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Altra Industrial Motion Corp.  
Form 10-Q  
October 26, 2016

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 September 30, 2016

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.)
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300 Granite Street, Suite 201, Braintree, MA (Address of principal executive offices)	02184 (Zip Code)
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(781) 917-0600

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(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 October 19, 2016, 25,884,323 shares of Common Stock, \$0.001 par value per share, were outstanding.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed Consolidated Balance Sheets

Amounts in thousands, except share amounts

	September 30,  2016 (Unaudited)	December 31,  2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 39,765	\$ 50,320
Trade receivables, less allowance for doubtful accounts of \$2,150 and \$2,165 at  September 30, 2016 and December 31, 2015, respectively	104,671	94,720
Inventories	121,443	121,156
Income tax receivable	2,644	5,146
Prepaid expenses and other current assets	10,486	11,217
Assets held for sale	4,732	4,597
<b>Total current assets</b>	<b>283,741</b>	<b>287,156</b>
Property, plant and equipment, net	142,748	145,413
Intangible assets, net	90,508	96,069
Goodwill	97,775	97,309
Deferred income taxes	3,197	3,201
Other non-current assets, net	2,489	3,184
<b>Total assets</b>	<b>\$ 620,458</b>	<b>\$ 632,332</b>
<b>LIABILITIES, AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 41,845	\$ 40,297
Accrued payroll	22,141	22,312
Accruals and other current liabilities	36,721	34,990
Income tax payable	3,891	3,563
Current portion of long-term debt	400	3,187
<b>Total current liabilities</b>	<b>104,998</b>	<b>104,349</b>
Long-term debt - less current portion and net of unaccreted discount	209,754	231,568
Deferred income taxes	44,299	44,185
Pension liabilities	9,171	8,328
Long-term taxes payable	670	647
Other long-term liabilities	691	688
Stockholders' equity:		
Common stock (\$0.001 par value, 90,000,000 shares authorized, 25,684,806 and	26	26

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25,772,507 issued and outstanding at September 30, 2016 and December 31, 2015,

respectively)

Additional paid-in capital	122,203	124,834
Retained earnings	193,344	181,539
Accumulated other comprehensive loss	(64,698 )	(63,832 )
Total stockholders' equity	250,875	242,567
Total liabilities, and stockholders' equity	\$ 620,458	\$ 632,332

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

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed Consolidated Statements of Operations

Amounts in thousands, except per share data

	Quarter Ended		Year to Date Ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	\$ 173,132	\$ 183,053	\$ 536,259	\$ 573,024
Cost of sales	118,957	127,253	369,254	398,765
Gross profit	54,175	55,800	167,005	174,259
Operating expenses:				
Selling, general and administrative expenses	36,142	34,279	105,548	105,733
Research and development expenses	4,267	4,210	13,345	13,506
Restructuring costs	3,397	651	6,591	4,994
	43,806	39,140	125,484	124,233
Income from operations	10,369	16,660	41,521	50,026
Other non-operating income and expense:				
Interest expense, net	2,815	2,924	8,615	8,858
Other non-operating expense (income), net	45	685	(438 )	606
	2,860	3,609	8,177	9,464
Income before income taxes	7,509	13,051	33,344	40,562
Provision for income taxes	2,196	2,830	9,872	11,326
Net income	5,313	10,221	23,472	29,236
Net loss attributable to non-controlling interest	—	—	—	63
Net income attributable to Altra Industrial Motion Corp.	\$ 5,313	\$ 10,221	\$ 23,472	\$ 29,299
Weighted average shares, basic	25,726	26,145	25,684	26,140
Weighted average shares, diluted	26,021	26,145	25,813	26,184
Net income per share:				
Basic net income attributable to Altra Industrial Motion Corp.	\$ 0.21	\$ 0.39	\$ 0.91	\$ 1.12
Diluted net income attributable to Altra Industrial Motion Corp.	\$ 0.20	\$ 0.39	\$ 0.91	\$ 1.12
Cash dividend declared	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.42

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

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Comprehensive Income (Loss)

Amounts in thousands

	Quarter Ended		Year to Date Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net Income	\$5,313	\$ 10,221	\$23,472	\$ 29,236
Other Comprehensive income (loss):				
Foreign currency translation adjustment	104	(4,474 )	(866 )	(16,242 )
Change in fair value of interest rate swap, net of tax	—	(64 )	—	(283 )
Other comprehensive loss	104	(4,538 )	(866 )	(16,525 )
Comprehensive income	5,417	5,683	22,606	12,711
Comprehensive loss attributable to non-controlling interest	—	—	—	(192 )
Comprehensive income attributable to Altra Industrial Motion Corp.	\$5,417	\$ 5,683	\$22,606	\$ 12,903

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

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed Consolidated Statements of Cash Flows

Amounts in thousands

	Year to Date Ended	
	September 30,	September 30,
	2016	2015
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net income	\$23,472	\$ 29,236
Adjustments to reconcile net income to net cash flows:		
Depreciation	16,235	16,232
Amortization of intangible assets	6,384	6,437
Amortization of deferred financing costs	590	689
Gain on foreign currency, net	(130 )	(128 )
Accretion of debt discount, net	2,970	2,740
Loss on disposal / impairment of fixed assets	582	856
Stock based compensation	3,370	3,231
Changes in assets and liabilities:		
Trade receivables	(10,461 )	(1,552 )
Inventories	(837 )	2,367
Accounts payable and accrued liabilities	3,226	7,106
Other current assets and liabilities	728	(2,609 )
Other operating assets and liabilities	765	(1,060 )
Net cash provided by operating activities	46,894	63,545
Cash flows from investing activities		
Purchase of property, plant and equipment	(15,684)	(19,181 )
Proceeds from sale of land	—	1,201
Net cash used in investing activities	(15,684)	(17,980 )
Cash flows from financing activities		
Payments on term loan facility	—	(16,027 )
Payments on Revolving Credit Facility	(30,870)	(9,000 )
Dividend payments	(7,784 )	(7,130 )
Proceeds from equipment and working capital notes	2,893	1,100
Borrowing under Revolving Credit Facility	3,000	6,000
Payments of equipment and working capital notes	(2,832 )	(3,639 )
Proceeds from mortgages and other debt	—	7,085
Shares surrendered for tax withholding	(1,288 )	(1,182 )
Payments on mortgages and other debt	(349 )	(352 )
Purchase of non-controlling interest	—	(878 )
Purchases of common stock under share repurchase program	(4,713 )	(14,285 )
Net cash used in financing activities	(41,943)	(38,308 )
Effect of exchange rate changes on cash and cash equivalents	178	(5,111 )



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Net change in cash and cash equivalents	(10,555)	2,146
Cash and cash equivalents at beginning of year	50,320	47,503
Cash and cash equivalents at end of period	\$39,765	\$ 49,649
Cash paid during the period for:		
Interest	\$5,856	\$ 5,995
Income taxes	\$7,665	\$ 10,833

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

## ALTRA INDUSTRIAL MOTION CORP.

## Consolidated Statements of Stockholders' Equity

Amounts in thousands

(Unaudited)

	Common		Additional	Retained	Accumulated	Redeemable	
	Stock	Shares	Paid	Earnings	Other	Non-	Controlling
			in Capital		Comprehensive	Interest	
	\$		\$	\$	Loss	Total	\$
Balance at January 1, 2015	\$ 26	26,354	\$ 139,087	\$ 161,061	\$ (41,415 )	\$ 258,759	\$ 883
Stock-based compensation and vesting							
of restricted stock	—	76	2,049	—	—	2,049	—
Net income attributable to Altra Industrial Motion Corp.	—	—	—	29,299	—	29,299	—
Net loss attributable to Minority Interest	—	—	—	—	—	—	(63 )
Purchase of Minority Interest	—	—	223	—	(410 )	(187 )	(691 )
Dividends declared	—	—	—	(11,038 )	—	(11,038 )	—
Change in fair value of interest rate swap	—	—	—	—	(283 )	(283 )	—
Cumulative foreign currency translation adjustment	—	—	—	—	(16,242 )	(16,242 )	(129 )
Repurchases of common stock - 547,780 shares	—	(548 )	(14,285 )	—	—	(14,285 )	—
Balance at September 30, 2015	\$ 26	25,882	127,074	179,322	(58,350 )	248,072	—
Balance at January 1, 2016	\$ 26	25,773	\$ 124,834	\$ 181,539	\$ (63,832 )	\$ 242,567	\$ —
Stock-based compensation and vesting							
of restricted stock	—	89	2,082	—	—	2,082	—
Net income attributable to Altra Industrial Motion Corp.	—	—	—	23,472	—	23,472	—
Dividends declared	—	—	—	(11,667 )	—	(11,667 )	—

Cumulative foreign currency										
translation adjustment	—	—	—	—	(866	)	(866	)	—	
Repurchases of common										
stock - 177,053 shares	—	(177	)	(4,713	)	—	—	(4,713	)	—
Balance at September 30, 2016	\$ 26	25,685	\$ 122,203	\$ 193,344	\$ (64,698	)	\$ 250,875	\$	—	

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

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

1. Organization and Nature of Operations

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

2. Basis of Presentation

The Company’s unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company’s financial position for the interim periods presented, and cash flows for the interim periods presented. The results are not necessarily indicative of future results. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

3. Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-15, Statement of Cash Flows (Topic 230): Classification of certain cash receipts and cash payments (a consensus of the emerging issues task force) (“ASU 2016-15”). This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and

separately identifiable cash flows and application of the predominance principle. This guidance will be effective for the Company on January 1, 2018. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 is intended to provide more decision-useful information about expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The main provisions include presenting financial assets measured at amortized cost at the amount expected to be collected, which is net of an allowance for credit losses, and recording credit losses related to available-for-sale securities through an allowance for credit losses. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2019, and must be applied using a modified retrospective approach with earlier adoption permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). The updated guidance revises aspects of stock-based compensation guidance which include income tax consequences, classification of awards as equity or liabilities, and classification on the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In February 2015, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). The ASU requires management to recognize lease assets and lease liabilities by lessees for all operating leases. The ASU is effective for periods beginning after December 15, 2018 and interim periods therein on a modified retrospective basis. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 provides a single principles-based, five-step model to be applied to all contracts with customers. The five steps are to (i) identify the contracts with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when each performance obligation is satisfied. Revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. In July 2015, the FASB agreed to delay the effective date of ASU 2014-09 for one year and to permit early adoption by entities as of the original effective dates. Considering the one year deferral, ASU 2014-09 will be effective for the Company beginning on January 1, 2018 and the standard allows for either full retrospective adoption or modified retrospective adoption. The Company is continuing to evaluate the impact that the adoption of this guidance will have on our financial condition, results of operations and the presentation of our consolidated financial statements.

