
**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, 2017

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)

300 Granite Street, Suite 201, Braintree, MA
(Address of principal executive offices)

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

02184
(Zip Code)

(781) 917-0600

(Registrant's telephone number, including area code)

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

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

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

| | | | |
|-------------------------|---|---------------------------|--------------------------|
| Large Accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> (Do not check if a smaller reporting company.) | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

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

As of October 20, 2017, 29,275,362 shares of Common Stock, \$0.001 par value per share, were outstanding.

TABLE OF CONTENTS

| | <u>Page #</u> |
|---|---------------|
| <u>PART I - FINANCIAL INFORMATION</u> | |
| Item 1. Financial Statements (unaudited) | 1 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 22 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 32 |
| Item 4. Controls and Procedures | 32 |
| <u>PART II - OTHER INFORMATION</u> | |
| Item 1. Legal Proceedings | 33 |
| Item 1.A. Risk Factors | 33 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 33 |
| Item 3. Defaults Upon Senior Securities | 33 |
| Item 4. Mine Safety Disclosures | 33 |
| Item 5. Other Information | 33 |
| Item 6. Exhibits | 34 |
| <u>SIGNATURES</u> | 35 |

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

ALTRA INDUSTRIAL MOTION CORP.
Condensed Consolidated Balance Sheets
Amounts in thousands, except share amounts

| | <u>September 30, 2017</u> | <u>December 31, 2016</u> |
|--|---------------------------|--------------------------|
| | <u>(Unaudited)</u> | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 53,151 | \$ 69,118 |
| Trade receivables, less allowance for doubtful accounts of \$5,479 and \$3,114 at September 30, 2017 and December 31, 2016, respectively | 136,511 | 120,319 |
| Inventories | 153,014 | 139,840 |
| Income tax receivable | 7,822 | 607 |
| Prepaid expenses and other current assets | 16,671 | 10,429 |
| Assets held for sale | 364 | 3,874 |
| Total current assets | <u>367,533</u> | <u>344,187</u> |
| Property, plant and equipment, net | 190,455 | 177,043 |
| Intangible assets, net | 160,939 | 154,683 |
| Goodwill | 203,574 | 188,841 |
| Deferred income taxes | 1,383 | 2,510 |
| Other non-current assets, net | 2,147 | 2,560 |
| Total assets | <u>\$ 926,031</u> | <u>\$ 869,824</u> |
| LIABILITIES, AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 59,624 | \$ 60,845 |
| Accrued payroll | 29,761 | 31,302 |
| Accruals and other current liabilities | 38,137 | 35,080 |
| Income tax payable | 8,887 | 706 |
| Current portion of long-term debt | 380 | 43,690 |
| Total current liabilities | <u>136,789</u> | <u>171,623</u> |
| Long-term debt - less current portion and net of unaccreted discount | 295,223 | 325,969 |
| Deferred income taxes | 57,471 | 61,084 |
| Pension liabilities | 27,269 | 23,691 |
| Other long-term liabilities | 25,714 | 4,109 |
| Stockholders' equity: | | |
| Common stock (\$0.001 par value, 90,000,000 shares authorized, 29,054,378 and 27,206,162 issued and outstanding at September 30, 2017 and December 31, 2016, respectively) | 29 | 27 |
| Additional paid-in capital | 222,605 | 168,299 |
| Retained earnings | 215,766 | 191,108 |
| Accumulated other comprehensive loss | (54,835) | (76,086) |
| Total stockholders' equity | <u>383,565</u> | <u>283,348</u> |
| Total liabilities, and stockholders' equity | <u>\$ 926,031</u> | <u>\$ 869,824</u> |

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, 2017 <u>(Unaudited)</u> | September 30, 2016 <u>(Unaudited)</u> | September 30, 2017 <u>(Unaudited)</u> | September 30, 2016 <u>(Unaudited)</u> |
| Net sales | \$ 214,623 | \$ 173,132 | \$ 653,415 | \$ 536,259 |
| Cost of sales | 145,610 | 118,957 | 446,109 | 369,254 |
| Gross profit | 69,013 | 54,175 | 207,306 | 167,005 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 41,009 | 36,142 | 123,012 | 105,548 |
| Research and development expenses | 6,051 | 4,267 | 18,434 | 13,345 |
| Restructuring costs | 680 | 3,397 | 3,776 | 6,591 |
| | 47,740 | 43,806 | 145,222 | 125,484 |
| Income from operations | 21,273 | 10,369 | 62,084 | 41,521 |
| Other non-operating income and expense: | | | | |
| Interest expense, net | 1,811 | 2,815 | 5,547 | 8,615 |
| Other non-operating expense (income), net | 696 | 45 | 30 | (438) |
| Loss on extinguishment of convertible debt | — | — | 1,797 | — |
| | 2,507 | 2,860 | 7,374 | 8,177 |
| Income before income taxes | 18,766 | 7,509 | 54,710 | 33,344 |
| Provision for income taxes | 5,489 | 2,196 | 15,723 | 9,872 |
| Net income | <u>\$ 13,277</u> | <u>\$ 5,313</u> | <u>\$ 38,987</u> | <u>\$ 23,472</u> |
| Weighted average shares, basic | 29,008 | 25,726 | 28,912 | 25,684 |
| Weighted average shares, diluted | 29,074 | 26,021 | 29,001 | 25,813 |
| Net income per share: | | | | |
| Basic net income | \$ 0.46 | \$ 0.21 | \$ 1.35 | \$ 0.91 |
| Diluted net income | \$ 0.46 | \$ 0.20 | \$ 1.34 | \$ 0.91 |
| Cash dividend declared | \$ 0.17 | \$ 0.15 | \$ 0.49 | \$ 0.45 |

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

ALTRA INDUSTRIAL MOTION CORP.
Condensed Consolidated Statements of Comprehensive Income
Amounts in thousands

| | <u>Quarter Ended</u> | | <u>Year to Date Ended</u> | |
|--|----------------------|----------------------|---------------------------|----------------------|
| | <u>September 30,</u> | <u>September 30,</u> | <u>September 30,</u> | <u>September 30,</u> |
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| | <u>(Unaudited)</u> | <u>(Unaudited)</u> | <u>(Unaudited)</u> | <u>(Unaudited)</u> |
| Net Income | \$ 13,277 | \$ 5,313 | \$ 38,987 | \$ 23,472 |
| Other Comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | 6,673 | 90 | 21,157 | (1,000) |
| Change in defined benefit pension plans | 65 | 14 | (232) | 134 |
| Change in fair value of derivative financial instruments, net of tax | (331) | — | 326 | — |
| Other comprehensive income (loss): | <u>6,407</u> | <u>104</u> | <u>21,251</u> | <u>(866)</u> |
| Comprehensive income | <u>\$ 19,684</u> | <u>\$ 5,417</u> | <u>\$ 60,238</u> | <u>\$ 22,606</u> |

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, 2017 (Unaudited) | September 30, 2016 (Unaudited) |
| Cash flows from operating activities | | |
| Net income | \$ 38,987 | \$ 23,472 |
| Adjustments to reconcile net income to net operating cash flows: | | |
| Depreciation | 19,764 | 16,235 |
| Amortization of intangible assets | 7,139 | 6,384 |
| Amortization of deferred financing costs | 449 | 590 |
| Loss/(Gain) on foreign currency, net | 241 | (130) |
| Accretion of debt discount, net | — | 2,970 |
| (Gain)/Loss on disposal / impairment of fixed assets | (36) | 582 |
| Loss on extinguishment of debt | 1,797 | — |
| Stock based compensation | 4,543 | 3,370 |
| Amortization of inventory fair value adjustment | 2,347 | — |
| Changes in assets and liabilities: | | |
| Trade receivables | (9,701) | (10,461) |
| Inventories | (9,478) | (837) |
| Accounts payable and accrued liabilities | (8,799) | 3,226 |
| Other current assets and liabilities | (2,392) | 728 |
| Other operating assets and liabilities | (1,572) | 765 |
| Net cash provided by operating activities | <u>43,289</u> | <u>46,894</u> |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (23,261) | (15,684) |
| Proceeds from sale of Altra Industrial Motion Changzhou | 3,221 | — |
| Working capital settlement from prior year acquisitions | 2,883 | — |
| Net cash used in investing activities | <u>(17,157)</u> | <u>(15,684)</u> |
| Cash flows from financing activities | | |
| Payments on 2015 Revolving Credit Facility | (39,036) | (30,870) |
| Dividend payments | (13,256) | (7,784) |
| Borrowing under 2015 Revolving Credit Facility | 7,000 | 3,000 |
| Payments of equipment and working capital notes | (913) | (3,181) |
| Cash paid to redeem Convertible Notes | (954) | — |
| Proceeds from mortgages and other debt | — | 2,893 |
| Shares surrendered for tax withholding | (2,089) | (1,288) |
| Purchases of common stock under share repurchase program | — | (4,713) |
| Net cash used in financing activities | <u>(49,248)</u> | <u>(41,943)</u> |
| Effect of exchange rate changes on cash and cash equivalents | 7,149 | 178 |
| Net change in cash and cash equivalents | (15,967) | (10,555) |
| Cash and cash equivalents at beginning of year | 69,118 | 50,320 |
| Cash and cash equivalents at end of period | <u>\$ 53,151</u> | <u>\$ 39,765</u> |
| Cash paid during the period for: | | |
| Interest | \$ 5,413 | \$ 5,856 |
| Income taxes | 18,505 | 7,665 |
| Non-cash Financing and Investing | | |
| Conversion of Convertible Notes to common stock | \$ 51,851 | \$ — |

