6)	1,277
Gross goodwill balance as of June 30,	137,657
Accumulated impairment as of January 1	(31,810)
Impairment charge during the period	—
Accumulated impairment as of June 30,	(31,810)
Net goodwill balance June 30,	\$105,847

Other intangible assets as of June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014		December 31, 2013	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Other intangible assets				
Intangible assets not subject to amortization:				
Tradenames and trademarks	\$42,985	\$—	\$42,985	\$—
Intangible assets subject to amortization:				
Customer relationships	118,914	47,104	118,914	42,645
Product technology and patents	6,062	5,805	6,062	5,719
Impact of changes in foreign currency	(819)	—	(829)	—
Total intangible assets	\$167,142	\$52,909	\$167,132	\$48,364

The Company recorded \$2.3 million and \$1.7 million of amortization expense in the quarters ended June 30, 2014 and June 29, 2013, respectively, and recorded \$4.5 million and \$3.2 million of amortization in the year to date periods ended June 30, 2014 and June 29, 2013, respectively.

The estimated amortization expense for intangible assets is approximately \$4.6 million for the remainder of 2014, \$9.2 million in each of the next four years and then \$29.8 million thereafter.

9. Warranty Costs

The contractual warranty period generally ranges from 3 months to 2 years with certain warranties extending for longer periods based on the product and application of the product. Changes in the carrying amount of accrued product warranty costs for each of the year to date periods ended June 30, 2014 and June 29, 2013 are as follows:

	June 30, 2014	June 29, 2013
Balance at beginning of period	\$8,739	\$5,625
Accrued current period warranty expense	1,299	1,273
Payments	(1,171)	(1,305)
Balance at end of period	\$8,867	\$5,593

10. Income Taxes

The estimated effective income tax rates recorded for the year to date periods ended June 30, 2014 and June 29, 2013, were based upon management's best estimate of the effective tax rate for the entire year.

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

The Company and its subsidiaries file a consolidated federal income tax return in the United States as well as consolidated and separate income tax returns in various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in all of these jurisdictions. With the exception of certain foreign jurisdictions, the Company is no longer subject to income tax examinations for the tax years prior to 2010.

Additionally, the Company has indemnification agreements with the sellers of the Svendborg, Bauer and Lamiflex entities that generally provide for reimbursement to the Company for payments made in satisfaction of tax liabilities relating to pre-acquisition periods.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense in the condensed consolidated statements of operations. At June 30, 2014 and December 31, 2013, the Company had \$0.2 million and \$0.4 million of accrued interest and penalties, respectively.

11. Pension and Other Employee Benefits

Defined Benefit (Pension)

The Company sponsors various defined benefit (pension) plans for certain, primarily unionized, active employees (those in the employment of the Company at, and certain employees hired since, November 30, 2004).

The following tables represent the reconciliation of the net periodic benefit cost of the defined benefit (pension) plans as of June 30, 2014 and June 29, 2013:

	Quarter Ended	
	Pension Benefits	
	June 30, 2014	June 29, 2013
Service cost	\$38	\$38
Interest cost	273	246
Expected return on plan assets	(269	) (267
Amortization of net gain	27	42
Net periodic benefit cost (income)	\$69	\$59
	Year to Date Ended	
	Pension Benefits	
	June 30, 2014	June 29, 2013
Service cost	\$76	\$76
Interest cost	546	492
Expected return on plan assets	(538	) (534
Amortization of net gain	54	84
Net periodic benefit cost (income)	\$138	\$118

The Company made \$0.2 million in contributions during the year to date period ended June 30, 2014. The Company does not have any future required contributions during the remainder of the year ended December 31, 2014.

12. Debt

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

Outstanding debt obligations at June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014	December 31, 2013
Debt:		
Revolving Credit Facility	\$40,000	\$41,198
Convertible Notes	85,000	85,000
Term Loan Facility	150,051	163,245
Equipment Loan	5,765	4,155
Mortgages	440	659
Capital leases	—	178
Other	26	—
Total debt	281,282	294,435
Less: debt discount, net of accretion	(14,494	) (16,163
Total debt, net of unaccreted discount	\$266,788	\$278,272
Less current portion of long-term debt	18,824	16,924
Total long-term debt, net of unaccreted discount	\$247,964	\$261,348
Credit Agreement		

In December 2013, the Company entered into an Amended and Restated Credit Agreement (the “Credit Agreement”). The Credit Agreement amends and restates the Company’s former credit agreement, dated November 20, 2012 (the “Former Credit Agreement”). Pursuant to the Former Credit Agreement, the former lenders made available to the Company an initial term loan facility of \$100,000,000 and an initial revolving credit facility of \$200,000,000. Pursuant to the Credit Agreement, the lenders made an additional term loan of €50,000,000 (the “Additional Term Loan”) to Altra Industrial Motion Netherlands B.V. The Credit Agreement kept in effect the balance (approximately \$94,375,000) of the existing term loan facility (the “Initial Term Loan”) made to the domestic borrowers under the Former Credit Agreement (collectively, the two term loans are referred to as the “Term Loan Facility”), as well as the revolving credit facility of \$200,000,000 made under the Former Credit Agreement (the “Revolving Credit Facility”). The Credit Agreement continues, even after the making of the Additional Term Loan, to provide for a possible expansion of the credit facilities by an additional \$150,000,000, which can be allocated as additional term loans and/or additional revolving credit loans. The amounts available under the Term Loan Facility were used, and amounts available under the Revolving Credit Facility can be used, for general corporate purposes, including acquisitions, and to repay existing indebtedness. The stated maturity of these credit facilities is December 6, 2018, and there are scheduled quarterly principal payments due on the outstanding amount of the Term Loan Facility. With respect to the Initial Term Loan, the scheduled quarterly principal payments due on the outstanding amount have been reamortized in accordance with the new December 6, 2018 maturity date. The previous maturity of the Revolving Credit Facility and the Initial Term Loan was November 20, 2017.