#### 4. Fair Value of Financial Instruments

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

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

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

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

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

The carrying values of financial instruments, including accounts receivable, cash equivalents, accounts payable, and other accrued liabilities approximate fair value. Debt under the Company’s 2015 Credit Agreement approximates the fair value due to the variable rate nature at current market rates.

The carrying amount of the 2.75% Convertible Notes (the “Convertible Notes”) was \$85 million at both September 30, 2016 and December 31, 2015. The estimated fair value of the Convertible Notes at September 30, 2016 and December 31, 2015 was \$101.6 million and \$91.7 million, respectively, based on inputs other than quoted prices that are observable for the Convertible Notes (Level 2).

Included in cash and cash equivalents at September 30, 2016 and December 31, 2015 are money market fund investments of \$0.3 million, which are reported at fair value based on quoted market prices for such investments

(Level 1).

5. Changes in Accumulated Other Comprehensive Loss by Component

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

	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Cumulative Foreign Currency Translation Adjustment	Total
Accumulated Other Comprehensive Loss by Component,				
January 1, 2016	\$ (140 )	\$ (5,807 )	\$ (57,885 )	\$ (63,832 )
Net current-period Other Comprehensive Income (Loss)	—	134	(1,000 )	(866 )
Accumulated Other Comprehensive Loss by Component,				
September 30, 2016	\$ (140 )	\$ (5,673 )	\$ (58,885 )	\$ (64,698 )

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ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

	Gains and Losses on Cash Flow	Defined Benefit Pension Plans	Foreign Currency Translation Adjustment	Cumulative Total
Accumulated Other Comprehensive Income (Loss) by Component, January 1, 2015				
Component, January 1, 2015	\$ 143	\$(4,818)	\$(36,740)	\$(41,415)
Cumulative losses transferred from Lamiflex	—	—	(410)	(410)
Net current-period Other Comprehensive Loss	(283)	—	(16,242)	(16,525)
Accumulated Other Comprehensive Loss by Component, September 30, 2015	\$(140)	\$(4,818)	\$(53,392)	\$(58,350)

6. 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	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income attributable to Altra Industrial Motion Corp.	\$5,313	\$10,221	\$23,472	\$29,299
Shares used in net income per common share - basic	25,726	26,145	25,684	26,140
Dilutive effect of the equity premium on Convertible Notes	295	-	123	38



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at the average price of common stock				
Incremental shares of unvested restricted common stock	-	-	6	6
Shares used in net income per common share - diluted	26,021	26,145	25,813	26,184
Earnings per share:				
Basic net income attributable to Altra Industrial				
Motion Corp.	\$0.21	\$ 0.39	\$0.91	\$ 1.12
Diluted net income attributable to Altra Industrial				
Motion Corp.	\$0.20	\$ 0.39	\$0.91	\$ 1.12

During the quarter ended September 30, 2016, the Company's common stock price exceeded the current conversion price of the Company's Convertible Notes, resulting in additional shares being included in net income per common share in the diluted earnings per share calculation above.

7. Inventories

Inventories at September 30, 2016 and December 31, 2015 consisted of the following:

	September 30,	December 31,
	2016	2015
Raw materials	\$ 35,758	\$ 34,169
Work in process	11,915	12,864
Finished goods	73,770	74,123
	\$ 121,443	\$ 121,156

## ALTRA INDUSTRIAL MOTION CORP.

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

## 8. Goodwill and Intangible Assets

Changes in goodwill from January 1, through September 30, 2016 were as follows:

	Couplings,			Total
	Clutches & Brakes	Electromagnetic Clutches & Brakes	Gearing	
Net goodwill balance January 1, 2016	\$ 25,290	\$ 24,661	\$47,358	\$97,309
Impact of changes in foreign currency and other	136	29	301	466
Net goodwill balance September 30, 2016	\$ 25,426	\$ 24,690	\$47,659	\$97,775

Other intangible assets as of September 30, 2016 and December 31, 2015 consisted of the following:

	September 30, 2016			December 31, 2015		
	Cost	Amortization	Net	Cost	Amortization	Net
Other intangible assets						
Intangible assets not subject to amortization:						
Tradenames and trademarks	\$39,305	\$ —	\$39,305	\$39,625	\$ —	\$39,625
Intangible assets subject to amortization:						
Customer relationships	113,309	62,744	\$50,565	112,408	56,677	55,731
Product technology and patents	6,111	5,473	\$638	6,049	5,336	713
Total intangible assets	\$158,725	\$ 68,217	\$90,508	\$158,082	\$ 62,013	\$96,069

The Company recorded \$2.1 million of amortization expense in each of the quarters ended September 30, 2016 and 2015, and recorded \$6.4 of amortization in each of the year to date periods ended September 30, 2016 and 2015.

The estimated amortization expense for intangible assets is approximately \$2.0 million for the remainder of 2016, \$8.3 million in each of the next four years and then \$16.1 million thereafter.

## 9. Warranty Costs

The contractual warranty period of the Company's products generally ranges from three months to two years with certain warranties extending for longer periods. Estimated expenses related to product warranties are accrued at the time products are sold to customers and are recorded in accruals and other current liabilities on the unaudited condensed consolidated balance sheet. Estimates are established using historical information as to the nature, frequency and average costs of warranty claims. Changes in the carrying amount of accrued product warranty costs for each of the year-to-date periods ended September 30, 2016 and September 30, 2015 are as follows:

	September 30,	September 30,
	2016	2015
Balance at beginning of period	\$ 9,468	\$ 7,792
Accrued current period warranty expense	1,732	3,641
Payments and adjustments	(2,700 )	(1,760 )
Balance at end of period	\$ 8,500	\$ 9,673

## ALTRA INDUSTRIAL MOTION CORP.

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

## 10. Debt

Outstanding debt obligations at September 30, 2016 and December 31, 2015 were as follows.

	September 30,  2016	December 31,  2015
<b>Debt:</b>		
Revolving Credit Facility	\$ 117,509	\$ 145,152
Convertible Notes	85,000	85,000
Mortgages	13,339	10,333
Equipment and working capital notes	—	2,832
Capital leases	398	500
<b>Total debt</b>	<b>216,246</b>	<b>243,817</b>
Less: debt discount, net of accretion	(6,092 )	(9,062 )
<b>Total debt, net of unaccreted discount</b>	<b>\$ 210,154</b>	<b>\$ 234,755</b>
Less current portion of long-term debt	(400 )	(3,187 )
<b>Total long-term debt, net of unaccreted discount</b>	<b>\$ 209,754</b>	<b>\$ 231,568</b>

## Second Amended and Restated Credit Agreement

On October 22, 2015, the Company entered into a Second Amended and Restated Credit Agreement by and among the Company, Altra Industrial Motion Netherlands, B.V. (“Altra Netherlands”), one of the Company’s foreign subsidiaries (collectively with the Company, the “Borrowers”), the lenders party to the Second Amended and Restated Credit Agreement from time to time (collectively, the “Lenders”), J.P. Morgan Securities LLC, Wells Fargo Securities, LLC, and KeyBanc Capital Markets, Inc., as joint lead arrangers and joint bookrunners, and JPMorgan Chase Bank, N.A., as administrative agent (the “Administrative Agent”), to be guaranteed through a Guarantee Agreement by certain domestic subsidiaries of the Company (each a “Guarantor” and collectively the “Guarantors”; the Guarantors collectively with the Borrowers, the “Loan Parties”), and which may be amended from time to time (the “2015 Credit Agreement”). The 2015 Credit Agreement amends and restates the Company’s former Amended and Restated Credit Agreement, dated as of December 6, 2013, as amended (the “2013 Credit Agreement”), by and among the Company, and certain of its domestic subsidiaries, including former subsidiary Altra Power Transmission, Inc., the lenders party to the Amended and Restated Credit Agreement from time to time (the “Former Lenders”), J.P. Morgan Securities LLC, Wells Fargo Securities, LLC, and KeyBanc Capital Markets, Inc., as joint lead arrangers and joint bookrunners, and the Administrative Agent, guaranteed by certain domestic subsidiaries of the Company. The 2013 Credit Agreement itself was an amendment and restatement of a prior credit agreement. Pursuant to the 2013 Credit Agreement, the Former Lenders had made available to the Borrowers a revolving credit facility (the “Prior Revolving Credit Facility”) of \$200 million, which continued in effect an existing term loan then having a balance of approximately \$94 million, and made an additional term loan of €50 million to Altra Netherlands. The two term loans described in the prior sentence

are collectively referred to as the “Term Loans.”

Under the 2015 Credit Agreement, the amount of the Prior Revolving Credit Facility was increased to \$350 million (the “2015 Revolving Credit Facility”). The amounts available under the 2015 Revolving Credit Facility can be used for general corporate purposes, including acquisitions, and to repay existing indebtedness. A portion of the 2015 Revolving Credit Facility was used to repay the Term Loans. The Company wrote off approximately \$0.5 million of previously recognized deferred financing costs in connection with the repayment.

The stated maturity of the 2015 Revolving Credit Facility was extended to October 22, 2020. The maturity of the Prior Revolving Credit Facility had been December 6, 2018. The 2015 Credit Agreement continues to provide for a possible expansion of the credit facilities by an additional \$150 million, which can be allocated as additional term loans and/or additional revolving credit loans.