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

ALTRA INDUSTRIAL MOTION CORP.
Consolidated Statements of Stockholders' Equity
Amounts in thousands
(Unaudited)

| | Common Stock | Shares | Additional Paid in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|-----------------|--------|----------------------------------|----------------------|---|------------|
| 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 | — | — | — | 23,472 | — | 23,472 |
| Dividends declared | — | — | — | (11,667) | — | (11,667) |
| Changes in Accumulated Other Comprehensive Loss | — | — | — | — | (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 |
| Balance at January 1, 2017 | \$ 27 | 27,206 | \$ 168,299 | \$ 191,108 | \$ (76,086) | \$ 283,348 |
| Stock-based compensation and vesting of restricted stock | — | 100 | 2,457 | — | — | 2,457 |
| Net income | — | — | — | 38,987 | — | 38,987 |
| Conversion of convertible debt | 2 | 1,748 | 51,849 | — | — | 51,851 |
| Dividends declared | — | — | — | (14,329) | — | (14,329) |
| Changes in Accumulated Other Comprehensive Income | — | — | — | — | 21,251 | 21,251 |
| Balance at September 30, 2017 | \$ 29 | 29,054 | \$ 222,605 | \$ 215,766 | \$ (54,835) | \$ 383,565 |

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

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

1. Organization and Nature of Operations

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

2. Basis of Presentation

The Company’s unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company’s financial position for the interim periods presented, and cash flows for the interim periods presented. The results are not necessarily indicative of future results. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

3. Recent Accounting Standards

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

In October 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (“ASU 2016-16”). This ASU requires entities to recognize the income tax consequences of many intercompany asset transfers at the transaction date. The seller and buyer will immediately recognize the current and deferred income tax consequences of an intercompany transfer of an asset other than inventory. The tax consequences were previously deferred until the asset is sold to a third party or recovered through use. This guidance will be effective for the Company on January 1, 2018. We are currently evaluating this guidance and the impact it will have on our consolidated financial statements.

In August 2016, the 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 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 and expect to recognize a significant lease obligation upon adoption.

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. ASU 2014-09 will be effective for the Company beginning on January 1, 2018. The Company commenced its assessment of ASU 2014-09 during the second half of 2015 and developed a project plan to guide the implementation. The project plan includes analyzing the ASU’s impact on the Company’s contract portfolio, surveying the Company’s business units and discussing the various revenue streams, completing contract reviews, comparing historical accounting policies and practices to the requirements of the new guidance, identifying potential differences from applying the requirements of the new guidance to its contracts and updating and providing training on its accounting policy. As the Company continues its evaluation, it is also identifying and preparing to implement changes to accounting policies, business processes and internal controls to support the new accounting and disclosure requirements. The Company expects to adopt this new guidance using the modified retrospective method that will result in a cumulative effect adjustment as of the date of adoption. The company does not expect the adoption of this ASU to have a material impact on its Consolidated Financial Statements.

Recently Adopted Accounting Standards

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 Company adopted this guidance on January 1, 2017 which resulted in the recognition of excess tax benefits in our provision for income taxes with the Unaudited Condensed Consolidated Statements of Operations rather than paid-in capital and was not material for the quarter ended September 30, 2017. Additionally, our Unaudited Condensed Consolidated Statements of Cash Flows now present excess tax benefits as an operating activity, effective January 1, 2017. Finally, the Company elected to continue to estimate forfeitures based on historical data and recognizes forfeiture compensation expense over the vesting period of the award. The adoption of this ASU did not have a material impact to our Unaudited Condensed Consolidated Financial Statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* (“ASU 2015-11”). Under this guidance, entities utilizing the first-in-first-out (“FIFO”) or average cost method should measure inventory at the lower of cost or net realizable value, whereas net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company adopted this guidance on January 1, 2017. The adoption of this ASU did not have a material impact to our Unaudited Condensed 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 and the fact that the agreement was renegotiated in December 2016 and there have been no significant changes in our credit rating or pricing of similar debt.

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

The Company determines the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available for various types of financial instruments (such as forwards, options and swaps), the Company uses standard models with market-based inputs, which take into account the present value of estimated future cash flows and the ability of the Company or the financial counterparty to perform. For interest rate and cross currency swaps, the significant inputs to these models are interest rate curves for discounting future cash flows and are adjusted for credit risk. For forward foreign currency contracts, the significant inputs are interest rate curves for discounting future cash flows, and exchange rate curves of the foreign currency for translating future cash flows. See additional discussion of the Company's use of financial instruments including a cross-currency swap included in Note 15.

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, 2017 | \$ (646) | \$ (5,668) | \$ (69,772) | \$ (76,086) |
| Net current-period Other Comprehensive Income (Loss) | 326 | (232) | 21,157 | 21,251 |
| Accumulated Other Comprehensive Loss by Component, September 30, 2017 | <u>\$ (320)</u> | <u>\$ (5,900)</u> | <u>\$ (48,615)</u> | <u>\$ (54,835)</u> |

| | 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 | <u>\$ (140)</u> | <u>\$ (5,673)</u> | <u>\$ (58,885)</u> | <u>\$ (64,698)</u> |

6. Acquisitions

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

As of September 30, 2017, the allocation of the purchase price for the Stromag Acquisition remains preliminary as the company continues to evaluate the fair value of certain inventories located in foreign jurisdictions. The fair value of all the acquired identifiable assets and liabilities is provisional pending finalization of the Company's acquisition accounting. The Company believes that such preliminary allocations provide a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize fair value. The Company recorded certain immaterial measurement period adjustments during the quarter ended September 30, 2017. The preliminary purchase price allocations below include such adjustments.

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

| | Preliminary Purchase Price Allocation |
|--|--|
| Total purchase price, excluding acquisition costs of approximately \$2.9 million | \$ 191,852 |
| Cash and cash equivalents | 8,758 |
| Trade receivables | 24,087 |
| Inventories | 22,935 |
| Property, plant and equipment | 40,343 |
| Intangible assets | 74,795 |
| Prepaid expenses and other current assets | 778 |
| Total assets acquired | \$ 171,696 |
| Accounts payable | (15,370) |
| Accrued payroll | (7,171) |
| Accrued expenses and other current liabilities | (4,357) |
| Income tax payable | (2,525) |
| Deferred tax liability | (27,859) |
| Other long-term liabilities | (1,255) |
| Pension liability | (15,283) |
| Total liabilities assumed | \$ (73,820) |
| Net assets acquired | 97,876 |
| Excess purchase price over fair value of net assets acquired | \$ 93,976 |

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

During the second quarter, the Company and the seller completed the working capital adjustment under the sale and purchase agreement which reduced the purchase price by \$2.9 million.

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

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

The following table sets forth the unaudited pro forma results of operations of the Company for the quarter and year to date periods ended September 30, 2016, as if the Company had acquired Stromag at the beginning of the period. The pro forma information contains the actual operating results of the Company, including Stromag, adjusted to include the pro forma impact of (i) additional depreciation expense as a result of estimated depreciation based on the fair value of fixed assets and; (ii) additional expense as a result of the estimated amortization of identifiable intangible assets; (iii) additional interest expense for borrowings under the Credit Agreement associated with the Stromag Acquisition and (iv) inventory fair value adjustment. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred at the beginning of the period or that may be obtained in the future.