The amounts available under the Revolving Credit Facility may be drawn upon in accordance with the terms of the Credit Agreement. All amounts outstanding under the credit facilities are due on the stated maturity or such earlier time, if any, required under the Credit Agreement. The amounts owed under either of the credit facilities 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 1.375% to 1.875%, and for ABR Loans are between 0.375% and 0.875%. The amounts of the margins are calculated based on either a consolidated total net leverage ratio

(as defined in the Credit Agreement), or the then applicable credit rating(s) of the Company's debt if and then to the extent as provided in the Credit Agreement. A portion of the Revolving Credit Facility may also be used for the issuance of letters of credit, and a portion of the amount of the Revolving Credit Facility is available for borrowings in certain agreed upon foreign currencies.

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

As of June 30, 2014 and December 31, 2013, we had \$40.0 million and \$41.2 million outstanding on our Revolving Credit Facility, respectively. As of June 30, 2014 and December 31, 2013, we had \$10.1 million and \$9.8 million in letters of credit outstanding, respectively. We had \$149.9 million and \$149.0 million available under the Revolving Credit Facility at June 30, 2014 and December 31, 2013, respectively.

The Credit Agreement contains various affirmative and negative covenants and restrictions, which among other things, will require the Company and certain Subsidiaries 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 stock or debt, make certain investments, sell assets, engage in certain transactions, and effect a consolidation or merger. The Credit Agreement also contains customary events of default.

Pledge and Security Agreement; Trademark Security Agreement; Patent Security Agreement.

Pursuant to an Omnibus Reaffirmation and Ratification of Collateral Documents entered into on December 6, 2013 in connection with the 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. The 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 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. The Loan Parties and the Administrative Agent entered into a Pledge and Security Agreement (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 Credit Agreement provides that the obligation to grant the security interest can cease upon the obtaining of certain corporate family 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 Credit Agreement.

In connection with the Pledge and Security Agreement, certain of the Loan Parties delivered a Patent Security Agreement and a 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.

Convertible Senior Notes

In March 2011, the Company issued Convertible Senior Notes (the "Convertible Notes") due March 1, 2031. The Convertible Notes are guaranteed by the Company's U.S. domestic subsidiaries. Interest on the Convertible Notes is 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.

The proceeds from the offering were used to fund the Bauer Acquisition, as well as bolster the Company's cash position.

The Convertible Notes will mature on March 1, 2031, unless earlier redeemed, repurchased by the Company or converted, and are convertible into cash or shares, or a combination thereof, at the Company's election. The

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

Convertible Notes are convertible into shares of the Company's common stock based on an initial conversion rate, subject to adjustment, of 36.0985 shares per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$27.70 per share of our common stock), in certain circumstances. The conversion price at June 30, 2014 is \$26.93 per share. Prior to March 1, 2030, the Convertible Notes are convertible only in the following circumstances: (1) during any fiscal quarter commencing after June 30, 2011 if the last reported sale price of the Company's common stock is greater than or equal to 130% of the applicable conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; (2) during the 5 business day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of notes for each trading day in the measurement period was less than 97% of the product of the last reported sale price of the Company's common stock and the conversion rate on such trading day; (3) if the Convertible Notes have been called for redemption; or (4) upon the occurrence of specified corporate transactions.

On or after March 1, 2030, and ending at the close of business on the second business day immediately preceding the maturity date, holders may convert their Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of common stock, or a combination thereof, at the Company's election. The Company intends to settle the principal amount in cash and any additional amounts in shares of stock.

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

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

The Company separately accounted for the debt and equity components of the Convertible Notes to reflect the issuer's non-convertible debt borrowing rate, which interest costs are to be recognized in subsequent periods. The note payable principal balance at the date of issuance of \$85.0 million was bifurcated into a debt component of \$60.5 million and an equity component of \$24.5 million. The difference between the note payable principal balance and the value of the debt component is being accreted to interest expense over the term of the notes. The debt component was recognized at the present value of associated cash flows discounted using a 8.25% discount rate, the borrowing rate at the date of issuance for a similar debt instrument without a conversion feature. The Company paid approximately \$3.7 million of issuance costs associated with the Convertible Notes. The Company recorded \$1.0 million of debt issuance costs as an offset to additional paid-in capital. The balance of \$2.7 million of debt issuance costs is classified as other non-current assets and will be amortized over the term of the notes using the effective interest method.

Because the last reported sale price of the Company's common stock exceeded 130% of the current conversion price, which was \$26.93 for at least 20 of the last 30 consecutive trading days in the fiscal quarter ended June 30, 2014, the Convertible Notes are convertible at the election of the holders of the Convertible Notes at any time during the fiscal quarter ending September 30, 2014. The Company has the ability and intent to fund any potential payments of the principal amount of the debt with additional borrowings under the Revolving Credit Agreement. Accordingly, the Convertible Notes, net of accretion continues to be included in long-term debt. The future convertibility will be monitored at each quarterly reporting date and will be analyzed dependent upon market prices of the Company's common stock during the prescribed measurement periods.

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

The carrying amount of the principal amount of the liability component, the unamortized discount, and the net carrying amount are as follows as of June 30, 2014:

Principal amount of debt	\$85,000
Unamortized discount	14,494
Carrying value of debt	\$70,506

Interest expense associated with the Convertible Notes consists of the following:

	Quarter to Date Ended	
	June 30, 2014	June 29, 2013
Contractual coupon rate of interest	\$586	\$585
Accretion of Convertible Notes discount and amortization of deferred financing costs	934	868
Interest expense for the convertible notes	\$1,520	\$1,453
	Year to Date Ended	
	June 30, 2014	June 29, 2013
Contractual coupon rate of interest	\$1,170	\$1,169
Accretion of Convertible Notes discount and amortization of deferred financing costs	1,845	1,715
Interest expense for the convertible notes	\$3,015	\$2,884

The effective interest yield of the Convertible Notes due in 2031 is 8.5% at June 30, 2014 and the cash coupon interest rate is 2.75%.