The amounts available under the 2015 Revolving Credit Facility may be drawn upon in accordance with the terms of the 2015 Credit Agreement. All amounts outstanding under the 2015 Revolving Credit Facility are due on the stated maturity or such earlier time, if any, required under the 2015 Credit Agreement. The amounts owed under the 2015 Revolving Credit Facility may be prepaid at any time, subject to usual notification and breakage payment provisions. Interest on the amounts outstanding under the 2015 Revolving Credit Facility is calculated using either an ABR Rate or Eurodollar Rate, plus the applicable margin. The applicable margins for Eurodollar Loans are between 1.25% to 2.00%, and for ABR Loans are between 0.25% and 1.00%. The amounts of the

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margins are calculated based on either a consolidated total net leverage ratio (as defined in the 2015 Credit Agreement), or the then applicable rating(s) of the Company's debt and then to the extent as provided in the 2015 Credit Agreement. The rate at December 31, 2015 was 1.5%. A portion of the 2015 Revolving Credit Facility may also be used for the issuance of letters of credit, and a portion of the amount of the 2015 Revolving Credit Facility is available for borrowings in certain agreed upon foreign currencies. The 2015 Credit Agreement contains various affirmative and negative covenants and restrictions, which among other things, will require the Borrowers to provide certain financial reports to the Lenders, require the Company to maintain certain financial covenants relating to consolidated leverage and interest coverage, limit maximum annual capital expenditures, and limit the ability of the Company and its subsidiaries to incur or guarantee additional indebtedness, pay dividends or make other equity distributions, purchase or redeem capital stock or debt, make certain investments, sell assets, engage in certain transactions, and effect a consolidation or merger. The 2015 Credit Agreement also contains customary events of default.

#### Ratification Agreement

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

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

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

In connection with the reaffirmation of the Pledge and Security Agreement, certain of the Loan Parties delivered a new Patent Security Agreement and a new Trademark Security Agreement in favor of the Administrative Agent

pursuant to which each of the Loan Parties signatory thereto pledges, assigns and grants to the Administrative Agent, on behalf of and for the ratable benefit of the Lenders, a security interest in all of its right, title and interest in, to and under all registered patents, patent applications, registered trademarks and trademark applications owned by such Loan Parties and not covered by the 2012 Security Agreements.

As of September 30, 2016 we had \$117.5 million outstanding on our 2015 Revolving Credit Facility, including \$109.2 million outstanding on our USD tranche at an interest rate of 2.0% and \$8.3 million outstanding on our Euro tranche at an interest rate of 1.5%. As of September 30, 2016 and December 31, 2015, we had \$4.1 million and \$7.0 million in letters of credit outstanding, respectively. We had \$228.4 million available to borrow under the 2015 Revolving Credit Facility at September 30, 2016.

#### Convertible Senior Notes

In March 2011, the Company issued 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 acquisition of substantially all of the assets and liabilities of Danfoss Bauer GmbH relating to its gear motor business, as well as bolster the Company's cash position.

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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 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 September 30, 2016 is \$25.70 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.

As of 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 principal 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 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 did not exceed 130% of the current conversion price, which was \$25.70, for at least 20 of the last 30 consecutive trading days in the fiscal quarter ended September 30, 2016, the Convertible Notes are not convertible at the election of the holders of the Convertible Notes at any time during the fiscal quarter ending December 31, 2016. 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.

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The carrying amount of the principal amount of the liability component, the unamortized discount, and the net carrying amount are as follows.

	Year to Date Ended	
	September	December
	30,	31,
	2016	2015
Principal amount of debt	\$85,000	\$ 85,000
Unamortized discount	6,092	9,062
Carrying value of debt	\$78,908	\$ 75,938

Interest expense associated with the Convertible Notes consists of the following components.

	Quarter Ended	
	September	September
	30,	30,
	2016	2015
Contractual coupon rate of interest	\$584	\$ 586
Accretion of Convertible Notes discount and amortization of		
deferred financing costs	1,097	840
Interest expense for the convertible notes	\$1,681	\$ 1,426

	Year to Date	
	Ended	September
	September	September
	30,	30,
	2016	2015
Contractual coupon rate of interest	\$1,753	\$ 1,753
Accretion of Convertible Notes discount and amortization of		
deferred financing costs	3,237	2,740
Interest expense for the convertible notes	\$4,990	\$ 4,493

The effective interest yield of the Convertible Notes due in 2031 is 8.5% at September 30, 2016 and the cash coupon interest rate is 2.75%.

#### Mortgages

##### Heidelberg Germany

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €1.5 million, or \$1.7 million, secured by its facility in Heidelberg, Germany to replace its previously existing mortgage. The mortgage has an interest rate of 1.79%, which is payable in monthly installments through August 2023. The mortgage has a remaining principal balance of € 1.3 million, or \$1.5 million, at September 30, 2016.

##### Esslingen Germany

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €6.0 million, or \$6.8 million, secured by its facility in Esslingen, Germany. The mortgage has an interest rate of 2.5% per year, which is payable in annual interest payments of €0.1 million, or \$0.1 million, to be paid in monthly installments. The mortgage has a remaining principal balance of €6.0 million, or \$6.7 million, at September 30, 2016. The principal portion of the mortgage will be due in a lump-sum payment in May 2019.

During the quarter ended March 31, 2016, a foreign subsidiary of the Company entered in to a loan with a bank to equip its facility in Zlate Moravce, Slovakia. As of September 30, 2016, the total available to borrow was €3.0 million, or \$3.4 million, and is guaranteed by land security at its parent company facility in Esslingen, Germany. The loan is due in installments from 2016 through 2020, with an interest rate of 1.95%.

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Angers France

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €2.0 million, or \$2.2 million, secured by its facility in in Angers, France. The mortgage has an interest rate of 1.85% per year which is payable in monthly installments from June 2016 until May 2025. The mortgage has a balance of €2.0 million, or \$2.2 million, at September 30, 2016.

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 \$0.4 million at September 30, 2016 and approximately \$0.5 million at December 31, 2015. Assets subject to capital leases are included in property, plant and equipment with the related amortization recorded as depreciation expense.

Overdraft Agreements

Certain of our foreign subsidiaries maintain overdraft agreements with financial institutions. There were no borrowings as of September 30, 2016 or December 31, 2015 under any of the overdraft agreements.

## 11. Stockholders' Equity

### Stock-Based Compensation

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

The restricted shares issued pursuant to the 2014 Plan generally vest ratably over a period ranging from immediately to five years from the date of grant, provided, that the vesting of the restricted shares may accelerate upon the occurrence of certain events. Common stock awarded under the 2014 Plan is generally subject to restrictions on

transfer, repurchase rights, and other limitations and rights as set forth in the applicable award agreements. The shares are valued based on the share price on the date of grant.

The 2014 Plan permits the Company to grant, among other things, restricted stock, restricted stock units, and performance share awards to key employees and other persons who make significant contributions to the success of the Company. The restrictions and vesting schedule for restricted stock granted under the 2014 Plan are determined by the Personnel and Compensation Committee of the Board of Directors.

Stock-based compensation expense recorded during the year-to-date periods ended September 30, 2016 and September 30, 2015, was \$3.4 million and \$3.2 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.

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The following table sets forth the activity of the Company's restricted stock and performance share grants in the year to date period ended September 30, 2016:

	Shares	Weighted-average grant date fair value
Shares unvested January 1, 2016	161,010	\$ 28.62
Shares granted	170,926	22.84
Shares for which restrictions lapsed	(131,002)	27.90
Shares unvested September 30, 2016	200,934	\$ 24.67

Total remaining unrecognized compensation cost was \$4.9 million as of September 30, 2016, 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 year to date period ended September 30, 2016 was \$3.7 million. Restricted shares granted are valued based on the fair market value of the stock on the date of grant.

## Share Repurchase Program

In May 2014, our board of directors approved a share repurchase program authorizing the buyback of up to \$50.0 million of the Company's common stock. Under the program, the Company may 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 quarter ended September 30, 2016, the Company repurchased 5,461 shares of common stock at an average purchase price of \$27.45 per share. As of September 30, 2016, up to \$10.5 million was available to purchase additional shares under the repurchase program, which was scheduled to expire on December 31, 2016. On October 19, 2016, our board of directors approved a new share repurchase program authorizing the buyback of up to \$30.0 million of the Company's common stock through December 31, 2019. This plan replaces the previous share repurchase program that was initiated in May 2014 and has now been terminated. The Company expects to purchase shares on the open market, through block trades, in privately negotiated transactions, in compliance with SEC Rule 10b-18 (including through Rule 10b5-1 plans), or in any other appropriate manner. The timing of the shares repurchased will be at the discretion of management and will depend on a number of factors, including price, market conditions and regulatory requirements. Shares acquired through the repurchase program will be held as treasury shares and may be used for general corporate purposes. The Company retains the right to limit, terminate or extend the share repurchase program at any time without prior notice. The Company expects to fund any further repurchases of

its common stock through a combination of cash on hand and cash generated by operations.

#### Dividends

The Company declared a dividend of \$0.15 per share of common stock related to the quarter ended September 30, 2016. The dividend for the quarter ended September 30, 2016 was accrued in the balance sheet at September 30, 2016.

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.

#### 12. Restructuring, Asset Impairment, and Transition Expenses

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

In the quarter ended March 31, 2015, the Company commenced a restructuring plan ("2015 Altra Plan") as a result of weak demand in Europe and to make certain adjustments to improve business effectiveness, reduce the number of facilities and streamline

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the Company's cost structure. The actions taken pursuant to the 2015 Altra Plan included reducing headcount, facility consolidations and related asset impairments, and limiting discretionary spending to improve profitability.

The following table details restructuring charges incurred by segment for the periods presented.

	Quarter Ended		Year to Date	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Couplings, Clutches & Brakes	\$3,022	\$ 103	\$4,425	\$ 741
Electromagnetic Clutches & Brakes	169	7	1,276	1,373
Gearing	68	541	84	2,880
Corporate	138	—	806	—
Total	\$3,397	\$ 651	\$6,591	\$ 4,994

The amounts for the year to date period ended September 30, 2016 are comprised of approximately \$2.0 million in severance, \$0.7 million in consolidation costs, \$2.4 million in moving and relocation costs, \$0.7 million in building impairments, and \$0.8 million in travel-related and other restructuring costs. The amounts for the year to date period ended September 30, 2015 were limited to severance costs related to staff reductions, moving costs and plant closures and are classified in the accompanying unaudited condensed consolidated statement of income as restructuring costs.