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

| | Proforma (unaudited) | | | |
|----------------------------|----------------------|---------|---------------------------|---------|
| | Quarter Ended | | Year to date Period Ended | |
| | September 30, 2016 | | September 30, 2016 | |
| Total revenues | \$ | 206,424 | \$ | 644,361 |
| Net income | \$ | 7,057 | \$ | 29,250 |
| Basic earnings per share | \$ | 0.27 | \$ | 1.13 |
| Diluted earnings per share | \$ | 0.27 | \$ | 1.13 |

7. 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, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Net income | \$ 13,277 | \$ 5,313 | \$ 38,987 | \$ 23,472 |
| Shares used in net income per common share - basic | 29,008 | 25,726 | 28,912 | 25,684 |
| Dilutive effect of the equity premium on Convertible Notes at the average price of common stock | — | 295 | — | 123 |
| Incremental shares of unvested restricted common stock | 66 | — | 89 | 6 |
| Shares used in net income per common share - diluted | 29,074 | 26,021 | 29,001 | 25,813 |
| Earnings per share: | | | | |
| Basic net income | \$ 0.46 | \$ 0.21 | \$ 1.35 | \$ 0.91 |
| Diluted net income | \$ 0.46 | \$ 0.20 | \$ 1.34 | \$ 0.91 |

8. Inventories

Inventories at September 30, 2017 and December 31, 2016 consisted of the following:

| | September 30, 2017 | December 31, 2016 |
|-----------------|-----------------------|----------------------|
| Raw materials | \$ 50,976 | \$ 45,507 |
| Work in process | 24,359 | 20,128 |
| Finished goods | 77,679 | 74,205 |
| | <u>\$ 153,014</u> | <u>\$ 139,840</u> |

9. Goodwill and Intangible Assets

Changes in goodwill from January 1, 2017 through September 30, 2017 were as follows:

| | Couplings, Clutches & Brakes | Electromagnetic Clutches & Brakes | Gearing | Total |
|--|------------------------------------|---|------------------|-------------------|
| Net goodwill balance January 1, 2017 | \$ 104,465 | \$ 37,161 | \$ 47,215 | \$ 188,841 |
| Measurement period adjustment related to acquisition of Stromag, including working capital settlement (See Note 6) | \$ 738 | \$ 113 | \$ - | \$ 851 |
| Impact of changes in foreign currency and other | 12,378 | 623 | 881 | 13,882 |
| Net goodwill balance September 30, 2017 | <u>\$ 117,581</u> | <u>\$ 37,897</u> | <u>\$ 48,096</u> | <u>\$ 203,574</u> |

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

Other intangible assets as of September 30, 2017 and December 31, 2016 consisted of the following:

| | September 30, 2017 | | | December 31, 2016 | | |
|--|--------------------|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net | Cost | Accumulated Amortization | Net |
| Other intangible assets | | | | | | |
| Intangible assets not subject to amortization: | | | | | | |
| Tradenames and trademarks | \$ 54,408 | \$ — | \$ 54,408 | \$ 50,416 | \$ — | \$ 50,416 |
| Intangible assets subject to amortization: | | | | | | |
| Customer relationships | 175,842 | 70,277 | \$ 105,565 | 164,406 | 60,761 | 103,645 |
| Product technology and patents | 6,779 | 5,813 | \$ 966 | 6,090 | 5,468 | 622 |
| Total intangible assets | \$ 237,029 | \$ 76,090 | \$ 160,939 | \$ 220,912 | \$ 66,229 | \$ 154,683 |

The Company recorded \$2.4 million and \$2.1 million of amortization expense in the quarters ended September 30, 2017 and 2016 respectively, and recorded \$7.1 million and \$6.4 million of amortization expense in the year to date periods ended September 30, 2017 and September 30, 2016, respectively.

The estimated amortization expense for intangible assets is approximately \$2.3 million for the remainder of 2017, \$9.4 million in each of the next four years and then \$66.6 million thereafter.

10. Warranty Costs

The contractual warranty period of the Company's products generally ranges from three months to two years with certain warranties extending for longer periods. Estimated expenses related to product warranties are accrued at the time products are sold to customers and are recorded in accruals and other current liabilities on the unaudited condensed consolidated balance sheet. Estimates are established using historical information as to the nature, frequency and average costs of warranty claims. Changes in the carrying amount of accrued product warranty costs for each of the quarters ended September 30, 2017 and September 30, 2016 are as follows:

| | September 30, 2017 | September 30, 2016 |
|---|-----------------------|-----------------------|
| Balance at beginning of period | \$ 9,158 | \$ 9,468 |
| Accrued current period warranty expense | 511 | 1,732 |
| Payments and adjustments | (2,047) | (2,700) |
| Balance at end of period | <u>\$ 7,622</u> | <u>\$ 8,500</u> |

11. Debt

Outstanding debt obligations at September 30, 2017 and December 31, 2016 were as follows.

| | September 30, 2017 | December 31, 2016 |
|--|--------------------|----------------------|
| Debt: | | |
| Revolving Credit Facility | \$ 282,440 | \$ 313,620 |
| Convertible Notes | — | 45,656 |
| Mortgages | 12,904 | 12,755 |
| Capital leases | 259 | 363 |
| Total debt | 295,603 | 372,394 |
| Less: debt discount, net of accretion | — | (2,735) |
| Total debt, net of unaccreted discount | <u>\$ 295,603</u> | <u>\$ 369,659</u> |
| Less current portion of long-term debt | (380) | (43,690) |
| Total long-term debt, net of unaccreted discount | <u>\$ 295,223</u> | <u>\$ 325,969</u> |

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

Second Amended and Restated Credit Agreement

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

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

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

As of September 30, 2017 we had \$282.4 million outstanding on the USD tranche of our 2015 Revolving Credit Facility at an interest rate of 2.99%. As of September 30, 2017 and December 31, 2016, we had \$3.7 million and \$4.1 million in letters of credit outstanding, respectively. We had \$138.9 million available to borrow under the 2015 Revolving Credit Facility at September 30, 2017 and may borrow an additional \$150 million under certain circumstances.

Convertible Senior Notes

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

On December 12, 2016 the Company gave notice to the holders of the Convertible Notes of its intention to redeem all of the Convertible Notes outstanding on January 12, 2017 (the “Redemption Date”), pursuant to the optional redemption provisions in the Indenture. The redemption price for the Convertible Notes was 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the Redemption Date plus a Make-Whole Premium equal to the present values of the remaining scheduled payments of interest on any Convertible Notes through March 1, 2018 (excluding interest accrued to, but excluding, the Redemption Date). In lieu of receiving the redemption price, holders of the Notes could surrender their Convertible Notes for conversion at any time before January 9, 2017. The conversion rate of the Convertible Notes was 39.0809 shares of the Company’s common stock, for each \$1,000 of outstanding principal of the Convertible Notes. As of December 31, 2016, Convertible Notes with an outstanding principal of approximately \$39.3 million were converted resulting in the issuance of 1.5 million shares of the

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

Company's common stock. As a result of the conversion, the Company incurred a loss on extinguishment of debt of approximately \$1.9 million and the carrying value of the Convertible Notes was \$42.9 million as of December 31, 2016. In January 2017, additional Convertible Notes with an outstanding principal of approximately \$44.7 million were converted resulting in the issuance of 1.7 million shares of the Company's common stock, and \$0.9 million of Convertible Notes were redeemed for cash. The Company incurred an additional loss on extinguishment of debt of approximately \$1.8 million during the quarter ended March 31, 2017. All Convertible Notes were converted or redeemed as of January 12, 2017.

Mortgages

Heidelberg Germany

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €1.5 million, or \$1.7 million, secured by its facility in Heidelberg, Germany to replace its previously existing mortgage. The mortgage has an interest rate of 1.79%, which is payable in monthly installments through August 2023. The mortgage had a remaining principal balance of € 1.1 million, or \$1.3 million, at September 30, 2017.

Esslingen Germany

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €6.0 million, or \$6.7 million, secured by its facility in Esslingen, Germany. The mortgage has an interest rate of 2.5% per year, which is payable in annual interest payments of €0.1 million, or \$0.1 million, to be paid in monthly installments. The mortgage had a remaining principal balance of €6.0 million, or \$7.1 million, at September 30, 2017. 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, 2017, the total principal outstanding was €2.1 million, or \$2.5 million, and is guaranteed by land security at its parent company facility in Esslingen, Germany. The loan is due in installments from 2016 through 2020, with an interest rate of 1.95%.

Angers France

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €2.1 million, or \$2.3 million, secured by its facility in 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 had a balance of €1.7 million, or \$2.0 million, at September 30, 2017.

Capital Leases

The Company leases certain equipment under capital lease arrangements, whose obligations are included in both short-term and long-term debt. Capital lease obligations amounted to approximately \$0.3 million at September 30, 2017 and approximately \$0.4 million at December 31, 2016. 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, 2017 or December 31, 2016 under any of the overdraft agreements.