Equipment and Working Capital Notes

The Company entered into a loan with a bank to equip its new facility in Changzhou, China during 2013. The Company is allowed to borrow up to 90% of the amount of certain outstanding letters of credit issued by the Company's U.S. bank in favor of the lending bank in China. As of June 30, 2014, the total available to borrow was 38.8 million RMB (\$6.3 million). The note is due in installments from 2014 through 2016, with interest varying between 5.04% and 7.56%. The Company has a 35.3 million RMB (\$5.7 million) line of credit outstanding at June 30, 2014. The note is callable by the bank at its discretion and as such, has been included in the current portion of long-term debt in the balance sheet at June 30, 2014.

Mortgage

The Company has a mortgage with a bank on its facility in Heidelberg, Germany with an interest rate of 2.9% which is payable in monthly installments over the next 3 years. As of June 30, 2014 and December 31, 2013, the mortgage had a remaining principal balance of €0.3 million or \$0.4 million, and €0.5 million or \$0.7 million, respectively.

Capital Leases

The Company leases certain equipment under capital lease arrangements, whose obligations are included in both short-term and long-term debt. Capital lease obligations amounted to approximately \$0.2 million at December 31, 2013. There were no capital lease obligations outstanding at June 30, 2014. Assets subject to capital leases are included in property, plant and equipment with the related amortization recorded as depreciation expense.

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

Overdraft Agreements

Certain of our foreign subsidiaries maintain overdraft agreements with financial institutions. There were no borrowings as of June 30, 2014 or December 31, 2013 under any of the overdraft agreements.

13. Stockholders' Equity

On April 24, 2014, the Company declared a dividend of \$0.12 per share of common stock related to the quarter ended June 30, 2014. This dividend of \$3.2 million was paid on July 2, 2014 to shareholders of record as of the close of business on June 18, 2014 and was accrued for in the balance sheet at June 30, 2014.

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.

In May 2014, our board of directors approved a new share repurchase program authorizing the buyback of up to \$50.0 million of the Company's common stock. 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.

For the three month period ended June 30, 2014, the Company repurchased 81,642 shares of common stock at an average purchase price of \$35.60 per share. As of June 30, 2014, up to \$47.1 million was available for repurchase under the repurchase program, which expires on December 31, 2016. The Company expects to fund any further repurchases of its common stock through a combination of cash on hand, cash generated by operations and borrowings under its credit facilities.

Stock-Based Compensation

The Company's Board of Directors established the 2004 Equity Incentive Plan (as amended, the "Plan") that provides for various forms of stock-based compensation to independent directors, officers and senior-level employees of the Company. The restricted shares issued pursuant to the Plan generally vest ratably over a period ranging from immediately to 5 years from the date of grant, provided, that the vesting of the restricted shares may accelerate upon the occurrence of certain liquidity events, if approved by the Board of Directors in connection with the transactions. Common stock awarded under the Plan is generally subject to restrictions on transfer, repurchase rights, and other limitations and rights as set forth in the applicable award agreements. The shares are valued based on the share price on the date of grant.

The Plan permits the Company to grant, 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 Plan are determined by the Personnel and Compensation Committee of the Board of Directors.

Compensation expense recorded (in selling, general and administrative expense) in the year to date periods ended June 30, 2014 and June 29, 2013, was \$1.8 million and \$1.8 million, respectively. Stock-based compensation expense recorded during the quarters ended June 30, 2014 and June 29, 2013, was \$1.0 million and \$0.9 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.

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

The following table sets forth the activity of the Company's restricted stock and performance share grants in the year to date period ended June 30, 2014:

	Shares	Weighted-average grant date fair value
Shares unvested January 1, 2014	149,635	\$ 23.02
Shares granted	113,136	33.66
Shares for which restrictions lapsed	(20,868)	33.87
Shares unvested June 30, 2014	241,903	\$ 26.93

Total remaining unrecognized compensation cost was \$4.9 million as of June 30, 2014, 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 June 30, 2014 was \$0.6 million. Restricted shares granted are valued based on the fair market value of the stock on the date of grant.

14. Derivative Financial Instruments

Interest Rate Swap

In April 2013, the Company entered into an interest rate swap agreement designed to fix the variable interest rate payable on a portion of its outstanding borrowings, currently \$90.0 million, under the Credit Agreement, at 0.626% exclusive of the margin under the Former Credit Agreement. The interest rate swap agreement and its terms are also applicable to the variable interest rate borrowings under the current Credit Agreement.

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 its interest rate swap agreement, which is forward-dated, as a cash flow hedge. Changes in the fair value of the swap are 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. There was no ineffectiveness associated with the swap during the quarter ended June 30, 2014, nor was any amount excluded from ineffectiveness testing for the period.

The estimated fair value of the Company's interest rate swap agreement with certain financial institutions ("Interest Rate Swap") was based on inputs other than quoted prices that are observable for the Interest Rate Swap (level 2). Inputs include present value of fixed and projected floating rate cash flows over the term of the swap contract. The fair value of the swap recognized in other non-current assets, net and in other comprehensive income (loss) is as follows:

Effective Date	Notional Amount	Fixed Rate	Maturity	Fair Value	
				June 30, 2014	December 31, 2013
April 30, 2013	\$90,000	0.626	% November 30, 2016	\$15	\$213

15. Concentrations of Credit, Segment Data and Workforce

Financial instruments, which are potentially subject to counter party performance and concentrations of credit risk, consist primarily of trade accounts receivable. The Company manages these risks by conducting credit evaluations of customers prior to delivery or commencement of services. When the Company enters into a sales contract, collateral is normally not required from the customer. Payments are typically due within 30 days of billing. An allowance for potential credit losses is maintained, and losses have historically been within management's expectations. No customer represented greater than 10% of total sales for each of the year to date periods ended June 30, 2014 and June 29, 2013.