The following is a reconciliation of the accrued restructuring costs between January 1, 2016 and September 30, 2016:

	All Plans
Balance at January 1, 2016	\$2,211
Restructuring expense incurred	6,591
Non-cash loss on impairment of fixed assets	(706 )
Cash payments	(6,206)
Balance at September 30, 2016	\$1,890

The total restructuring reserve as of September 30, 2016 relates to severance costs to be paid to employees and is recorded in accruals and other current liabilities on the accompanying unaudited condensed consolidated balance sheet which are expected to be paid during 2016. The Company expects to incur between approximately \$7.0 - \$9.0 million in additional restructuring expenses between 2016 and 2018 under the 2015 Altra Plan, primarily in the Couplings,



Clutches & Brakes and Gearing business segments.

### 13. Segments, Concentrations and Geographic Information

#### Segments

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

##### ◆ Couplings, Clutches & Brakes.

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

##### ◆ Electromagnetic Clutches & Brakes.

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

##### ◆ Gearing.

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

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The segment information presented below for the prior periods has been reclassified to conform to the new presentation.

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

	Quarters Ended		Year to date periods Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Net Sales:</b>				
Couplings, Clutches & Brakes	\$77,446	\$85,760	\$231,225	\$265,225
Electromagnetic Clutches & Brakes	50,680	50,393	165,083	166,279
Gearing	47,023	48,783	145,038	147,599
Inter-segment eliminations	(2,017 )	(1,883 )	(5,087 )	(6,079 )
Net sales	\$173,132	\$183,053	\$536,259	\$573,024
<b>Income from operations:</b>				
<b>Segment earnings:</b>				
Couplings, Clutches & Brakes	\$6,596	\$8,910	\$20,441	\$29,672
Electromagnetic Clutches & Brakes	6,589	4,771	20,120	16,293
Gearing	5,650	6,197	17,280	17,022
Restructuring	(3,397 )	(651 )	(6,591 )	(4,994 )
Corporate expenses (1)	(5,069 )	(2,567 )	(9,729 )	(7,967 )
Income from operations	\$10,369	\$16,660	\$41,521	\$50,026
<b>Other non-operating (income) expense:</b>				
Net interest expense	\$2,815	\$2,924	\$8,615	\$8,858
Other non-operating expense (income), net	45	685	(438 )	606
	2,860	3,609	8,177	9,464
Income before income taxes	7,509	13,051	33,344	40,562
Provision for income taxes	2,196	2,830	9,872	11,326
Net income	\$5,313	\$10,221	\$23,472	\$29,236

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

Selected information by segment (continued)

Quarter Ended

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			Year to Date Period Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Depreciation and amortization:</b>				
Couplings, Clutches & Brakes	\$4,028	\$3,926	\$11,485	\$11,922
Electromagnetic Clutches & Brakes	1,176	1,195	3,501	3,481
Gearing	1,862	1,613	5,261	4,970
Corporate	791	803	2,372	2,296
Total depreciation and amortization	\$7,857	\$7,537	\$22,619	\$22,669
	September 30, 2016	December 31, 2015		
<b>Total assets:</b>				
Couplings, Clutches & Brakes	\$329,621	\$312,117		
Electromagnetic Clutches & Brakes	129,576	125,887		
Gearing	133,483	150,860		
Corporate (2)	27,778	43,468		
Total assets	\$620,458	\$632,332		

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

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

	Net Sales			
	Quarter Ended		Year to Date Period Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
North America (primarily U.S.)	\$99,995	\$108,959	\$316,957	\$350,753
Europe	54,344	52,757	165,694	164,829
Asia and other	18,793	21,337	53,608	57,442
Total	\$173,132	\$183,053	\$536,259	\$573,024

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

#### Concentrations

Financial instruments, which are potentially subject to counter party performance and concentrations of credit risk, consist primarily of trade accounts receivable. The Company manages these risks by conducting credit evaluations of customers prior to delivery or commencement of services. When the Company enters into a sales contract, collateral is normally not required from the customer. Payments are typically due within 30 days of billing. An allowance for potential credit losses is maintained, and losses have historically been within management's expectations. While the Company did not have any customers that represented total sales greater than 10% for each of the quarters ended September 30, 2016 and 2015, the Gearing business had one customer that approximated 10% of total sales for that segment during the quarter ended September 30, 2015.

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

## 14. Commitments and Contingencies

### General Litigation

The Company is involved in various pending legal proceedings arising out of the ordinary course of business. These proceedings primarily involve commercial claims, product liability claims, personal injury claims, and workers' compensation claims. None of these legal proceedings are expected to have a material adverse effect on the results of operations, cash flows, or financial condition of the Company. With respect to these proceedings, management believes that the Company will prevail, has adequate insurance coverage or has established appropriate reserves to cover potential liabilities. Any costs that management estimates may be paid related to these proceedings or claims are accrued when the liability is considered probable and the amount can be reasonably estimated. There can be no assurance, however, as to the ultimate outcome of any of these matters, and if all or substantially all of these legal proceedings were to be determined adversely to the Company, there could be a material adverse effect on the results of operations, cash flows, or financial condition of the Company. We have established loss provisions for matters in which losses are probable and can be reasonably estimated. There were no material amounts accrued in the accompanying unaudited condensed consolidated balance sheet for potential litigation as of September 30, 2016 or December 31, 2015. For matters where a reserve has not been established and for which we believe a loss is reasonably possible, as well as for matters where a reserve has been recorded but for which an exposure to loss in excess of the amount accrued is reasonably possible, we believe that such losses, individually and in the aggregate, will not have a material effect on our unaudited condensed consolidated financial statements.

The Company also risks exposure to product liability claims in connection with products it has sold and those sold by businesses that the Company acquired. Although in some cases third parties have retained responsibility for product liability claims relating to products manufactured or sold prior to the acquisition of the relevant business and in other cases the persons from whom

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

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.

## 15. Subsequent Events

### Dividend

On October 19, 2016, the Company declared a dividend of \$0.15 per share for the quarter ended December 31, 2016, payable on January 4, 2017 to shareholders of record as of December 19, 2016.

### Share Repurchase Program

On October 19, 2016, our board of directors approved a new share repurchase program authorizing the buyback of up to \$30.0 million of the Company's common stock through December 31, 2019. This plan replaces the previous share repurchase program that was initiated in May 2014 and has now been terminated. The Company expects to purchase shares on the open market, through block trades, in privately negotiated transactions, in compliance with SEC Rule 10b-18 (including through Rule 10b5-1 plans), or in any other appropriate manner. The timing of the shares repurchased will be at the discretion of management and will depend on a number of factors, including price, market conditions and regulatory requirements. Shares acquired through the repurchase program will be held as treasury shares and may be used for general corporate purposes. The Company retains the right to limit, terminate or extend the share repurchase program at any time without prior notice. The Company expects to fund any repurchases of its common stock through a combination of cash on hand and cash generated by operations.

### Stromag Acquisition

On October 21, 2016, the Company entered into a binding agreement (the "French Agreement") with GKN Industries, Limited ("GKN"). The French Agreement provides that, subject to completion of certain employee consultation procedures required under applicable law and certain other customary conditions, the parties to the French Agreement

will enter into a definitive sale and purchase agreement, attached as an exhibit to the French Agreement (the “Agreed Form Sale and Purchase Agreement”), providing for the sale and transfer of GKN’s Germany-based Stromag AG business (the “Acquired Company”) for a purchase price comprised of the assumption of debt totaling 14 million euros and cash consideration, payable at closing, of approximately 184 million euros, subject to certain adjustments (the “Stromag Acquisition”).

Under the French Agreement, GKN has agreed to promptly commence the employee consultation process required under applicable law to obtain opinions of the Stromag works councils in France. Subject to the conditions set forth in the French Agreement, the parties to the French Agreement will execute and deliver the Agreed Form Sale and Purchase Agreement within two business days following the satisfaction of the employee consultation process requirements.

The French Agreement and the Agreed Form Sale and Purchase Agreement contain representations, warranties, and covenants that we believe are customary for a transaction of this size and type, as well as indemnification provisions subject to specified limitations. The closing of the transaction is subject to several customary closing conditions, including receipt of required regulatory approvals, as well as the aforementioned consultation process with the Stromag works councils, and is expected to take place during the first quarter of 2017. No assurances can be given that the Stromag Acquisition will be timely consummated or consummated at all.

The foregoing summary of the French Agreement and the transactions contemplated thereby is not intended to be complete and is qualified in its entirety by reference to the actual French Agreement, which will be filed as an exhibit to the Company’s Annual Report on Form 10-K for its fiscal year ending December 31, 2016.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

Amended and Restated Credit Agreement

On October 21, 2016, the Company entered into a First Amendment to the Second Amended and Restated Credit Agreement (the “First Amendment”) by and among the Company and Altra Industrial Motion Netherlands, B.V. (“Altra B.V.”), one of the Company’s foreign subsidiaries (collectively, the “Borrowers”), the Subsidiary Guarantors to the First Amendment, JPMorgan Chase Bank, N.A., as Administrative Agent, as Joint Lead Arranger and Joint Bookrunner, Wells Fargo Bank, N.A., as Joint Lead Arranger and Joint Bookrunner, KeyBank National Association, as Joint Lead Arranger and Joint Bookrunner, and certain lender parties to the First Amendment (collectively, the “Lenders”).

The First Amendment would amend the Company’s Second Amended and Restated Credit Agreement, dated as of October 22, 2015 (the “Credit Agreement”). However, the amendments to the Credit Agreement contained in the First Amendment will not be effective and will not amend the Credit Agreement unless and until certain conditions precedent have been met, including that the Company has provided the Administrative Agent with written notice that the conditions precedent to the closing of the Stromag Acquisition have been satisfied. In the event that the Stromag Acquisition does not occur, or if the other conditions precedent are not satisfied or waived, then the First Amendment shall not become effective.

If it becomes effective, the First Amendment, would increase the revolving credit facility under the Credit Agreement by \$75,000,000 (the “Revolver Increase”), so that after giving effect to the Revolver Increase, the aggregate revolving commitments would total \$425,000,000. The First Amendment would also reset the possible expansion of additional future loan commitments to \$150,000,000. In addition, the First Amendment would increase the multicurrency sublimit to \$250 million and adjust certain financial covenants. The Company expects to use the increased facility to finance the Stromag Acquisition. Except as otherwise expressly provided by the First Amendment, all of the respective terms, conditions and provisions of the Credit Agreement and the other loan documents remain the same.