12. Stockholders' Equity

Stock-Based Compensation

The Company's 2004 Equity Incentive Plan (the "2004 Plan") permitted the grant of various forms of stock based compensation to our officers and senior level employees. The 2004 Plan expired in 2014 and, upon expiration, there were 750,576 shares subject to outstanding awards under the 2004 Plan. The 2014 Omnibus Incentive Plan (the "2014 Plan") was approved by the Company's shareholders at its 2014 annual meeting. The 2014 Plan provides for various forms of stock based compensation to our directors, executive personnel and other key employees and consultants. Under the 2014 Plan, the total number of shares of common stock available for delivery pursuant to the grant of awards ("Awards") was originally 750,000. At the Company's 2017 Annual Meeting, its shareholders approved amendments to the 2014 Plan which, among other things, made an additional 750,000 shares of common stock

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

available for grant under the 2014 Plan. Shares of our common stock subject to Awards awarded under the 2004 Plan and outstanding as of the effective date of the 2014 Plan (except for substitute awards) that terminate without being exercised, expire, are forfeited or canceled, are exchanged for Awards that did not involve shares of common stock, are not issued on the stock settlement of a stock appreciation right, are withheld by the Company or tendered by a participant (either actually or by attestation) to pay an option exercise price or to pay the withholding tax on any Award, or are settled in cash in lieu of shares will again be available for Awards under the 2014 Plan.

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

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

Stock-based compensation expense recorded during the year to date periods ended September 30, 2017 and September 30, 2016, was \$4.5 million and \$3.4 million, respectively. The Company recognizes stock-based compensation expense on a straight-line basis for the shares vesting ratably under the plan and uses the graded-vesting method of recognizing stock-based compensation expense for the performance share awards based on the probability of the specific performance metrics being achieved over the requisite service period.

The following table sets forth the activity of the Company's restricted stock and performance share grants in the year to date period ended September 30, 2017:

| | Shares | Weighted-average grant date fair value |
|--------------------------------------|-----------|--|
| Shares unvested January 1, 2017 | 199,712 | \$ 24.68 |
| Shares granted | 150,643 | 39.43 |
| Shares for which restrictions lapsed | (128,265) | 43.76 |
| Shares unvested September 30, 2017 | 222,090 | \$ 31.92 |

Total remaining unrecognized compensation cost was \$6.3 million as of September 30, 2017, 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, 2017 was \$5.6 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 (the "2014 Program") authorizing the buyback of up to \$50.0 million of the Company's common stock. Under the 2014 program, the Company was 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 any other appropriate manner. The timing of the shares repurchased was at the discretion of management and depended on a number of factors, including price, market conditions and regulatory requirements. Shares acquired through the repurchase program were retired.

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 2014 Program which was terminated. The Company expects to purchase shares on the open market, through block trades, in privately negotiated transactions, in compliance with SEC Rule 10b-18 (including through Rule 10b5-1 plans), or in any other appropriate manner. The timing of the shares repurchased will be at the discretion of management and will depend on a number of factors, including price, market conditions and regulatory requirements. Shares acquired through the repurchase program will be retired. The Company retains the right to limit, terminate or extend the share repurchase program at any time without prior notice. The Company expects to fund any further

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

repurchases of its common stock through a combination of cash on hand and cash generated by operations. During the year to date period ended September 30, 2017, the Company did not repurchase any of its common stock under the share repurchase program.

Dividends

The Company declared a dividend of \$0.17 per share of common stock related to the quarter ended September 30, 2017 which was accrued in the balance sheet at September 30, 2017.

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.

13. Restructuring, Asset Impairment, and Transition Expenses

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

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

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

| | Quarter Ended | | Year to Date Period Ended | |
|-----------------------------------|-----------------------|-----------------------|---------------------------|-----------------------|
| | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Couplings, Clutches & Brakes | \$ — | \$ 3,022 | \$ 1,849 | \$ 4,425 |
| Electromagnetic Clutches & Brakes | — | 169 | — | 1,276 |
| Gearing | 25 | 68 | 809 | 84 |
| Corporate (1) | 24 | 138 | 487 | 806 |
| Total | \$ 49 | \$ 3,397 | \$ 3,145 | \$ 6,591 |

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

The amounts for the quarter ended September 30, 2017 were comprised of approximately \$0.1 million in consolidation costs. The amounts for the year to date period ended September 30, 2017 were comprised of approximately \$0.9 million in severance, \$1.2 million in consolidation costs, and \$1.1 million in other restructuring, and are classified in the accompanying unaudited condensed consolidated statement of income as restructuring costs.

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

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

| | Quarter Ended | | Year to Date Period Ended | |
|-----------------------------------|-----------------------|-----------------------|---------------------------|-----------------------|
| | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Couplings, Clutches & Brakes | \$ 631 | \$ — | \$ 631 | \$ — |
| Electromagnetic Clutches & Brakes | — | — | — | — |
| Gearing | — | — | — | — |
| Corporate (1) | — | — | — | — |
| Total | \$ 631 | \$ — | \$ 631 | \$ — |

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

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

The amounts for the quarter ended September 30, 2017 were comprised of approximately \$0.4 million in severance and \$0.2 million in consolidation costs, and are classified in the accompanying unaudited condensed consolidated statement of income as restructuring costs.

The following is a reconciliation of the accrued restructuring costs between January 1, 2017 and September 30, 2017.

| | <u>2015 Plan</u> | <u>2017 Plan</u> | <u>Total All Plans</u> |
|--------------------------------|------------------|------------------|------------------------|
| Balance at January 1, 2017 | \$ 1,971 | \$ — | \$ 1,971 |
| Restructuring expense incurred | 3,145 | 631 | 3,776 |
| Cash payments | <u>(4,441)</u> | <u>(88)</u> | <u>(4,529)</u> |
| Balance at September 30, 2017 | <u>\$ 675</u> | <u>\$ 543</u> | <u>\$ 1,218</u> |

The total accrued restructuring reserve as of September 30, 2017 relates to severance costs to be paid to former employees which are expected to be paid during 2017 and are recorded in accruals and other current liabilities on the accompanying unaudited condensed consolidated balance sheet. The Company does not expect to incur any additional material restructuring expenses related to the 2015 Altra Plan. The company expects to incur approximately \$2.0 to \$4.0 million in expense under the 2017 Plan through 2019.

The Company sold its entity in Changzhou China and obtained proceeds of approximately \$3.2 million at the close of the transaction. There was no additional gain or loss recorded on the sale of the building associated with this entity which was classified as assets held for sale.

14. Segments, Concentrations and Geographic Information

Segments

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

- *Couplings, Clutches & Brakes.*

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

- *Electromagnetic Clutches & Brakes.*

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

- *Gearing.*

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

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

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

| | Quarters Ended September 30, | | Year to Date Period Ended September 30, | |
|--|------------------------------|-------------------|---|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net Sales: | | | | |
| Couplings, Clutches & Brakes | \$ 110,109 | \$ 77,446 | \$ 327,310 | \$ 231,225 |
| Electromagnetic Clutches & Brakes | 58,304 | 50,680 | 187,463 | 165,083 |
| Gearing | 48,368 | 47,023 | 144,545 | 145,038 |
| Inter-segment eliminations | (2,158) | (2,017) | (5,903) | (5,087) |
| Net sales | <u>\$ 214,623</u> | <u>\$ 173,132</u> | <u>\$ 653,415</u> | <u>\$ 536,259</u> |
| Income from operations: | | | | |
| Segment earnings: | | | | |
| Couplings, Clutches & Brakes | \$ 12,679 | \$ 6,596 | \$ 33,031 | \$ 20,441 |
| Electromagnetic Clutches & Brakes | 6,138 | 6,589 | 21,894 | 20,120 |
| Gearing | 5,689 | 5,650 | 17,804 | 17,280 |
| Restructuring | (680) | (3,397) | (3,776) | (6,591) |
| Corporate expenses (1) | (2,553) | (5,069) | (6,869) | (9,729) |
| Income from operations | <u>\$ 21,273</u> | <u>\$ 10,369</u> | <u>\$ 62,084</u> | <u>\$ 41,521</u> |
| Other non-operating (income) expense: | | | | |
| Net interest expense | \$ 1,811 | \$ 2,815 | \$ 5,547 | \$ 8,615 |
| Other non-operating expense (income), net | 696 | 45 | 30 | (438) |
| Loss on extinguishment of convertible debt | — | — | 1,797 | — |
| | <u>2,507</u> | <u>2,860</u> | <u>7,374</u> | <u>8,177</u> |
| Income before income taxes | 18,766 | 7,509 | 54,710 | 33,344 |
| Provision for income taxes | 5,489 | 2,196 | 15,723 | 9,872 |
| Net income | <u>\$ 13,277</u> | <u>\$ 5,313</u> | <u>\$ 38,987</u> | <u>\$ 23,472</u> |