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

20

Table of Contents

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

financial institutions and invested in AAA rated mutual funds. The Company is exposed to swap counterparty credit risk with financial institutions. The Company's counterparty is a well-established financial institution.

The Company has three operating segments that are regularly reviewed by our chief operating decision maker. Each of these operating segments represents a unit that produces mechanical power transmission products. The Company aggregates all of the operating segments into one reportable segment. The three operating segments are expected to have similar long-term average gross profit margins. All of our products are sold by one global sales force and we have one global marketing function with the exception of the newly acquired Svendborg business for which the Company is in the process of integrating sales and marketing activities. Strategic markets and industries are determined for the entire company and then targeted by the brands. All of our operating segments have common manufacturing and production processes. Each operating segment includes a machine shop which uses similar equipment and manufacturing techniques. Each of our operating segments uses common raw materials, such as aluminum, steel and copper. The materials are purchased and procurement contracts are negotiated by one global purchasing function.

The Company serves the general industrial market by selling to original equipment manufacturers ("OEM") and distributors. Our OEM and distributor customers serve the general industrial market. Resource allocation decisions such as capital expenditure requirements and headcount requirements are made at a consolidated level and allocated to the individual operating segments.

Discrete financial information is not available by product line at the level necessary for management to assess performance or make resource allocation decisions.

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

	Net Sales Quarter Ended		Net Sales Year to Date Ended	
	June 30, 2014	June 29, 2013	June 30, 2014	June 29, 2013
North America (primarily U.S.)	\$127,360	\$113,486	\$253,148	\$234,034
Europe	67,244	54,375	135,080	108,580
Asia and other	20,594	13,234	37,108	23,631
Total	\$215,198	\$181,095	\$425,336	\$366,245

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

The net assets of the Company's foreign subsidiaries at June 30, 2014 and December 31, 2013 were \$147.7 million and \$138.7 million, respectively.

16. Restructuring

In the quarter ended December 31, 2012, the Company adopted a restructuring plan ("2012 Altra Plan") as a result of continued sluggish demand in Europe and general global economic conditions. The actions taken pursuant to the 2012 Altra Plan included reducing headcount and limiting discretionary spending to improve profitability in Europe. The Company did not record any restructuring charges associated with the 2012 Altra Plan in the quarter ended June 30, 2014.

The Company's total restructuring expense, by major component for the quarters and year to date periods ended June 30, 2014 and June 29, 2013 was as follows:

Table of Contents

	Quarter Ended		Year to Date Ended	
	June 30, 2014	June 29, 2013	June 30, 2014	June 29, 2013
	Altra Plan	Altra Plan	Altra Plan	Altra Plan
Severance	\$—	\$220	\$—	\$516
Other	—	18	—	42
Total cash expenses	\$—	\$238	\$—	\$558

The following is a reconciliation of the accrued restructuring cost:

	All Plans
Balance at January 1, 2014	\$429
Restructuring expense incurred	—
Cash payments	(127)
Balance at June 30, 2014	\$302

The total restructuring reserve as of June 30, 2014 relates to severance costs to be paid to employees and is recorded in accruals and other current liabilities on the accompanying condensed consolidated balance sheet.

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 condensed consolidated balance sheets for potential litigation as of June 30, 2014 or December 31, 2013. 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 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.

22

Table of Contents

18. Subsequent Events

The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

On July 1, 2014, the Company acquired all of the issued and outstanding shares of stock of Guardian Industries, Inc. ("Guardian") from its shareholders for \$15.3 million, subject to certain adjustments.

Guardian is a leading niche supplier of flywheel, motion control and general industrial couplings located in Michigan City, Indiana. Due to the timing of the acquisition, the Company is still in the process of completing the allocation of the purchase price.

On July 23, 2014, the Company declared a cash dividend of \$0.12 per share for the quarter ended September 30, 2014, payable on October 2, 2014 to shareholders of record as of September 18, 2014.

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," and similar expressions. These forward-looking statements are based upon information currently available to the Company and are subject to a number of risks, uncertainties, and other factors that could cause the Company's actual results, performance, prospects, or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Important factors that could cause the 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;
- 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;
- the Company's ability to complete cost reduction actions and risks associated with such actions;
- the Company's ability to control costs;
- political and economic conditions nationally, regionally, and in the markets in which we operate;

Table of Contents

- 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;
- 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 and changes in the enforcement of laws;
- the Company's ability to attract and retain key executives and other personnel;
- changes in the Company's pension and retirement liabilities;
- 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;
- the risks associated with the portion of the Company's total assets comprised of goodwill and indefinite lived intangibles;
- 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 unanticipated deficiencies, if any, in the disclosure controls and internal controls of Svendborg;
- 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 new 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 potential dilution of our common stock as a result of our convertible bonds;
- 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 global recession and European economic downturn and volatility and disruption in the global financial markets;
 - the Company's ability to successfully execute, manage and integrate key acquisitions and mergers, including the Lamiflex Acquisition, Svendborg Acquisition and the Guardian Acquisition;

Table of Contents

the risks associated with the Company's investment in a new manufacturing facility in China; and other factors, risks, and uncertainties referenced in the Company's filings with the Securities and Exchange Commission, including the "Risk Factors" set forth in 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, 2013, 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, 2013. Unless the context requires otherwise, the terms "Altra Industrial Motion Corp.," "the Company," "we," "us," and "our" refer to Altra Industrial Motion Corp. and its subsidiaries.