The foregoing summary of the First Amendment and the transactions contemplated thereby is not intended to be complete and is qualified in its entirety by reference to the actual First Amendment, which will be filed as an exhibit to the Company’s Annual Report on Form 10-K for its fiscal year ending December 31, 2016.



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

Cautionary Statement Regarding Forward-Looking Statements

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

- the effects of intense competition in the markets in which we operate;
- the cyclical nature of the markets in which we operate;
- changes in market conditions in which we operate that would influence the value of the Company's stock;
- the Company's ability to achieve its business plans, including with respect to an uncertain economic environment;
- the risks associated with international operations, including currency risks;
- the Company's ability to retain existing customers and our ability to attract new customers for growth of our business;
- the effects of the loss or bankruptcy of or default by any significant customer, suppliers, or other entity relevant to the Company's operations;
- political and economic conditions nationally, regionally, and in the markets in which we operate;
- natural disasters, war, civil unrest, terrorism, fire, floods, tornadoes, earthquakes, hurricanes, or other matters beyond the Company's control;
- the Company's risk of loss not covered by insurance;
- the accuracy of estimated forecasts of OEM customers and the impact of the current global and European economic environment on our customers;
- the risks associated with certain minimum purchase agreements we have with suppliers;
- 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;
- 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 changes to critical accounting estimates;

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- changes in volatility of the Company's stock price and the risk of litigation following a decline in the price of the Company's stock;
- failure of the Company's operating equipment or information technology infrastructure;
- the Company's ability to implement our Enterprise Resource Planning (ERP) system;
- the Company's access to capital, credit ratings, indebtedness, and ability to raise additional capital and operate under the terms of the Company's debt obligations;
- the risks associated with our debt;
- the risks associated with the Company's exposure to variable interest rates and foreign currency exchange rates;
- the risks associated with interest rate swap contracts;
- the risks associated with the 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 but not limited to the Svendborg Acquisition, the Guardian Acquisition and the Stromag Acquisition;
- the risks associated with the Company's closure of its manufacturing facility in Changzhou, China;
- the Company's ability to achieve the efficiencies, savings and other benefits anticipated from our cost reduction, margin improvement, restructuring, plant consolidation and other business optimization initiatives;
- the risk associated with the UK vote to leave the European Union; and
- 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, 2015, 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, 2015. Unless the context requires otherwise, the terms "Altra," "Altra Industrial Motion Corp.," "the Company," "we," "us," and "our" refer to Altra Industrial Motion Corp. and its subsidiaries.

## General

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

## Business Segments

### Segments

During the quarter ended September 30, 2015, the Company realigned its reporting and management structure and corresponding reportable business segments as part of its business simplification efforts. This new structure is better aligned across the Company's end markets and will better facilitate the Company's strategic initiatives for growth, procurement and facility consolidation.

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

#### ◆ Couplings, Clutches & Brakes.

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

#### ◆ Electromagnetic Clutches & Brakes.

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

#### ◆ Gearing.

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

The following tables show the percentage of net sales and operating income generated by each of our three segments for the quarters ended September 30, 2016 and 2015:

Net Sales Quarter Ended	Net Sales Year to Date Ended
September 30, 2016	September 30, 2016
September 30, 2015	September 30, 2015

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	2016	2015	2016	2015
Couplings, Clutches & Brakes	45 %	47	% 43	% 47
Electromagnetic Clutches & Brakes	29 %	28	% 31	% 29
Gearing	26 %	25	% 26	% 24

	Operating Income Quarter Ended September 30,		Operating Income Year to Date Ended September 30,	
	2016	2015	2016	2015
Couplings, Clutches & Brakes	35 %	45	% 35	% 47
Electromagnetic Clutches & Brakes	35 %	24	% 35	% 26
Gearing	30 %	31	% 30	% 27

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

Securities and Exchange Commission. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this Quarterly Report on Form 10-Q.

### Business Outlook

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.

Foreign currency translation continues to have a negative impact on our performance, and several of our end markets remain weak. Performance in the oil & gas, agriculture, mining and metals end markets, which are some of our largest markets, remains challenging and continues to weigh on our performance. Furthermore, we expect the challenges in our agriculture, oil and gas, mining and metals end markets to continue for some time.

As these conditions persist, we are managing the business to the level of demand we are seeing. We expect ongoing benefits from the restructuring and cost reduction initiatives which include actions taken under the 2015 Altra Plan which we commenced in the quarter ended March 31, 2015 and which has also helped improve the profitability of our Gearing segment. We had completed six facility consolidations by the end of the third quarter, and we are working to complete one additional consolidation during the remainder of the year.

### Critical Accounting Policies

The preparation of our unaudited condensed consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect our reported amounts of assets, revenues and expenses, as well as related disclosures of contingent assets and liabilities. We base our estimates on past experiences and other assumptions we believe to be appropriate, and we evaluate these estimates on an on-going basis. See the discussion of critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2015. During the reporting period, except as otherwise described below, there were no material changes to the critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2015.

Goodwill, Intangibles and other long-lived assets. In connection with our acquisitions, goodwill and intangible assets were identified and recorded at fair value. We recorded intangible assets for customer relationships, trade names and trademarks, product technology, patents and goodwill. In valuing the customer relationships, trade names, and trademarks, we utilized variations of the income approach. The income approach was considered the most appropriate valuation technique because the inherent value of these assets is their ability to generate current and future income. The income approach relies on historical financial and qualitative information, as well as assumptions and estimates for projected financial information. Projected financial information is subject to risk if our estimates are incorrect. The most significant estimate relates to our projected revenues and profitability. If we do not meet the projected revenues and profitability used in the valuation calculations then the intangible assets could be impaired. In determining the value of customer relationships, we reviewed historical customer attrition rates which were determined to be approximately 5% per year. Most of our customers tend to be long-term customers with very little turnover. While we do not typically have long-term contracts with customers, we have established long-term relationships with customers which make it difficult for competitors to displace us. Additionally, we assessed historical revenue growth within our industry and customers' industries in determining the value of customer relationships. The value of our customer relationships intangible asset could become impaired if future results differ significantly from any of the underlying assumptions. This could include a higher customer attrition rate or a change in industry trends such as the use of long-term contracts which we may not be able to obtain successfully. Customer relationships and product technology and patents are considered finite-lived assets, with estimated lives ranging from 8 years to 17 years. The estimated lives were determined by calculating the number of years necessary to obtain 95% of the value of the discounted cash

flows of the respective intangible asset.

Goodwill and trade names and trademarks are considered indefinite lived assets. Other intangible assets include trade names and trademarks that identify us and differentiate us from competitors, and therefore competition does not limit the useful life of these assets. Additionally, we believe that our trade names and trademarks will continue to generate product sales for an indefinite period.

Accounting standards require that an annual goodwill impairment assessment be conducted at the reporting unit level using either a quantitative or qualitative approach. The Company has determined that its Couplings, Clutches, and Brakes (CCB) operating segment is comprised of two reporting units which are the Couplings reporting unit and the Heavy Duty and Overrunning Clutches and Brakes reporting unit. The Company has determined that its Gearing operating segment is comprised of two reporting units which are the Domestic Gearing reporting unit and the Bauer Gearing reporting unit. The Company has also determined that the Electromagnetic, Clutches and Brakes (ECB) operating segment comprises a single reporting unit.

As part of the annual goodwill impairment assessment we performed a quantitative assessment and estimated the fair value of each of our five reporting units using an income approach. We forecasted future cash flows by reporting unit for each of the next five years and applied a long term growth rate to the final year of forecasted cash flows. The cash flows were then discounted using our estimated discount rate. The forecasts of revenue and profitability growth for use in the long-range plan and the discount rate were the key assumptions in our goodwill fair value analysis.

As of December 31, 2015, each of our reporting units had estimated fair values that were substantially in excess of the carrying value.

Management believes the preparation of revenue and profitability growth rates for use in the long-range plan and the discount rate requires significant use of judgment. If any of our operating segments do not meet our forecasted revenue and/or profitability estimates, we could be required to perform an interim goodwill impairment analysis in future periods. In addition, if our discount rate increases, we could be required to perform an interim goodwill impairment analysis. Given the substantial excess fair value, we believe that a significant change in key valuation assumptions, including a decrease in revenues or profitability, or an increase in the discount rate, would not result in an indication of impairment.

Based on the above procedures, we did not identify any reporting unit that would be required to perform a step 2 goodwill impairment analysis as of December 31, 2015.

#### Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230): Classification of certain cash receipts and cash payments (a consensus of the emerging issues task force) ("ASU 2016-15"). This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This guidance will be effective for the Company on January 1, 2018. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 is intended to provide more decision-useful information about expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The main provisions include presenting financial assets measured at amortized cost at the amount expected to be collected, which is net of an allowance for credit losses, and recording credit losses related to available-for-sale securities through an allowance for credit losses. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2019, and must be applied using a modified retrospective



approach with earlier adoption permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). The updated guidance revises aspects of stock-based compensation guidance which include income tax consequences, classification of awards as equity or liabilities, and classification on the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In February 2015, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). The ASU requires management to recognize lease assets and lease liabilities by lessees for all operating leases. The ASU is effective for periods beginning after December 15, 2018 and interim periods therein on a modified retrospective basis. We are currently evaluating the impact this guidance will have on our financial statements.

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 provides a single principles-based, five-step model to be applied to all contracts with customers. The five steps are to (i) identify the contracts with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when each performance obligation is satisfied. Revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. In July 2015, the FASB agreed to delay the effective date of ASU

2014-09 for one year and to permit early adoption by entities as of the original effective dates. Considering the one year deferral, ASU 2014-09 will be effective for the Company beginning on January 1, 2018 and the standard allows for either full retrospective adoption or modified retrospective adoption. The Company is continuing to evaluate the impact that the adoption of this guidance will have on our financial condition, results of operations and the presentation of our financial statements.