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

Selected information by segment (continued)

| | Quarter Ended | | Year to Date Period Ended | |
|---------------------------------------|--------------------|--------------------|---------------------------|--------------------|
| | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Depreciation and amortization: | | | | |
| Couplings, Clutches & Brakes | \$ 5,387 | \$ 4,028 | \$ 15,658 | \$ 11,485 |
| Electromagnetic Clutches & Brakes | 1,274 | 1,176 | 3,690 | 3,501 |
| Gearing | 1,776 | 1,862 | 5,077 | 5,261 |
| Corporate | 851 | 791 | 2,478 | 2,372 |
| Total depreciation and amortization | <u>\$ 9,288</u> | <u>\$ 7,857</u> | <u>\$ 26,903</u> | <u>\$ 22,619</u> |
| Total assets: | | | | |
| Couplings, Clutches & Brakes | \$ 570,266 | \$ 511,934 | | |
| Electromagnetic Clutches & Brakes | 181,766 | 169,507 | | |
| Gearing | 139,039 | 147,829 | | |
| Corporate (2) | 34,960 | 40,554 | | |
| Total assets | <u>\$ 926,031</u> | <u>\$ 869,824</u> | | |

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

- (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, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| North America (primarily U.S.) | \$ 101,569 | \$ 99,995 | \$ 331,945 | \$ 316,957 |
| Europe | 87,866 | 54,344 | 256,142 | 165,694 |
| Asia and other | 25,188 | 18,793 | 65,328 | 53,608 |
| Total | <u>\$ 214,623</u> | <u>\$ 173,132</u> | <u>\$ 653,415</u> | <u>\$ 536,259</u> |

Net sales to third parties are attributed to the geographic regions based on the country in which the shipment originates. Amounts attributed to the geographic regions for property, plant and equipment are based on the location of the entity which holds such assets.

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, 2017 and 2016, the Gearing business had one customer that approximated 10% of total sales for that segment during the quarter ended September 30, 2017.

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.

15. Derivative Financial Instruments

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

Cross Currency Interest Rate Swaps

The Company is exposed to foreign currency and interest rate cash flow exposure related to non-functional currency long-term debt of the Company's wholly owned Dutch subsidiary. To manage this foreign currency and interest rate cash flow exposure,

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

the Company entered into a cross-currency interest rate swap that converts \$100.0 million of U.S. dollar denominated floating interest payments to functional currency (euro) fixed interest payments during the life of the hedging instrument. In addition, the Company has two cross-currency interest rate swaps that convert an additional \$70.0 million of the U.S. dollar denominated floating interest payments to functional currency (euro) floating interest payments during the life of the hedging instruments. The effective period of one of the cross-currency interest rate swaps in the amount of \$30 million (the "Initial Swap") that the Company entered in to as of December 21, 2016 expired as of June 30, 2017. The Company net settled the Initial Swap and a new \$30 million cross-currency swap transaction was entered into which will amortize down to \$20 million after six-months. The effective period of the second of these two cross-currency interest rate swaps in the amount of \$40 million expires on December 31, 2018. As changes in foreign exchange and interest rates impact the future cash flow of interest payments, the hedges are intended to offset changes in cash flows attributable to interest rate and foreign exchange movements.

The Company designated the \$100.0 million swap as a cash flow hedge, with the effective portion of the gain or loss on the derivative reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction impacts earnings. There were no amounts recorded for ineffectiveness for the periods reported herein related to the cross-currency interest rate swaps. Changes in the fair value of the derivatives that are not designated as a cash flow hedge are recorded in other operating (income) expense, net.

Changes in the fair value of a derivative that is designated as and meets all the required criteria for a cash flow hedge are recorded in accumulated other comprehensive income and reclassified into earnings as the underlying hedged item affects earnings. As of September 30, 2017, approximately \$0.3 million of net unrealized gains related to the cross-currency interest rate swaps were included in accumulated other comprehensive income.

Interest Rate Swap

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

The interest rate swap agreement was designed to manage exposure to interest rates on the Company's variable rate indebtedness. The Company recognizes all derivatives on its balance sheet at fair value. The Company has designated this interest rate swap agreement as a cash flow hedge. Changes in the fair value of the swap will be recognized in other comprehensive income until the hedged items are recognized in earnings. Hedge ineffectiveness, if any, associated with the swap will be reported by the Company in interest expense. As of September 30, 2017, approximately \$35 thousand of unrealized gain related to the interest rate swap was included in accumulated other comprehensive income.

The following table summarizes outstanding swaps which the Company has recorded at September 30, 2017.

| Date Entered into | Derivative Financial Instrument | Initial US\$ Notional Amount (thousands) | Floating Leg (swap counterparty) | Fixed Rate | Floating Leg (Company) | Settlement Dates | Effective Period of swap |
|--------------------------|--|---|--|-------------------|--|--|---------------------------------|
| 12/21/2016 | Cross currency interest rate swap | \$ 100,000 | Variable rate 1-month USD Libor plus 1.50% to 3/31/17 and 1.75% thereafter | 1.027% EUR | N/A | Monthly on the last banking day of each month commencing December 30, 2016 | 12/23/2016 - 12/31/2019 |
| 12/21/2016 | Cross currency interest rate swap | 40,000 | Variable rate 1-month USD Libor plus 1.50% to 3/31/17 and 1.75% thereafter | N/A | Variable rate 1-month EURIBOR, floored at 0.00%, plus 0.920% | Monthly on the last banking day of each month commencing December 30, 2016 | 12/23/2016 - 12/31/2018 |
| 6/28/2017 | Cross currency interest rate swap | 30,000 | Variable rate 1-month USD Libor plus 1.75% thereafter | N/A | Variable rate 1-month EURIBOR, floored at 0.00%, plus 1.11% | Monthly on the last banking day of each month commencing July 31, 2017 | 6/30/2017 - 12/31/2017 |
| 1/31/2017 | Interest rate swap | 50,000 | Variable rate 1-month USD Libor | 1.625% USD | N/A | Monthly on the last banking day of each month commencing February 28, 2017 | 1/31/2017 - 1/31/2020 |

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

The following table summarizes the location and fair value, using Level 2 inputs (see Note 4 for a description of the fair value levels), of the Company's derivatives designated and not designated as hedging instruments in the Unaudited Condensed Consolidated Balance Sheets (in thousands).

| | Balance Sheet Location | September 30, 2017 | December, 31 2016 |
|---|-------------------------------|-------------------------------|------------------------------|
| <i>Designated as hedging instruments:</i> | | | |
| Cross currency swap agreements | Other long-term liabilities | \$ 13,699 | \$ 1,642 |
| Interest rate swap agreement | Other long-term assets | (35) | - |
| <i>Not designated as hedging instruments:</i> | | | |
| Cross currency swap agreements | Other long-term liabilities | 8,714 | 889 |
| | | <u>\$ 22,378</u> | <u>\$ 2,531</u> |

The following table summarizes the location of (gain) loss reclassified from Accumulated other comprehensive loss into earnings for derivatives designated as hedging instruments and the location of (gain) loss for our derivatives not designated as hedging instruments in the Consolidated Statements of Income (in thousands).

| | Income Statement Location | September 30, 2017 |
|---|---|-------------------------------|
| <i>Designated as hedging instruments:</i> | | |
| Cross currency swap agreements | Other non-operating (income) expense, net | \$ 11,867 |
| <i>Not designated as hedging instruments:</i> | | |
| Cross currency swap agreements | Other non-operating (income) expense, net | 7,825 |
| | | <u>\$ 19,692</u> |

16. 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, 2017 or December 31, 2016. For matters where a reserve has not been established and for which we believe a loss is reasonably possible, as well as for matters where a reserve has been recorded but for which an exposure to loss in excess of the amount accrued is reasonably possible, we believe that such losses, individually and in the aggregate, will not have a material effect on our unaudited condensed consolidated financial statements.

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

ALTRA INDUSTRIAL MOTION CORP.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
Amounts in thousands, unless otherwise noted

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.

Disclosure of an Amendment to the Altra Industrial Motion, Inc. Retirement Plan (the "Pension Plan")

Effective June 30, 2017, the Company amended the Altra Industrial Motion, Inc. Retirement Plan (the "Pension Plan"), its frozen U.S. defined benefit pension plan, to terminate the Pension Plan effective as of June 30, 2017. The Company has commenced the plan termination process and expects to distribute a portion of the Pension Plan assets by the end of 2017 and the remainder in the first quarter of 2018. Upon regulatory approval and the distribution of plan assets, the Company expects to recognize a loss up to a total of approximately \$8.0 million during the fourth quarter of 2017 and first quarter of 2018 associated with the plan termination. The loss will include up to \$1.1 million in cash required to terminate the pension plan and the remainder will be non-cash in nature. The unrecognized loss will be triggered upon the distribution of Pension Plan assets.

17. Subsequent Events

Dividend

On October 17, 2017 the Company declared a dividend of \$0.17 per share for the quarter ended December 31, 2017, payable on January 3, 2017 to shareholders of record as of December 18, 2017.