General

Altra Industrial Motion Corp. ("Altra" or the "Company") (formerly Altra Holdings, Inc.) is the parent company of Altra Power Transmission, Inc. ("APT") (formerly Altra Industrial Motion, Inc.) and owns 100% of APT's outstanding capital stock. APT, directly or indirectly, owns 100% of the capital stock of 67 of its subsidiaries and 85% of the capital stock of one of its subsidiaries located in Brazil. The following chart illustrates a summary of our corporate structure: Although we were incorporated in Delaware in 2004, much of our current business has its roots with the prior acquisition by Colfax Corporation, or Colfax, of the MPT (mechanical power transmission) group of Zurn Technologies, Inc. in December 1996. Colfax subsequently acquired Industrial Clutch Corp. in May 1997, Nuttall Gear Corp. in July 1997 and the Boston Gear and Delroyd Worm Gear brands in August 1997 as part of Colfax's acquisition of Imo Industries, Inc. In February 2000, Colfax acquired Warner Electric, Inc., which sold products under the Warner Electric, Formsprag Clutch, Stieber, and Wichita Clutch brands. Colfax formed Power Transmission Holding, LLC or "PTH" in June 2004 to serve as a

Table of Contents

holding company for all of these power transmission businesses. On November 30, 2004, we acquired our original core business through the acquisition of PTH from Colfax. We refer to this transaction as the PTH Acquisition. On October 22, 2004, The Kilian Company, or Kilian, a company formed at the direction of Genstar Capital, then the largest stockholder of Altra, acquired Kilian Manufacturing Corporation from Timken U.S. Corporation. At the completion of the PTH Acquisition, (i) all of the outstanding shares of Kilian capital stock were exchanged for shares of our capital stock and (ii) Kilian and its subsidiaries were transferred to APT.

On February 10, 2006, we purchased all of the outstanding share capital of Hay Hall Holdings Limited, or Hay Hall. Hay Hall was a UK-based holding company established in 1996 that was focused primarily on the manufacture of couplings and clutch brakes. Hay Hall consisted of five main businesses that were niche focused and had strong brand names and established reputations within their primary markets. Through Hay Hall, we acquired 15 strong brands in complementary product lines, improved customer leverage and expanded geographic presence in over 11 countries.

On May 18, 2006, we acquired substantially all of the assets of Bear Linear Inc., now known as Warner Linear. Warner Linear manufactures high value-added linear actuators which are electromechanical power transmission devices designed to move and position loads linearly for mobile off-highway and industrial applications.

On April 5, 2007, we acquired all of the outstanding shares of TB Wood's Corporation, or TB Wood's. TB Wood's is an established designer, manufacturer and marketer of mechanical industrial power transmission products. In December 2007, the Company divested the TB Wood's electronics division.

On October 5, 2007, we acquired substantially all of the assets of All Power Transmission Manufacturing, Inc., or All Power, a manufacturer of universal joints.

On May 29, 2011, we acquired substantially all of the assets and liabilities of Danfoss Bauer GmbH relating to its gear motor business, or Bauer. We refer to this transaction as the Bauer Acquisition. Bauer is a European manufacturer of high-quality gear motors, offering engineered solutions to a variety of industries, including material handling, metals, food processing, and energy.

On July 11, 2012, we acquired 85% of privately held Lamiflex do Brasil Equipamentos Industriais Ltda., now known as Lamiflex Do Brasil Equipamentos Industriais S.A., or Lamiflex. Lamiflex is one of the premier Brazilian manufacturers of high-speed disc couplings, providing engineered solutions to a variety of industries, including oil and gas, power generation, metals and mining.

On November 22, 2013, we changed our legal corporate name from Altra Holdings, Inc. to Altra Industrial Motion Corp.

On December 17, 2013, we completed the acquisition of Svendborg Brakes A/S, now known as Svendborg Brakes ApS, and S.B. Patent Holding ApS (together "Svendborg"). We acquired all the issued and outstanding shares of Svendborg from Friction Holding A/S. Svendborg is the leading global manufacturer of premium quality caliper brakes.

We are a leading global designer, producer and marketer of a wide range of electromechanical power transmission 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.

While the power transmission industry has undergone some consolidation, we estimate that in 2013 the top five broad-based electromechanical power transmission companies represented approximately 20% of the U.S. power transmission market. The remainder of the power transmission industry remains fragmented with many small and family-owned companies that cater to a specific market niche often due to their narrow product offerings. We believe that consolidation in our industry will continue because of the increasing demand for global distribution channels, broader product mixes and better brand recognition to compete in this industry.

Table of Contents

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

Products	Principal Brands	Principal Markets	Sample Applications
Clutches and Brakes	Warner Electric, Wichita Clutch, Formsprag Clutch, Stieber Clutch, Svendborg Brakes, Matrix, Inertia Dynamics, Twiflex, Industrial Clutch, Marland Clutch	Aerospace, energy, material handling, metals, turf and garden, mining	Elevators, forklifts, lawn mowers, oil well draw works, punch presses, conveyors
Gearing	Boston Gear, Nuttall Gear, Delroyd, Bauer Gear Motor	Food processing, material handling, metals, transportation	Conveyors, ethanol mixers, packaging machinery, metal processing equipment
Engineered Couplings	Ameridrives, Bibby Transmissions, TB Wood's, PowerFlex	Energy, metals, plastics, chemical	Extruders, turbines, steel strip mills, pumps
Engineered Bearing Assemblies	Kilian	Aerospace, material handling, transportation	Cargo rollers, seat storage systems, conveyors
Power Transmission Components	Warner Electric, Boston Gear, Huco Dynatork, Warner Linear, Matrix, TB Wood's	Material handling, metals, turf and garden	Conveyors, lawn mowers, machine tools
Engineered Belted Drives	TB Wood's	Aggregate, HVAC, material handling	Pumps, sand and gravel conveyors, industrial fans

Our Internet address is www.altramotion.com. By following the link "Investor Relations" and then "SEC filings" on our Internet website, we make available, free of charge, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as soon as reasonably practicable after such forms are filed with or furnished to the 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 Form 10-Q.

Business Outlook

Our future financial performance depends, in large part, on conditions in the markets that we serve and on the U.S., European, and global economies in general.

We have noted year over year improvement in a majority of our end markets, although mining continues to be weak. Our profit improvement initiatives remain on track and are contributing to margins as we expected.