### Results of Operations

(Amounts in thousands, unless otherwise noted)

	Quarter Ended		Year to Date Ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Net sales	\$ 173,132	\$ 183,053	\$ 536,259	\$ 573,024
Cost of sales	118,957	127,253	369,254	398,765
Gross profit	54,175	55,800	167,005	174,259
Gross profit percentage	31.3 %	30.5 %	31.1 %	30.4 %
Selling, general and administrative expenses	36,142	34,279	105,548	105,733
Research and development expenses	4,267	4,210	13,345	13,506
Restructuring costs	3,397	651	6,591	4,994
Income from operations	10,369	16,660	41,521	50,026
Interest expense, net	2,815	2,924	8,615	8,858
Other non-operating income (loss), net	45	685	(438 )	606
Income before income taxes	7,509	13,051	33,344	40,562
Provision for income taxes	2,196	2,830	9,872	11,326
Net income	5,313	10,221	23,472	29,236
Net loss attributable to non-controlling interest	—	—	—	63
Net income attributable to Altra Industrial Motion Corp.	\$ 5,313	\$ 10,221	\$ 23,472	\$ 29,299

Quarter Ended September 30, 2016 compared with Quarter Ended September 30, 2015

(Amounts in thousands, unless otherwise noted)

Amounts in thousands, except percentage data	Quarter-Ended		Change	%
	September 30,	September 30,		
	2016	2015		
Net sales	\$ 173,132	\$ 183,053	(9,921 )	(5.4)%

The decrease in sales during the quarter ended September 30, 2016 was due to the effect of foreign exchange rates, and lower sales levels in several end markets. Of the decrease in sales, approximately \$2.8 million relates to the impact of changes to foreign exchange rates primarily for the Chinese Renminbi and British Pound compared to the

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prior year. In addition, \$4.3 million relates to decreased sales in various end markets, primarily oil and gas, and mining in our Couplings, Clutches and Brakes business segment and agriculture in our Electromagnetic Clutches and Brakes business segment.

Amounts in thousands, except percentage data	Quarter Ended			
	September 30,	September 30,		
	2016	2015	Change	%
Gross Profit	\$54,175	\$ 55,800	(1,625 )	(2.9)%
Gross Profit as a percent of sales	31.3 %	30.5 %		

Gross profit as a percentage of sales increased during the quarter ended September 30, 2016. The increase is due to improvements realized from our consolidation and cost saving efforts, partially offset by unfavorable product mix and redundant labor costs associated with ongoing consolidation activities. We expect the gross profit as a percentage of sales will remain relatively consistent for the remainder of 2016.

Amounts in thousands, except percentage data	Quarter Ended			
	September 30,			
	2016	2015	Change	%
Selling, general and administrative expense (“SG&A”)	\$36,142	\$ 34,279	\$ 1,863	5.4%
SG&A as a percent of sales	20.9 %	18.7 %		

The increase in SG&A as a percent of sales relates primarily to the impact of acquisition costs of \$1.1 million during the period ended September 30, 2016 not present during the same period in the prior year.

Amounts in thousands, except percentage data	Quarter Ended			
	September 30,			
	2016	2015	Change	%
Research and development expenses (“R&D”)	\$4,267	\$ 4,210	57	1.4%

R&D remained consistent compared to the prior year. We continue to expect R&D expenses to approximate 2.0% - 2.5% of sales in future periods.

Amounts in thousands, except percentage data	Quarter Ended			
	September 30,			
	2016	2015	Change	%
Restructuring Costs	\$3,397	\$ 651	2,746	421.8%

During the quarter ended March 31, 2015, the Company adopted a restructuring plan (“2015 Altra Plan”) in response to weak demand and to make certain adjustments to improve business effectiveness, reduce the number of facilities and streamline the Company’s cost structure. The actions taken pursuant to the 2015 Altra Plan included reducing headcount and limiting discretionary spending to improve profitability. Approximately \$3.0 million, \$0.2 million, and \$0.1 million were related to the Couplings, Clutches and Brakes segment, Electromagnetic Clutches and Brakes segment, and Corporate business segments, respectively. The Company expects to incur approximately \$7.0 - \$9.0 million in additional expenses associated with the 2015 Altra Plan through 2018. We expect to realize cost savings of approximately \$0.5 million related to these actions during the remainder of 2016.

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Amounts in thousands, except percentage data	Quarter Ended		Change	%
	September 30, 2016	September 30, 2015		
Interest Expense, net	\$2,815	\$ 2,924	(109 )	(3.7)%

Net interest expense remained relatively consistent between 2015 and 2016.

Amounts in thousands, except percentage data	Quarter Ended		Change	%
	September 30, 2016	September 30, 2015		
Other non-operating income, net	\$45	\$ 685	(640 )	(93.4)%

Other non-operating expense in each period in the chart above relates primarily to foreign currency transaction gains and losses arising from changes in exchange rates related to the Euro, British Pound, and Chinese Renminbi.

Amounts in thousands, except percentage data	Quarter Ended		Change	%
	September 30, 2016	September 30, 2015		
Provision for income taxes	2,196	2,830	\$ (634 )	(22.4)%
Provision for income taxes as a % of income before income taxes	29.2 %	21.7 %		

The provision for income tax, as a percentage of income before taxes, during the quarter ended September 30, 2016 was higher than that of the quarter ended September 30, 2015. The Company benefited from a foreign tax credit of approximately \$0.9 million during the quarter ended September 30, 2015 that was not present in the current quarter ended September 30, 2016.

Year to Date Ended September 30, 2016 compared with Year to Date Ended September 30, 2015

(Amounts in thousands, unless otherwise noted)

Amounts in thousands, except percentage data	Year to Date Ended		Change	%
	September 30,	September 30,		
	2016	2015		
Net sales	536,259	573,024	\$(36,765)	(6.4)%

The decrease in sales during the year to date period ended September 30, 2016 was due to weaker foreign exchange rates, and lower sales levels in several end markets. Of the decrease in sales, approximately \$6.8 million relates to the impact of changes to foreign exchange rates primarily attributed to the Euro, British Pound, and Chinese Renminbi compared to the prior year. In addition, \$29.8 million relates to decreases in sales in the oil & gas, mining, and agriculture end markets.

Amounts in thousands, except percentage data	Year to Date Ended		Change	%
	September 30,	September 30,		
	2016	2015		
Gross Profit	167,005	174,259	(7,254)	(4.2)%
Gross Profit as a percent of sales	31.1	% 30.4	%	

Gross profit as a percentage of sales increased slightly during the year to date period ended September 30, 2016. The increase is due to improvements realized from our consolidation and cost saving efforts, partially offset by unfavorable product mix and redundant labor costs associated with ongoing consolidation activities.

Amounts in thousands, except percentage data	Year to Date Ended		Change	%
	September 30,	September 30,		
	2016	2015		
Selling, general and administrative expense ("SG&A")	105,548	105,733	\$(185)	(0.2)%
SG&A as a percent of sales	19.7	% 18.5	%	

The decrease in SG&A costs primarily relates to the impact of changes to foreign exchange rates primarily offset by an increase in acquisition costs.

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Amounts in thousands, except percentage data	Year to Date Ended		Change	%
	September 30,	September 30,		
	2016	2015		
Research and development expenses ("R&D")	\$13,345	\$ 13,506	(161 )	(1.2)%

R&D remained consistent compared to the prior year. We continue to expect R&D expenses to approximate 2.0% - 2.5% of sales in future periods.

Amounts in thousands, except percentage data	Year to Date Ended		Change	%
	September 30,	September 30,		
	2016	2015		
Restructuring Costs	\$6,591	\$ 4,994	1,597	32.0%

Approximately \$4.4 million, \$1.3 million, and \$0.8 million of the restructuring costs, associated with the 2015 Altra Plan, were related to the Couplings, Clutches and Brakes, Electromagnetic Clutches and Brakes, and Corporate, respectively.

Amounts in thousands, except percentage data	Year to Date Ended		Change	%
	September 30,	September 30,		
	2016	2015		
Interest Expense, net	\$8,615	\$ 8,858	(243 )	(2.7)%

Net interest expense remained relatively consistent with the comparable 2015 period.

Amounts in thousands, except percentage data	Year to Date Ended		Change	%
	September 30, 2016	September 30, 2015		
Other non-operating income, net	\$ (438)	\$ 606	(1,044)	(172.3)%

Other non-operating expense in each period in the chart above relates primarily to foreign currency transaction gains and losses arising from changes in exchange rates related to the Euro, British Pound, and Chinese Renminbi.

Amounts in thousands, except percentage data	Year to Date Ended		Change	%
	September 30, 2016	September 30, 2015		
Provision for income taxes	9,872	11,326	\$(1,454)	(12.8)%
Provision for income taxes as a % of income before income taxes	29.6 %	27.9 %		

The increase in the provision for income taxes, as a percentage of income before taxes, for the year to date period ended September 30, 2016 compared to the year to date period ended September 30, 2015 is primarily due to the favorable discrete item in 2015 of \$0.9 million related to a foreign tax credit that was not present in the current quarter ended September 30, 2016.

#### Segment Performance.

Amounts in thousands, except percentage data

	Quarters Ended		Year to date periods Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Net Sales:</b>				
Couplings, Clutches & Brakes	\$ 77,446	\$ 85,760	\$ 231,225	\$ 265,225
Electromagnetic Clutches & Brakes	50,680	50,393	165,083	166,279
Gearing	47,023	48,783	145,038	147,599
Intra-segment eliminations	(2,017 )	(1,883 )	(5,087 )	(6,079 )
Net sales	\$ 173,132	\$ 183,053	\$ 536,259	\$ 573,024
<b>Income from operations:</b>				
Segment earnings:				



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Couplings, Clutches & Brakes	\$6,596	\$8,910	\$ 20,441	\$ 29,672
Electromagnetic Clutches & Brakes	6,589	4,771	20,120	16,293
Gearing	5,650	6,197	17,280	17,022
Restructuring	(3,397 )	(651 )	(6,591 )	(4,994 )
(1) Corporate expenses	(5,069 )	(2,567 )	(9,729 )	(7,967 )
Income from operations	\$10,369	\$16,660	\$ 41,521	\$ 50,026

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

Couplings, Clutches & Brakes

Net sales in the Couplings, Clutches & Brakes segment were \$77.4 million in the quarter ended September 30, 2016, a decrease of approximately \$8.3 million or 10.0%, from the quarter ended September 30, 2015. Approximately \$1.7 million of the decrease was due to the impact of changes to foreign exchange rates primarily related to the British Pound and Chinese Renminbi compared to the prior year. The remainder of the decrease was due primarily to weakness in the oil and gas, metals and mining markets. Segment operating income decreased approximately \$5.5 million compared to the prior period primarily as a result of the impact of the decrease in sales described above.