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. These forward-looking statements are based upon information currently available to the Company and are subject to a number of risks, uncertainties, and other factors that could cause the Company's actual results, performance, prospects, or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Important factors that could cause the Company's actual results to differ materially from the results referred to in the forward-looking statements the Company makes in this report include:

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

- changes in market conditions that would result in the impairment of goodwill or other assets of the Company;
- changes in accounting rules and standards, audits, compliance with the Sarbanes-Oxley Act, and regulatory investigations;
- the effects of changes to critical accounting estimates;
- changes in volatility of the Company's stock price and the risk of litigation following a decline in the price of the Company's stock;
- failure of the Company's operating equipment or information technology infrastructure;
- the Company's ability to implement our Enterprise Resource Planning (ERP) system;
- the Company's access to capital, credit ratings, indebtedness, and ability to raise additional capital and operate under the terms of the Company's debt obligations;
- the risks associated with our debt;
- the risks associated with the Company's exposure to variable interest rates and foreign currency exchange rates;
- the risks associated with interest rate swap contracts;
- the risks associated with the Company's being subject to tax laws and regulations in various jurisdictions;
- the risks associated with the Company's exposure to renewable energy markets;
- the risks related to regulations regarding conflict minerals;
- the risks associated with the volatility and disruption in the global financial markets;
- the Company's ability to successfully execute, manage and integrate key acquisitions and mergers, including but not limited to the Svendborg Acquisition, the Guardian Acquisition and the Stomag 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, 2016, 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, 2016. Unless the context requires otherwise, the terms "Altra," "Altra Industrial Motion Corp.," "the Company," "we," "us," and "our" refer to Altra Industrial Motion Corp. and its subsidiaries.

General

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

Business Segments

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

- *Couplings, Clutches & Brakes.*

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

- *Electromagnetic Clutches & Brakes.*

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

- *Gearing.*

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

The following tables show the percentage of net sales and operating income generated by each of our three segments for the quarters and year to date periods ended September 30, 2017 and 2016:

| | Net Sales | | | |
|-----------------------------------|-----------------------|-----------------------|---------------------------|-----------------------|
| | Quarter Ended | | Year to Date Period Ended | |
| | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Couplings, Clutches & Brakes | 52% | 45% | 51% | 43% |
| Electromagnetic Clutches & Brakes | 27% | 29% | 29% | 31% |
| Gearing | 21% | 26% | 20% | 26% |

| | Operating Income | | | |
|-----------------------------------|--------------------|--------------------|---------------------------|-----------------------|
| | Quarter Ended | | Year to Date Period Ended | |
| | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Couplings, Clutches & Brakes | 52% | 35% | 45% | 35% |
| Electromagnetic Clutches & Brakes | 25% | 35% | 30% | 35% |
| Gearing | 23% | 30% | 25% | 30% |

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

Business Outlook

During the quarter ended September 30, 2017, we saw continued improvement in certain of our end markets that previously had been challenged. As our markets strengthen, we expect to benefit increasingly from our work during the past few years on our facility consolidation, supply chain and operational excellence initiatives. Moreover, we believe we are now in a position to capitalize on the positive momentum in the industrial economy by driving growth initiatives. To this end, our sales and engineering teams are targeting specific strategic end markets with focused activities to generate new opportunities. We continue to be encouraged by the progress of the integration of our Stromag acquisition and we have already experienced an increase in cross-selling opportunities. We continue to seek further acquisitions, but remain highly disciplined in that pursuit.

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, 2016. There have been no changes in the identification or application of the Company's critical accounting policies during the quarter ended September 30, 2017.

Recent Accounting Standards

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

Results of Operations

(Amounts in thousands, unless otherwise noted)

| | Quarter Ended | | Year to Date Period Ended | |
|--|-----------------------|-----------------------|---------------------------|-----------------------|
| | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Net sales | \$ 214,623 | \$ 173,132 | \$ 653,415 | \$ 536,259 |
| Cost of sales | 145,610 | 118,957 | 446,109 | 369,254 |
| Gross profit | 69,013 | 54,175 | 207,306 | 167,005 |
| <i>Gross profit percentage</i> | 32.2% | 31.3% | 31.7% | 31.1% |
| Selling, general and administrative expenses | 41,009 | 36,142 | 123,012 | 105,548 |
| Research and development expenses | 6,051 | 4,267 | 18,434 | 13,345 |
| Restructuring costs | 680 | 3,397 | 3,776 | 6,591 |
| Income from operations | 21,273 | 10,369 | 62,084 | 41,521 |
| Interest expense, net | 1,811 | 2,815 | 5,547 | 8,615 |
| Other non-operating income (loss), net | 696 | 45 | 30 | (438) |
| Loss on extinguishment of debt | — | — | 1,797 | — |
| Income before income taxes | 18,766 | 7,509 | 54,710 | 33,344 |
| Provision for income taxes | 5,489 | 2,196 | 15,723 | 9,872 |
| Net income | \$ 13,277 | \$ 5,313 | \$ 38,987 | \$ 23,472 |

Quarter Ended September 30, 2017 compared with Quarter Ended September 30, 2016

(Amounts in thousands, unless otherwise noted)

| | Quarter-Ended | | | |
|-----------|-----------------------|-----------------------|-----------|-------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| Net sales | \$ 214,623 | \$ 173,132 | \$ 41,491 | 24.0% |

The increase in sales during the quarter ended September 30, 2017 was due to the acquisition of Stromag, price increases, higher sales levels in several end markets and the favorable effect of changes in foreign exchange rates of \$2.5 million. Of the increase in sales, approximately \$34.9 million relates to the inclusion of additional sales as a result of the acquisition of Stromag for the quarter. In addition, price increases contributed \$1.7 million to the increase during the quarter. The rest of the increase related to a recovery in sales levels in various end markets in the Couplings, Clutches, and Brakes business segment.

Amounts in thousands, except percentage data

| | Quarter Ended | | | |
|---|-----------------------|-----------------------|-----------|-------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Gross Profit</i> | \$ 69,013 | \$ 54,175 | \$ 14,838 | 27.4% |
| <i>Gross Profit as a percent of sales</i> | 32.2% | 31.3% | | |

Gross profit as a percentage of sales increased during the quarter ended September 30, 2017 primarily due to improvements realized from our consolidation and cost saving efforts as well as a modest improvement in some of our more profitable end markets.

Amounts in thousands, except percentage data

| | Quarter Ended | | | |
|---|-----------------------|-----------------------|----------|-------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Selling, general and administrative expense ("SG&A")</i> | \$ 41,009 | \$ 36,142 | \$ 4,867 | 13.5% |
| <i>SG&A as a percent of sales</i> | 19.1% | 20.9% | | |

The increase in SG&A is primarily due to the inclusion of SG&A related to the Stromag business. This amount is partially offset by a decrease in year over year US healthcare costs and certain reductions as a result of our plant consolidations.

Amounts in thousands, except percentage data

| | Quarter Ended | | | |
|--|-----------------------|-----------------------|----------|-------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Research and development expenses ("R&D")</i> | \$ 6,051 | \$ 4,267 | \$ 1,784 | 41.8% |

The increase in R&D is due to the inclusion of Stromag for the quarter ended September 30, 2017.

Amounts in thousands, except percentage data

| | Quarter Ended | | | |
|----------------------------|-----------------------|-----------------------|------------|---------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Restructuring Costs</i> | \$ 680 | \$ 3,397 | \$ (2,717) | (80.0)% |

During 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 \$1.9 million of the decrease is related to activity in the Couplings, Clutches and Brakes segment not present in the current quarter under the 2015 Altra Plan. The Company does not expect to incur any additional material costs as a result of the 2015 Plan. During the quarter ended September 30, 2017, the Company commenced a new restructuring plan ("2017 Altra Plan") as a result of the Stromag acquisition and to rationalize its global renewable energy business. The actions taken pursuant to the 2017 Altra Plan include reducing headcount, facility consolidations and the elimination of certain costs. Approximately \$0.6 million of the expense in the current quarter is related to activity in the Couplings, Clutches and Brakes segment under the 2017 Altra Plan. The company expects to incur approximately \$2.0 to \$4.0 million in additional expense through 2019 related to the 2017 Altra Plan.

Amounts in thousands, except percentage data

| | Quarter Ended | | | |
|------------------------------|-----------------------|-----------------------|------------|---------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Interest Expense, net</i> | \$ 1,811 | \$ 2,815 | \$ (1,004) | (35.7)% |

Interest expense decreased significantly during the quarter as a result of the conversion and redemption of our convertible notes and the favorable impact of the cross currency interest rate swaps despite the higher borrowing under our Credit Facility for the Stromag Acquisition.