Critical Accounting Policies

The preparation of our condensed consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect our reported amounts of assets, revenues and expenses, as well as related disclosure of contingent assets and liabilities. We base our estimates on past experiences and other assumptions we believe to be appropriate, and we evaluate

Table of Contents

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, 2013. There have been no changes in the identification or application of the Company's critical accounting policies during the quarter and year to date periods ended June 30, 2014.

Results of Operations

(Amounts in thousands, unless otherwise noted)

	Quarter Ended		Year to Date Ended	
	June 30, 2014	June 29, 2013	June 30, 2014	June 29, 2013
Net sales	\$215,198	\$181,095	\$425,336	\$366,245
Cost of sales	148,728	126,676	297,070	256,327
Gross profit	66,470	54,419	128,266	109,918
Gross profit percentage	30.9	% 30.0	% 30.2	% 30.0
Selling, general and administrative expenses	40,499	32,628	78,761	65,070
Research and development expenses	4,012	3,214	7,901	6,148
Restructuring costs	—	238	—	558
Income from operations	21,959	18,339	41,604	38,142
Interest expense, net	2,972	2,658	5,991	5,263
Other non-operating expense, net	225	144	759	97
Income before income taxes	18,762	15,537	34,854	32,782
Provision for income taxes	5,944	4,861	10,673	10,247
Net income	12,818	10,676	24,181	22,535
Net (income) loss attributable to non-controlling interest	(21	) 13	(19	) 34
Net income attributable to Altra Industrial Motion Corp.	\$12,797	\$10,689	\$24,162	\$22,569

Quarter Ended June 30, 2014 compared with Quarter Ended June 29, 2013

(Amounts in thousands, unless otherwise noted)

Amounts in thousands, except percentage data	Quarter-Ended			
	June 30, 2014	June 29, 2013	Change	%
Net sales	\$215,198	\$181,095	\$34,103	18.8

The increase in sales during the quarter ended June 30, 2014 was due to the acquisition of Svendborg, positive foreign exchange rates, and slightly higher sales levels than in the quarter ended June 29, 2013. Of the increase in sales, approximately \$22.5 million relates to the inclusion of additional sales related to the acquisition of Svendborg for the quarter, \$2.8 million relates to the impact of foreign exchange rate increases attributed to the increase in the British Pound rates compared to 2013, and \$2.5 million relates to the impact of profit improvement initiatives. The remainder of the increase was attributable to sales growth in the North American turf & garden and energy markets. We expect our order rates to remain stable throughout the remainder of 2014.

Amounts in thousands, except percentage data	Quarter Ended			
	June 30, 2014	June 29, 2013	Change	%
Gross Profit	\$66,470	\$54,419	\$12,051	22.1
Gross Profit as a percent of sales	30.9	% 30.0	%	%

Gross profit as a percentage of sales increased during the quarter due to the inclusion of Svendborg for the quarter ended June 30, 2014 as Svendborg's operations improved the Company's overall gross profit.

Table of Contents

Amounts in thousands, except percentage data	Quarter Ended				
	June 30, 2014	June 29, 2013	Change	%	
Selling, general and administrative expense (“SG&A”)	\$40,499	\$32,628	\$7,871	24.1	%
SG&A as a percent of sales	18.9	% 18.0	%		

\$5.6 million of the increase in SG&A is due to the inclusion of SG&A related to the acquisition of Svendborg. The remainder of the increase is due to increased costs of health care insurance.

Amounts in thousands, except percentage data	Quarter Ended				
	June 30, 2014	June 29, 2013	Change	%	
Research and development expenses (“R&D”)	\$4,012	\$3,214	\$798	24.8	%

Of the increase in R&D, approximately \$0.5 million relates to the inclusion of R&D related to the acquisition of Svendborg for the quarter.

R&D expenses as a percentage of sales excluding the impact of Svendborg remained consistent with prior year at approximately 1.8% of sales. We do not forecast significant variances in future periods.

Amounts in thousands, except percentage data	Quarter Ended				
	June 30, 2014	June 29, 2013	Change	%	
Restructuring	\$—	\$238	\$(238)	—	%

The Company did not incur any additional expenses under the 2012 Altra Plan in the quarter ended June 30, 2014 and does not expect to incur any additional expenses associated with the 2012 Altra Plan during the remainder of 2014.

Amounts in thousands, except percentage data	Quarter Ended				
	June 30, 2014	June 29, 2013	Change	%	
Interest Expense, net	\$2,972	\$2,658	\$314	11.8	%

Net interest expense increased during the quarter ended June 30, 2014 over the comparable 2013 period, primarily due to the borrowing of approximately additional 54.5 million Euros for the acquisition of Svendborg during the quarter ended December 31, 2013.

Amounts in thousands, except percentage data	Quarter Ended				
	June 30, 2014	June 29, 2013	Change	%	
Other non-operating expense, net	\$225	\$144	\$81	56.3	%

Other non-operating expense in each period in the chart above relates primarily to changes in foreign currency.

Amounts in thousands, except percentage data	Quarter Ended				
	June 30, 2014	June 29, 2013	Change	%	
Provision for income taxes	\$5,944	\$4,861	\$1,083	22.3	%
Provision for income taxes as a % of income before income taxes	31.7	% 31.3	%		

Table of Contents

The provision for income taxes, as a percentage of income before taxes, during the quarter ended June 30, 2014 was slightly higher than that of the quarter ended June 29, 2013. This increase is primarily due to elimination of the R&D credit in the U.S. for the quarter ended June 30, 2014, offset somewhat by the favorable statutory tax rates in jurisdictions in which the newly acquired Svenborg operates

Year to Date Period Ended June 30, 2014 compared with Year to Date Period Ended June 29, 2013
(Amounts in thousands, unless otherwise noted)

Amounts in thousands, except percentage data	Year to Date Period Ended				
	June 30, 2014	June 29, 2013	Change	%	
Net sales	\$425,336	\$366,245	\$59,091	16.1	%

The increase in sales during the period ended June 30, 2014 was due to the acquisition of Svendborg, positive foreign exchange rates, profit improvement initiatives and slightly higher sales levels than in the quarter ended June 29, 2013. Of the increase in sales, approximately \$42.6 million relates to the inclusion of additional sales related to the acquisition of Svendborg for the year to date period ended June 30, 2014, \$5.6 million relates to the impact of foreign exchange rate increases attributed to the increase in the British Pound rates compared to 2013, and \$3.7 million relates to the impact of profit improvement initiatives. The remainder of the increase was attributable to sales growth in the North American turf & garden and energy markets. We expect our order rates to remain stable throughout the remainder of 2014.