Electromagnetic Clutches & Brakes

Net sales in the Electromagnetic Clutches & Brakes segment were \$50.7 million in the quarter ended September 30, 2016, an increase of approximately \$0.3 million, or 1.0%, from the quarter ended September 30, 2015. Segment operating

income increased \$1.8 million compared to the prior period primarily as a result of the impact of the restructuring activities initiated during 2015 and early 2016.

### Gearing

Net sales in the Gearing segment were \$47.0 million in the quarter ended September 30, 2016, compared with \$48.8 million in the quarter ended September 30, 2015, a decrease of \$1.8 million. This is primarily due to weakness in the Oil and Gas end market. Segment operating income decreased \$0.6 million compared to the prior period primarily due to the impact of changes to foreign exchange rates primarily related to the British Pound and Chinese Renminbi.

### 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 (defined below). We expect that our primary ongoing requirements for cash will be for working capital, debt service, capital expenditures, acquisitions, pensions, dividends and share repurchases. In the event additional funds are needed for operations, we could borrow additional funds available under our existing Revolving Credit Facility, request an expansion by up to \$150 million of the amount available to be borrowed under the 2015 Credit Agreement, attempt to secure new debt, attempt to refinance our loans under the 2015 Credit Agreement, or attempt to raise capital in the equity markets. As of September 30, 2016, we have the ability under our Revolving Credit Facility to borrow an additional \$228.4 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.

#### Second Amended and Restated Credit Agreement

On October 22, 2015, the Company entered into a Second Amended and Restated Credit Agreement by and among the Company, Altra Industrial Motion Netherlands, B.V. (“Altra Netherlands”), one of the Company’s foreign subsidiaries (collectively with the Company, the “Borrowers”), the lenders party to the Second Amended and Restated Credit Agreement from time to time (collectively, the “Lenders”), J.P. Morgan Securities LLC, Wells Fargo Securities, LLC, and KeyBanc Capital Markets, Inc., as joint lead arrangers and joint bookrunners, and JPMorgan Chase Bank, N.A., as administrative agent (the “Administrative Agent”), to be guaranteed through a Guarantee Agreement by certain domestic subsidiaries of the Company (each a “Guarantor” and collectively the “Guarantors”; the Guarantors collectively with the Borrowers, the “Loan Parties”), and which may be amended from time to time (the “2015 Credit Agreement”). The 2015 Credit Agreement amends and restates the Company’s former Amended and Restated Credit Agreement, dated as of December 6, 2013, as amended (the “2013 Credit Agreement”), by and among the Company, and certain of its domestic subsidiaries, including former subsidiary Altra Power Transmission, Inc., the lenders party to the Amended and Restated Credit Agreement from time to time (the “Former Lenders”), J.P. Morgan Securities LLC, Wells Fargo Securities, LLC, and KeyBanc Capital Markets, Inc., as joint lead arrangers and joint bookrunners, and the Administrative Agent, guaranteed by certain domestic subsidiaries of the Company. The 2013 Credit Agreement itself was an amendment and restatement of a prior credit agreement. Pursuant to the 2013 Credit Agreement, the Former Lenders had made available to the Borrowers a revolving credit facility (the “Prior Revolving Credit Facility”) of \$200 million, continued in effect an existing term loan then having a balance of approximately \$94 million, and made an additional term loan of €50.0 million to Altra Netherlands. The two term loans described in the prior sentence are collectively referred to as the “Term Loans”.

Under the 2015 Credit Agreement, the amount of the Prior Revolving Credit Facility has been increased to \$350 million (the “2015 Revolving Credit Facility”). The amounts available under the 2015 Revolving Credit Facility can be used for general corporate purposes, including acquisitions, and to repay existing indebtedness. A portion of the 2015 Revolving Credit Facility was used to repay the Term Loans. The Company wrote off approximately \$0.5 million of financing costs in connection with the repayment.

The stated maturity of the 2015 Revolving Credit Facility was extended to October 22, 2020. The maturity of the Prior Revolving Credit Facility was December 6, 2018. The 2015 Credit Agreement continues to provide for a possible expansion of the credit facilities by an additional \$150.0 million, which can be allocated as additional term loans and/or additional revolving credit loans.

The amounts available under the 2015 Revolving Credit Facility may be drawn upon in accordance with the terms of the 2015 Credit Agreement. All amounts outstanding under the 2015 Revolving Credit Facility are due on the stated maturity or such earlier time, if any, required under the 2015 Credit Agreement. The amounts owed under the 2015 Revolving Credit Facility may be prepaid at any time, subject to usual notification and breakage payment provisions. Interest on the amounts outstanding under the credit facilities is calculated using either an ABR Rate or Eurodollar Rate, plus the applicable margin. The applicable margins for Eurodollar

Loans are between 1.25% to 2.00%, and for ABR Loans are between 0.25% and 1.00%. The amounts of the margins are calculated based on either a consolidated total net leverage ratio (as defined in the 2015 Credit Agreement), or the then applicable rating(s) of the Company's debt if and then to the extent as provided in the 2015 Credit Agreement. A portion of the 2015 Revolving Credit Facility may also be used for the issuance of letters of credit, and a portion of the amount of the 2015 Revolving Credit Facility is available for borrowings in certain agreed upon foreign currencies. The 2015 Credit Agreement contains various affirmative and negative covenants and restrictions, which among other things, will require the Borrowers to provide certain financial reports to the Lenders, require the Company to maintain certain financial covenants relating to consolidated leverage and interest coverage, limit maximum annual capital expenditures, and limit the ability of the Company and its subsidiaries to incur or guarantee additional indebtedness, pay dividends or make other equity distributions, purchase or redeem capital stock or debt, make certain investments, sell assets, engage in certain transactions, and effect a consolidation or merger. The 2015 Credit Agreement also contains customary events of default.

#### Ratification Agreement

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

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

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

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

As of September 30, 2016 we had \$117.5 million outstanding on our 2015 Revolving Credit Facility. As of December 31, 2015 we had \$145.2 million outstanding on our Prior Revolving Credit Facility. As of September 30, 2016 and December 31, 2015, we had \$4.1 million, and \$7.0 million in letters of credit outstanding, respectively. We had \$228.4 million available to borrow under the 2015 Revolving Credit Facility at September 30, 2016. On October 21, 2016, the Company entered into a First Amendment to the Second Amended and Restated Credit Agreement. See Part II – Item 5 of this Quarterly Report for details on the First Amendment.

We were in compliance in all material respects with all covenants of the indenture governing the 2015 Credit Agreement at September 30, 2016.

#### 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.

We were in compliance in all material respects with all covenants of the indenture governing the Convertible Notes at September 30, 2016

### Borrowings

	Amounts in millions	
	September 30, 2016	December 31, 2015
<b>Debt:</b>		
Revolving Credit Facility	\$ 117.5	\$ 145.2
Convertible Notes	85.0	85.0
Equipment and working capital notes	-	2.8
Mortgages	13.3	10.3
Capital leases	0.5	0.5
<b>Total debt</b>	<b>\$216.3</b>	<b>\$ 243.8</b>

### 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 September 30, 2016 and September 30, 2015, respectively:

	September 30,		Change
	2016	2015	
Cash and cash equivalents at the beginning of the year	\$ 50,320	\$ 47,503	\$2,817
Cash flows from operating activities	46,894	63,545	(16,651)
Cash flows used in investing activities	(15,684 )	(17,980 )	2,296
Cash flows used in financing activities	(41,943 )	(38,308 )	(3,635 )
Effect of exchange rate changes on cash and cash equivalents	178	(5,111 )	5,289
Cash and cash equivalents at the end of the period	\$ 39,765	\$ 49,649	\$(9,884 )

### Cash Flows for 2016

Net cash provided from operating activities was approximately \$46.9 million for the year to date period ended September 30, 2016. 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, loss on impairment, and non-cash loss on foreign currency was approximately \$26.9 million. Additionally, there was a net increase in current assets and liabilities of approximately \$10.8 million.

Net cash used in investing activities for the quarter ended September 30, 2016 decreased approximately \$2.3 million compared to the year to date period ended September 30, 2015. The decrease is attributed to lower capital expenditure spend compared to prior year.

Net cash used in financing activities in the quarter ended September 30, 2016 as compared to the quarter ended September 30, 2015 increased by \$3.6 million. This increase relates primarily to the payment of debt under the Revolving Credit Facility partially offset by a decrease of \$9.5 million in stock repurchases related to the Company's share repurchase program compared with the prior year period.

We intend to use our remaining existing cash and cash equivalents and cash flow from operations to provide for our working capital needs, to fund potential future acquisitions, debt service, including principal payments, capital expenditures, pension funding, and to pay returns to our stockholders. As of September 30, 2016 we have approximately \$34.9 million of cash and cash equivalents held by foreign subsidiaries that are generally subject to U.S. income taxation on repatriation to the U.S. We believe our future operating cash flows will be sufficient to meet our future operating and investing cash needs. Furthermore, the existing cash balances and the availability of additional borrowings under our Revolving Credit Facility provide additional potential sources of liquidity should they be required.

### Contractual Obligations

There were no material changes in our contractual obligations during the period ended September 30, 2016.

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

We are exposed to various market risk factors such as fluctuating interest rates, changes in foreign currency rates, and changes in commodity prices. During the reporting period, there have been no material changes to the quantitative and qualitative disclosures regarding our market risk set forth in our Annual Report on Form 10-K for the year ended December 31, 2015.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

As of September 30, 2016, our management, under the supervision and with the participation of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed under the Exchange Act, such as this Form 10-Q, is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including the principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosures. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of September 30, 2016, our disclosure controls and procedures are effective at a reasonable assurance level.

#### Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a—15(f) under the Exchange Act) that occurred during our fiscal quarter ended September 30, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

We are, from time to time, party to various legal proceedings arising out of our business. During the reporting period, there have been no material changes to the description of legal proceedings set forth in our Annual Report on Form 10-K for the year ended December 31, 2015.