Amounts in thousands, except percentage data

| | Quarter Ended | | | |
|--|-----------------------|-----------------------|--------|---------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Other non-operating income, net</i> | \$ 696 | \$ 45 | \$ 651 | 1446.7% |

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

Amounts in thousands, except percentage data

| | Quarter Ended | | | |
|--|-----------------------|-----------------------|----------|--------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Provision for income taxes</i> | \$ 5,489 | \$ 2,196 | \$ 3,293 | 150.0% |
| <i>Provision for income taxes as a % of income before income taxes</i> | 29.2% | 29.2% | | |

The provision for income tax, as a percentage of income before taxes was flat for the quarter ended September 30, 2017 as compared to the quarter ended September 30, 2016.

Year to Date Ended September 30, 2017 compared with Year to Date Ended September 30, 2016

(Amounts in thousands, unless otherwise noted)

Amounts in thousands, except percentage data

| | Year to Date Ended | | | |
|------------------|-----------------------|-----------------------|------------|-------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Net sales</i> | \$ 653,415 | \$ 536,259 | \$ 117,156 | 21.8% |

The increase in sales during the year to date period ended September 30, 2017 was due to the acquisition of Stromag, price increases, and higher sales levels in several end markets partially offset by the effect of changes in foreign exchange rates of \$5.4 million. Of the increase in sales, approximately \$103.0 million relates to the inclusion of additional sales as a result of the acquisition of Stromag. In addition, price increases contributed \$4.9 million to the increase. The rest of the increase related to a recovery in sales levels in various end markets in the Couplings, Clutches, and Brakes business segment

Amounts in thousands, except percentage data

| | Year to Date Ended | | | |
|---|-----------------------|-----------------------|-----------|-------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Gross Profit</i> | \$ 207,306 | \$ 167,005 | \$ 40,301 | 24.1% |
| <i>Gross Profit as a percent of sales</i> | 31.7% | 31.1% | | |

Gross profit as a percentage of sales increased slightly during the year to date period ended September 30, 2017 primarily as a result of our plant consolidations, price increases, and improving end markets. The increase in gross profit was partially offset by the impact of acquired inventory related to the Stromag acquisition in the amount of \$2.3 million which was recorded at fair value rather than cost.

Amounts in thousands, except percentage data

| | Year to Date Ended | | | |
|---|-----------------------|-----------------------|-----------|-------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Selling, general and administrative expense ("SG&A")</i> | \$ 123,012 | \$ 105,548 | \$ 17,464 | 16.5% |
| <i>SG&A as a percent of sales</i> | 18.8% | 19.7% | | |

The increase in SG&A is primarily due to the inclusion of SG&A related to the Stromag business.

Amounts in thousands, except percentage data

| | Year to Date Ended | | | |
|--|-----------------------|-----------------------|----------|-------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Research and development expenses ("R&D")</i> | \$ 18,434 | \$ 13,345 | \$ 5,089 | 38.1% |

The increase in R&D is due to the inclusion of Stromag for the year.

Amounts in thousands, except percentage data

| | Year to Date Ended | | | |
|----------------------------|-----------------------|-----------------------|------------|---------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Restructuring Costs</i> | \$ 3,776 | \$ 6,591 | \$ (2,815) | (42.7)% |

During 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 \$1.8 million, \$0.8 million, and \$0.5 million of the restructuring costs, associated with the 2015 Altra Plan, were related to the Couplings, Clutches and Brakes, Gearing, and Corporate, respectively. The Company does not expect to incur any additional material costs as a result of the 2015 Plan. During the quarter ended September 30, 2017, the Company commenced a new restructuring plan ("2017 Altra Plan") as a result of the Stromag acquisition and to rationalize its global renewable energy business. The actions taken pursuant to the 2017 Altra Plan include reducing headcount, facility consolidations and the elimination of certain costs. Approximately \$0.6 million of the expense in the current quarter is related to activity in the Couplings, Clutches and Brakes segment under the 2017 Altra Plan. The company expects to incur approximately \$2.0 to \$4.0 million in additional expense through 2019 related to the 2017 Altra Plan.

Amounts in thousands, except percentage data

| | Year to Date Ended | | | |
|------------------------------|-----------------------|-----------------------|------------|---------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Interest Expense, net</i> | \$ 5,547 | \$ 8,615 | \$ (3,068) | (35.6)% |

Interest expense decreased significantly during the period as a result of the conversion and redemption of our convertible notes and the favorable impact of the cross currency interest rate swaps despite the higher borrowing under our 2015 Revolving Credit Facility for the Stromag Acquisition.

Amounts in thousands, except percentage data

| | Year to Date Ended | | | |
|--|-----------------------|-----------------------|--------|----------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Other non-operating income, net</i> | \$ 30 | \$ (438) | \$ 468 | (106.8)% |

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

Amounts in thousands, except percentage data

| | Year to Date Ended | | | |
|--|-----------------------|-----------------------|----------|-------|
| | September 30, 2017 | September 30, 2016 | Change | % |
| <i>Provision for income taxes</i> | \$ 15,723 | \$ 9,872 | \$ 5,851 | 59.3% |
| <i>Provision for income taxes as a % of income before income taxes</i> | | 28.7% | | 29.6% |

The provision for income tax, as a percentage of income before taxes decreased for the year to date period ended September 30, 2017 as compared to the year to date period ended September 30, 2016. This decrease is a combined result of the income in China associated with the closure of the Company's Changzhou facility which was offset by previously recognized net operating losses, and the adoption of FASB Accounting Standards Update 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09") on January 1, 2017. Income tax expense included a benefit of \$0.6 million arising from a cash tax deduction on restricted stock awards that vested in 2017.

Segment Performance.

Amounts in thousands

| | Quarters Ended September 30, | | Year to date periods Ended September 30, | |
|-----------------------------------|------------------------------|------------|--|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net Sales: | | | | |
| Couplings, Clutches & Brakes | \$ 110,109 | \$ 77,446 | \$ 327,310 | \$ 231,225 |
| Electromagnetic Clutches & Brakes | 58,304 | 50,680 | 187,463 | 165,083 |
| Gearing | 48,368 | 47,023 | 144,545 | 145,038 |
| Intra-segment eliminations | (2,158) | (2,017) | (5,903) | (5,087) |
| Net sales | \$ 214,623 | \$ 173,132 | \$ 653,415 | \$ 536,259 |
| Income from operations: | | | | |
| Segment earnings: | | | | |
| Couplings, Clutches & Brakes | \$ 12,679 | \$ 6,596 | \$ 33,032 | \$ 20,441 |
| Electromagnetic Clutches & Brakes | 6,138 | 6,589 | 21,894 | 20,120 |
| Gearing | 5,689 | 5,650 | 17,804 | 17,280 |
| Restructuring | (680) | (3,397) | (3,776) | (6,591) |
| Corporate expenses (1) | (2,553) | (5,069) | (6,870) | (9,729) |
| Income from operations | \$ 21,273 | \$ 10,369 | \$ 62,084 | \$ 41,521 |

- (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 \$110.1 million in the quarter ended September 30, 2017, an increase of approximately \$32.7 million or 42.2%, from the quarter ended September 30, 2016. Approximately \$28.8 million of the increase was due to the inclusion of sales from the newly acquired Stromag business for the quarter. The remainder of the increase was due to a modest recovery in certain of our more profitable end markets. Segment operating income increased approximately \$6.1 million compared to the prior period primarily as a result of the addition of Stromag and plant consolidations.

Electromagnetic Clutches & Brakes

Net sales in the Electromagnetic Clutches & Brakes segment were \$58.3 million in the quarter ended September 30, 2017, an increase of approximately \$7.6 million, or 15.0%, from the quarter ended September 30, 2016. Approximately \$6.0 million of the increase was due to the inclusion of sales from the newly acquired Stromag business in the quarter. Segment operating income decreased \$0.5 million compared to the prior period primarily as a result of the impact of foreign exchange.

Gearing

Net sales in the Gearing segment were \$48.4 million in the quarter ended September 30, 2017, which were similar to the prior year. Segment operating income was consistent compared to the prior period.

Liquidity and Capital Resources

Overview

We finance our capital and working capital requirements through a combination of cash flows from operating activities and borrowings under our 2015 Revolving Credit Facility (defined below). We expect that our primary ongoing requirements for cash will be for working capital, debt service, capital expenditures, acquisitions, pensions, dividends and share repurchases. In the event additional funds are needed for operations, we could borrow additional funds available under our existing 2015 Revolving Credit Facility, request an expansion by up to \$150 million of the amount available to be borrowed under the 2015 Credit Agreement, attempt to secure new debt, attempt to refinance our loans under the 2015 Credit Agreement, or attempt to raise capital in the equity markets. As of September 30, 2017, we have the ability under our 2015 Revolving Credit Facility to borrow an additional \$138.9 million based on current availability calculations. There can be no assurance however that additional debt financing will be available on commercially acceptable terms, if at all. Similarly, there can be no assurance that equity financing will be available on commercially acceptable terms, if at all.

Second Amended and Restated Credit Agreement

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

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

The stated maturity of the 2015 Revolving Credit Facility is October 22, 2020.