Amounts in thousands, except percentage data	Year to Date Period Ended				
	June 30, 2014	June 29, 2013	Change	%	
Gross Profit	\$128,266	\$109,918	\$18,348	16.7	%
Gross Profit as a percent of sales	31.7	% 31.3	%		

Gross profit as a percentage of sales increased during the quarter due to the inclusion of Svenborg for the year to date period ended June 30, 2014 as Svendborg's operations improved the Company's overall gross profit.

Amounts in thousands, except percentage data	Year to Date Period Ended				
	June 30, 2014	June 29, 2013	Change	%	
Selling, general and administrative expense ("SG&A")	\$78,761	\$65,070	\$13,691	21.0	%
SG&A as a percent of sales	18.6	% 17.8	%		

\$12.8 million of the increase in SG&A is due to the inclusion of SG&A related to the acquisition of Svendborg. The remainder of the increase is due to increased costs of health care insurance.

Amounts in thousands, except percentage data	Year to Date Period Ended				
	June 30, 2014	June 29, 2013	Change	%	
Research and development expenses ("R&D")	\$7,901	\$6,148	\$1,753	28.5	%

Table of Contents

Of the increase in R&D, approximately \$0.9 million relates to the inclusion of R&D related to the acquisition of Svendborg for the quarter.

Amounts in thousands, except percentage data	Year to Date Period Ended				
	June 30, 2014	June 29, 2013	Change	%	
Restructuring	\$—	\$558	\$(558)	100	%

The Company did not incur any additional expenses under the 2012 Altra Plan in the year to date period ended June 30, 2014 and does not expect to incur any additional expenses associated with the 2012 Altra Plan during the remainder of 2014.

Amounts in thousands, except percentage data	Year to Date Period Ended				
	June 30, 2014	June 29, 2013	Change	%	
Interest Expense, net	\$5,991	\$5,263	\$728	13.8	%

Net interest expense increased during the year to date period ended June 30, 2014 over the comparable 2013 period, primarily due to the borrowing of approximately additional 54.5 million Euros for the acquisition of Svendborg during the quarter ended December 31, 2013.

Amounts in thousands, except percentage data	Year to Date Period Ended				
	June 30, 2014	June 29, 2013	Change	%	
Other non-operating expense (income), net	\$759	\$97	\$662	682.5	%

Other non-operating expense (income) in each period in the chart above relates primarily to changes in foreign currency.

Amounts in thousands, except percentage data	Year to Date Period Ended				
	June 30, 2014	June 29, 2013	Change	%	
Provision for income taxes	\$10,673	\$10,247	\$426	4.2	%
Provision for income taxes as a % of income before income taxes	30.6	% 31.3	%		

The provision for income taxes, as a percentage of income before taxes, during the year to date period ended June 30, 2014 was slightly lower than that for the year to date period ended June 29, 2013 primarily due to the favorable impact of the statutory tax rate reductions in the United Kingdom along with the statutory tax rates in jurisdictions in which the newly acquired Svenborg business operates.

(Amounts in thousands, unless otherwise noted)

Liquidity and Capital Resources

Table of Contents

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 Revolving Credit Facility. We expect that our primary ongoing requirements for cash will be for working capital, debt service, capital expenditures, acquisitions, pensions and dividends. In the event additional funds are needed for operations, we could borrow additional funds available under our existing Revolving Credit Facility, request an expansion by up to \$150,000,000 of the amount available to be borrowed under the Credit Agreement, attempt to secure new debt, attempt to refinance our loans under the Credit Agreement, or attempt to raise capital in the equity markets. Presently, we have the ability under our Revolving Credit Facility to borrow an additional \$149.9 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.

Borrowings

	Amounts in millions	
	June 30, 2014	December 31, 2013
Debt:		
Revolving Credit Facility	\$40.0	\$41.2
Convertible Notes	85.0	\$85.0
Term Loan Facility	150.1	\$163.2
Equipment Loan	5.8	\$4.2
Mortgages	0.4	\$0.7
Capital leases	—	\$0.2
Total debt	\$281.3	\$294.4

Credit Agreement

In December 2013, the Company entered into an Amended and Restated Credit Agreement (the “Credit Agreement”). The Credit Agreement amends and restates the Company’s former credit agreement, dated November 20, 2012 (the “Former Credit Agreement”). Pursuant to the Former Credit Agreement, the former lenders made available to the Company an initial term loan facility of \$100,000,000 and an initial revolving credit facility of \$200,000,000. Pursuant to the Credit Agreement, the lenders made an additional term loan of €50,000,000 (the “Additional Term Loan”) to Altra Industrial Motion Netherlands B.V. The Credit Agreement kept in effect the balance (approximately \$94,375,000) of the existing term loan facility (the “Initial Term Loan”) made to the domestic borrowers under the Former Credit Agreement (collectively, the two term loans are referred to as the “Term Loan Facility”), as well as the revolving credit facility of \$200,000,000 made under the Former Credit Agreement (the “Revolving Credit Facility”). The Credit Agreement continues, even after the making of the Additional Term Loan, to provide for a possible expansion of the credit facilities by an additional \$150,000,000, which can be allocated as additional term loans and/or additional revolving credit loans. The amounts available under the Term Loan Facility were used, and amounts available under the Revolving Credit Facility can be used, for general corporate purposes, including acquisitions, and to repay existing indebtedness. The stated maturity of these credit facilities is December 6, 2018, and there are scheduled quarterly principal payments due on the outstanding amount of the Term Loan Facility. With respect to the Initial Term Loan, the scheduled quarterly principal payments due on the outstanding amount have been reamortized in accordance with the new December 6, 2018 maturity date. The previous maturity of the Revolving Credit Facility and the Initial Term Loan was November 20, 2017.