### Item 1A. Risk Factors

The reader should carefully consider the Risk Factors described in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission. Those risk factors described elsewhere in this report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2015 are not the only ones we face, but are considered to be the most material. These risk factors could cause our actual results to differ materially from those stated in forward looking statements contained in this Form 10-Q and elsewhere. All risk factors stated in our Annual Report on Form 10-K for the year ended December 31, 2015 are incorporated herein by reference.

During the reporting period, except as otherwise described below, there were no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015 and in our Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2016.

Our stockholders may experience dilution upon the conversion of our Convertible Notes.

Our Convertible Notes are convertible into shares of our common stock beginning March 1, 2030 or, under certain circumstances including where our stock trades above 130% of the conversion price for a specified period of time as set forth in the Convertible Notes, earlier. Upon conversion, we must deliver shares of our common stock or cash. The conversion rate of our Convertible Notes was initially 36.0985 shares of our common stock per \$1,000 principal amount of our convertible notes (equivalent to a conversion price of approximately \$27.70 per share of common stock), and as of December 31, 2015 is 38.26 shares of our common stock per \$1,000 principal amount of our convertible notes (equivalent to a conversion price of approximately \$26.13 per share of common stock), subject to adjustment in certain circumstances. Based on the current conversion rate, the maximum number of shares of common stock that could be issued upon conversion of the \$85.0 million convertible debt currently outstanding is 3,252,363. In addition, our stockholders will experience dilution in their ownership percentage of our common stock upon our issuance of common stock in connection with the conversion of our convertible notes and any dividends paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance. In the event the average price of our stock exceeds the conversion price we will be required to include an additional amount of shares in our calculation of diluted weighted average shares outstanding, in accordance with ASC 260-10-45-43 through 45-47, which will have the effect of decreasing our earnings per share. Currently, in the event the average price of our stock exceeds the conversion price, we will include an amount of shares equal to this excess, the conversion premium, in our calculation of diluted weighted average shares outstanding based on our application of ASC-260-10-45-43 through 45-47.

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

The following table summarizes our share repurchase activity by month for the quarter ended September 30, 2016.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Part of Publicly Announced Plans or Programs (1)	Approximate
				Dollar Value of Shares That May Yet be Purchased Under The Plans or Programs
July 1, 2016 to July 11, 2016	5,461	\$ 27.45	5,461	\$ 10,542,556
July 1, 2016 to July 31, 2016	—	\$ —	—	\$ 10,542,556
August 1, 2016 to August 31, 2016	—	\$ —	—	\$ 10,542,556

(1) During the quarter ended September 30, 2016, the Company repurchased shares of common stock under its share repurchase program initiated in May 2014, which authorized the buyback of up to \$50.0 million of the Company's common stock. Under the program, the Company is authorized 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 other appropriate manners. The Company has adopted a Rule 10b5-1 plan under which it is making purchases in compliance with the terms of such plan. The

Company is also making open market share repurchases at the discretion of management. Shares acquired through the repurchase program will be retired. The share repurchase plan terminates on December 31, 2016. The Company retains the right to limit, terminate or extend the share repurchase program at any time without prior notice.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Stromag Acquisition

On October 21, 2016, the Company entered into a binding agreement (the “French Agreement”) with GKN Industries, Limited (“GKN”). The French Agreement provides that, subject to completion of certain employee consultation procedures required under applicable law and certain other customary conditions, the parties to the French Agreement will enter into a definitive sale and purchase agreement, attached as an exhibit to the French Agreement (the “Agreed Form Sale and Purchase Agreement”), providing for the sale and transfer of GKN’s Germany-based Stromag AG business (the “Acquired Company”) for a purchase price comprising of the assumption of debt totaling 14 million euros and cash consideration, payable at closing, of approximately 184 million euros, subject to certain adjustments (the “Stromag Acquisition”).

Under the French Agreement, GKN has agreed to promptly commence the employee consultation process required under applicable law to obtain opinions of the Stromag works councils in France. Subject to the conditions set forth in the French Agreement, the parties to the French Agreement will execute and deliver the Agreed Form Sale and Purchase Agreement within two business days following the satisfaction of the employee consultation process requirements.

The French Agreement contains representations, warranties, and covenants that we believe are customary for a transaction of this size and type, as well as indemnification provisions subject to specified limitations. The closing of the transaction is subject to several customary closing conditions, including receipt of required regulatory approvals, as well as the aforementioned consultation process with the Stromag works councils, and is expected to take place during the first quarter of 2017. No assurances can be given that the Stromag Acquisition will be timely consummated or consummated at all.

The foregoing summary of the French Agreement and the transactions contemplated thereby is not intended to be complete and is qualified in its entirety by reference to the actual French Agreement, which will be filed as an exhibit to the Company’s Annual Report on Form 10-K for its fiscal year ending December 31, 2016.

Amended and Restated Credit Agreement

On October 21, 2016, the Company entered into a First Amendment to the Second Amended and Restated Credit Agreement (the “First Amendment”) by and among the Company and Altra Industrial Motion Netherlands, B.V. (“Altra B.V.”), one of the Company’s foreign subsidiaries (collectively, the “Borrowers”), the Subsidiary Guarantors to the First Amendment, JPMorgan Chase Bank, N.A., as Administrative Agent, as Joint Lead Arranger and Joint Bookrunner,

Wells Fargo Bank, N.A., as Joint Lead Arranger and Joint Bookrunner, KeyBank National Association, as Joint Lead Arranger and Joint Bookrunner, and certain lender parties to the First Amendment (collectively, the “Lenders”).

The First Amendment would amend the Company’s Second Amended and Restated Credit Agreement, dated as of October 22, 2015 (the “Credit Agreement”). However, the amendments to the Credit Agreement contained in the First Amendment will not be effective and will not amend the Credit Agreement unless and until certain conditions precedent have been met, including that the Company has provided the Administrative Agent with written notice that the conditions precedent to the closing of the Stromag Acquisition have been satisfied. In the event that the Stromag Acquisition does not occur, or if the other conditions precedent are not satisfied or waived, then the First Amendment shall not become effective.

If it becomes effective, the First Amendment, would increase the revolving credit facility under the Credit Agreement by \$75,000,000 (the “Revolver Increase”), so that after giving effect to the Revolver Increase, the aggregate revolving commitments would total \$425,000,000. The First Amendment would also reset the possible expansion of additional future loan commitments to \$150,000,000. In addition, the First Amendment would increase the multicurrency sublimit to \$250 million and adjust certain financial covenants. The Company expects to use the increased facility to finance the Stromag Acquisition. Except as otherwise expressly provided by the First Amendment, all of the respective terms, conditions and provisions of the Credit Agreement and the other loan documents remain the same.

The foregoing summary of the First Amendment and the transactions contemplated thereby is not intended to be complete and is qualified in its entirety by reference to the actual First Amendment, which will be filed as an exhibit to the Company’s Annual Report on Form 10-K for its fiscal year ending December 31, 2016.

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

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

1. During the reporting period, Bauer Gear Motor GmbH, a subsidiary of Altra organized and existing under the laws of Germany (“Bauer”), sold (i) one (1) gear motor to Tak Yab Asia Group (“Tak Yab”), a distributor located in Tehran, Iran, for Tak Yab’s use in a product fair and (ii) ten (10) gear motors to Tak Yab for re-sale to and ultimate end use by Iran Khodro, also located in Tehran, Iran, for use in a painting booth produced by Iran Khodro. Gross revenues received by Bauer in connection with these transactions were approximately EUR 1.9 thousand and net profits were approximately EUR 1.2 thousand. Bauer intends to continue pursuing opportunities with this distributor and end customer, to the extent compliant with applicable law.
2. During the reporting period, Svendborg Brakes ApS, a subsidiary of Altra organized and existing under the laws of Denmark (“Svendborg Brakes”), sold four (4) brake indicators to National Iranian Copper Industries (“NICI”), a company located in Tehran, Iran, for use in a brake installed in a mine. Gross revenues received by Svendborg Brakes in connection with this transaction were approximately EUR 2 thousand and net profits were approximately EUR 1.5 thousand. Svendborg Brakes intends to continue pursuing opportunities with this customer, to the extent compliant with applicable law.

#### Item 6. Exhibits

The following exhibits are filed as part of this report:

Exhibit Description

Number

- 3.1(1) Second Amended and Restated Certificate of Incorporation of the Registrant
- 3.2(2) Second Amended and Restated Bylaws of the Registrant
- 31.1\* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\*\* Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\*\* Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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101\* The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Statement of Operations, (ii) the Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss), (iii) the Unaudited Condensed Consolidated Balance Sheet, (iv) the Unaudited Condensed Consolidated Statement of Cash Flows, (v) the Unaudited Consolidated Statement of Stockholders' Equity and (vi) Notes to Unaudited Condensed Consolidated Interim Financial Statements.

\* Filed herewith.

\*\*Furnished herewith.

(1) Incorporated by reference to Altra Industrial Motion Corp.'s (formerly known as Altra Holdings, Inc.) Registration Statement on Form S-1A, as amended, filed with the Securities and Exchange Commission on December 4, 2006.

(2) Incorporated by reference to Altra Industrial Motion Corp.'s Current Report on Form 8-K filed on October 27, 2008.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALTRA INDUSTRIAL MOTION CORP.

October 26, 2016 By: /s/ Carl R. Christenson

Name: Carl R. Christenson

Title: Chairman and Chief Executive Officer

October 26, 2016 By: /s/ Christian Storch

Name: Christian Storch

Title: Vice President and Chief Financial Officer

October 26, 2016 By: /s/ Todd B. Patriacca

Name: Todd B. Patriacca

Title: Vice President of Finance, Corporate Controller and Treasurer



EXHIBIT INDEX

Exhibit

Number Description

- 31.1\* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\*\* Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\*\* Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101\* The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Statement of Operations, (ii) the Unaudited Condensed Statement of Comprehensive Income (Loss), (iii) the Unaudited Condensed Consolidated Balance Sheet, (iv) the Unaudited Condensed Consolidated Statement of Cash Flows, (v) the Unaudited Consolidated Statement of Stockholders' Equity and (vi) Notes to Unaudited Condensed Consolidated Interim Financial Statements.

\*Filed herewith.

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