The amounts available under the 2015 Revolving Credit Facility may be drawn upon in accordance with the terms of the 2015 Credit Agreement. All amounts outstanding under the 2015 Revolving Credit Facility are due on the stated maturity or such earlier time, if any, required under the 2015 Credit Agreement. The amounts owed under the 2015 Revolving Credit Facility may be prepaid

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

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

Ratification Agreement

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

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

Additional Trademark Security Agreement and Patent Security Agreement

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

As of September 30, 2017 and December 31, 2016 we had \$282.4 million and \$313.6 million outstanding on our 2015 Revolving Credit Facility, respectively. As of September 30, 2017 and December 31, 2016, we had \$3.7 million, and \$4.1 million in letters of credit outstanding, respectively. We had \$138.9 million available to borrow under the 2015 Revolving Credit Facility at September 30, 2017. On October 21, 2016, the Company entered into a First Amendment to the Second Amended and Restated Credit Agreement.

We were in compliance in all material respects with all covenants of the indenture governing the 2015 Credit Agreement at September 30, 2017.

Convertible Senior Notes

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

On December 12, 2016 the Company gave notice to the holders of the Convertible Notes of its intention to redeem all of the Convertible Notes outstanding on January 12, 2017 (the “Redemption Date”), pursuant to the optional redemption provisions in the Indenture. The redemption price for the Convertible Notes was 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the Redemption Date plus a Make-Whole Premium equal to the present values of the remaining scheduled payments of interest on any Convertible Notes through March 1, 2018 (excluding interest accrued to, but excluding, the Redemption Date). In lieu of receiving the redemption price, holders of the Notes could surrender their Convertible Notes for conversion at any time before January 9, 2017. The conversion rate of the Convertible Notes was 39.0809 shares of the Company’s common stock, for each \$1,000 of outstanding principal of the Convertible Notes. As of December 31, 2016 approximately \$39.3 million notes were converted resulting in the issuance of 1.5 million shares of the Company’s common stock. As a result of the conversion, the Company incurred a loss on extinguishment of debt of approximately \$1.9 million and the carrying value of the Convertible Notes was \$42.9 million as of December 31, 2016. In January 2017, the remaining principal was converted to common stock, with the exception of \$0.9 million that was redeemed for cash. The Company incurred an additional loss on extinguishment of debt of approximately \$1.8 million during the quarter ended March 31, 2017.

Borrowings

| | Amounts in millions | |
|---------------------------|-----------------------|----------------------|
| | September 30, 2017 | December 31, 2016 |
| Debt: | | |
| Revolving Credit Facility | \$ 282.4 | \$ 313.6 |
| Convertible Notes | - | 45.7 |
| Mortgages | 12.9 | 12.7 |
| Capital leases | 0.3 | 0.4 |
| Total debt | <u>\$ 295.6</u> | <u>\$ 372.4</u> |

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, 2017 and September 30, 2016, respectively:

| | September 30, 2017 | September 30, 2016 | Change |
|--|-----------------------|-----------------------|------------------|
| Cash and cash equivalents at the beginning of the year | \$ 69,118 | \$ 50,320 | \$ 18,798 |
| Cash flows used in operating activities | 43,289 | 46,894 | (3,605) |
| Cash flows used in investing activities | (17,157) | (15,684) | (1,473) |
| Cash flows used in financing activities | (49,248) | (41,943) | (7,305) |
| Effect of exchange rate changes on cash and cash equivalents | 7,149 | 178 | 6,971 |
| Cash and cash equivalents at the end of the period | <u>\$ 53,151</u> | <u>\$ 39,765</u> | <u>\$ 13,386</u> |

Cash Flows for 2017

Net cash provided from operating activities was approximately \$43.3 million for the year to date period ended September 30, 2017. This was generated by net income of \$39.0 million and the net impact of the add-back of certain items including non-cash depreciation, amortization of intangible assets, stock-based compensation, accretion of debt discount, amortization of deferred financing costs, loss on extinguishment of debt, loss on disposal of fixed assets, amortization of inventory fair value adjustment and

non-cash loss on foreign currency which was approximately \$36.2 million. This was partially offset by a net increase in current assets and liabilities of approximately \$31.9 million.

Net cash used in investing activities for the year to date period ended September 30, 2017 increased approximately \$1.5 million compared to the year to date period ended September 30, 2016. The increase is attributed to higher purchases of manufacturing equipment and plant construction projects at certain facilities. This increase is partially offset by proceeds from the sale of Changzhou equity and the completion of the working capital adjustment under the Stromag sale and purchase agreement.

Net cash used in financing activities in the year to date period ended September 30, 2017 as compared to the year to date period ended September 30, 2016 increased by \$7.3 million. This increase relates primarily to increased net debt payments on the Revolving Credit Facility as of the year to date period ended September 30, 2017.

We intend to use our remaining cash and cash equivalents and cash flow from operations to provide for our working capital needs, to fund potential future acquisitions, to service our debt, including principal payments, for capital expenditures, for pension funding, share repurchases and to pay dividends to our stockholders. As of September 30, 2017 we have approximately \$49.9 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 2015 Revolving Credit Facility provide additional potential sources of liquidity should they be required.

Contractual Obligations

There were no material changes in our contractual obligations during the period ended September 30, 2017.

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, 2016.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of September 30, 2017, 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, 2017, 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, 2017, 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, 2016.

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, 2016 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, 2016 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, 2016 are incorporated herein by reference.

During the reporting period there were no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

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, 2017.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as 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, 2017 to July 31, 2017 | — | \$ — | — | \$ 30,000,000 |
| August 1, 2017 to August 30, 2017 | — | \$ — | — | \$ — |
| September 1, 2017 to September 30, 2017 | — | \$ — | — | \$ — |

- (1) On October 19, 2016, our board of directors approved a new share repurchase program authorizing the buyback of up to \$30.0 million of the Company's common stock through December 31, 2019. This plan, which was announced on October 21, 2016, replaces the previous share repurchase program which was terminated. The Company expects to purchase shares on the open market, through block trades, in privately negotiated transactions, in compliance with SEC Rule 10b-18 (including through Rule 10b5-1 plans), or in any other appropriate manner. The timing of the shares repurchased will be at the discretion of management and will depend on a number of factors, including price, market conditions and regulatory requirements. Shares acquired through the repurchase program will be retired. The Company retains the right to limit, terminate or extend the share repurchase program at any time without prior notice. The Company expects to fund any further repurchases of its common stock through a combination of cash on hand and cash generated by operations.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

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

Under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) to the Securities Exchange Act of 1934, as amended, we are required to disclose whether Altra or any of its affiliates knowingly engaged in

certain activities, transactions or dealings relating to Iran or certain designated individuals or entities. Disclosure is required even when the activities were conducted outside the United States by non-U.S. entities and even when such activities were conducted in compliance with applicable law. The following information is disclosed pursuant to Section 13(r). None of the following activities involved U.S. affiliates of Altra.

During the reporting period, Bibby Transmissions Limited, a subsidiary of Altra organized and existing under the laws of England (“Bibby”), sold couplings to a customer in the United Kingdom, for ultimate re-sale to an Iranian end user for use in a gas treating plant. Gross revenues received by Bibby in connection with this transaction were approximately GBP 12.3 thousand and net profits were approximately GBP 5.9 thousand. Bibby intends to continue pursuing opportunities with this direct customer and end user, to the extent compliant with applicable law.

Item 6. Exhibits

The following exhibits are filed as part of this report:

| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|---|
| 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. |
| 101* | The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, 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. |
| † | Management contract or compensatory plan or arrangement. |
| (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 25, 2017

By: /s/ Carl R. Christenson
Name: Carl R. Christenson
Title: Chairman and Chief Executive Officer

October 25, 2017

By: /s/ Christian Storch
Name: Christian Storch
Title: Vice President and Chief Financial Officer

October 25, 2017

By: /s/ Todd B. Patriacca
Name: Todd B. Patriacca
Title: Vice President of Finance, Corporate Controller and Treasurer

Certification of Chief Executive Officer

I, Carl R. Christenson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Altra Industrial Motion Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2017

By: /s/ Carl R. Christenson

Name: Carl R. Christenson

Title: Chairman and Chief Executive Officer

Certification of Chief Financial Officer

I, Christian Storch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Altra Industrial Motion Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2017

By: /s/ Christian Storch
Name: Christian Storch
Title: Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Altra Industrial Motion Corp. (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carl R. Christenson, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2017

By: /s/ Carl R. Christenson
Name: Carl R. Christenson
Title: Chairman and Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Altra Industrial Motion Corp. (the "Company") on Form 10-Q for the period ended September 30, 2017 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christian Storch, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2017

By: /s/ Christian Storch
Name: Christian Storch
Title: Vice President and Chief Financial Officer