The amounts available under the Revolving Credit Facility may be drawn upon in accordance with the terms of the Credit Agreement. All amounts outstanding under the credit facilities are due on the stated maturity or such earlier time, if any, required under the Credit Agreement. The amounts owed under either of the credit facilities 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 1.375% to 1.875%, and for ABR Loans are between 0.375% and 0.875%. The amounts of the margins are calculated based on either a consolidated total net leverage ratio (as defined in the Credit Agreement), or the then applicable rating(s) of the Company's debt if and then to the extent as provided in the Credit Agreement. A portion of the

32

Table of Contents

Revolving Credit Facility may also be used for the issuance of letters of credit, and a portion of the amount of the Revolving Credit Facility is available for borrowings in certain agreed upon foreign currencies.

As of June 30, 2014 and December 31, 2013, we had \$40.0 million and \$41.2 million outstanding on our Revolving Credit Facility, respectively. As of June 30, 2014 and December 31, 2013, we had \$10.1 and \$9.8 million in letters of credit outstanding, respectively. We had \$149.9 million and \$149.0 million available under the Revolving Credit Facility at June 30, 2014 and December 31, 2013, respectively.

The Credit Agreement contains various affirmative and negative covenants and restrictions, which among other things, will require the Company and certain Subsidiaries 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 stock or debt, make certain investments, sell assets, engage in certain transactions, and effect a consolidation or merger. The Credit Agreement also contains customary events of default.

Hedging Activities

During the quarter period ended June 30, 2014, we utilized a derivative instrument, namely an interest rate swap, to manage exposure to interest rates on the Company's variable rate indebtedness. Our derivative instrument is with a major financial institution and is not for speculative or trading purposes. The Company has designated its interest rate swap agreement which is forward-dated, as a cash flow hedge, and changes in the fair value of the swap are 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. For more information on the interest rate swap (see Note 14).

Pledge and Security Agreement; Trademark Security Agreement; Patent Security Agreement.

Pursuant to an Omnibus Reaffirmation and Ratification of Collateral Documents entered into on December 6, 2013 in connection with the 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 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 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 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.

The Loan Parties and the Administrative Agent entered into a Pledge and Security Agreement (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 Credit Agreement provides that the obligation to

Table of Contents

grant the security interest can cease upon the obtaining of certain corporate family 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 Credit Agreement.

In connection with the Pledge and Security Agreement, certain of the Loan Parties delivered a Patent Security Agreement and a 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.

We were in compliance in all material respects with all covenants of the indenture governing the Credit Agreement on June 30, 2014.

Convertible Senior Notes

In March 2011, the Company issued Convertible Senior Notes (the "Convertible Notes") due March 1, 2031. The Convertible Notes are guaranteed by the Company's U.S. domestic subsidiaries. Interest on the Convertible Notes is 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. The proceeds from the offering were used to fund the Bauer Acquisition, as well as bolster the Company's cash position.

Because the last reported sale price of the Company's common stock exceeded 130% of the current conversion price, which was \$26.93 for at least 20 of the last 30 consecutive trading days in the fiscal quarter ended June 30, 2014, the Convertible Notes are convertible at the election of the holders of the Convertible Notes at any time during the fiscal quarter ending September 30, 2014. The Company has the ability and intent to fund any potential payments of the principal amount of the debt with additional borrowings under the Revolving Credit Agreement. Accordingly, the Convertible Notes, net of accretion continues to be included in long-term debt. The future convertibility will be monitored at each quarterly reporting date and will be analyzed dependent upon market prices of the Company's common stock during the prescribed measurement periods.

Cash and Cash Equivalents

The following is a summary of our cash balances and cash flows (in thousands) as of and for the year to date periods ended June 30, 2014 and June 29, 2013, respectively:

	June 30, 2014	June 29, 2013	Change
Cash and cash equivalents at the beginning of the period	\$63,604	\$85,154	\$(21,550)
Cash flows from operating activities	37,731	32,981	4,750
Cash flows from investing activities	(10,923)	(9,975)	(948)
Cash flows from financing activities	(21,043)	(44,059)	23,016
Effect of exchange rate changes on cash and cash equivalents	(201)	(2,594)	2,393
Cash and cash equivalents at the end of the period	\$69,168	\$61,507	\$7,661

Cash Flows for 2014

The primary sources of funds provided from operating activities of approximately \$37.7 million for the year to date period ended June 30, 2014 resulted from cash provided from net income of \$24.2 million. The net impact of the add-back of certain items including non-cash depreciation, amortization, stock-based compensation, accretion of debt discount, deferred financing costs, and non-cash loss on foreign currency was approximately \$22.5 million. This amount was offset by a net increase in current assets and liabilities of approximately \$9.0 million.

The change in cash flows from operating activities in 2014 as compared to 2013 related to the cash generated from the operations of Svendborg for the year to date ended June 30, 2014 and better working capital management. While a variety of factors can influence our ability to project future cash flow, we expect to see positive cash flows from operating activities

Table of Contents

during the remainder of fiscal 2014 due to income from operations, a large number of non-cash charges, a decrease in working capital and profitability initiatives.

Net cash used in investing activities increased compared to the year to date period ended June 29, 2013 due to more capital expenditures being required during the year to date ended June 30, 2014.

The change in net cash from financing activities in the year to date period ended June 30, 2014 as compared to the year to date period ended June 29, 2013 related primarily due to an \$22.4 million decrease in principal payments made on t