

Altra Holdings, Inc.  
Form 10-K  
March 06, 2009

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

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

- p** **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2008**
- OR**
- o** **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from        to**

**Commission file number: 001-33209**

**ALTRA HOLDINGS, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**300 Granite Street, Suite 201 Braintree, MA**

*(Address of principal executive offices)*

**61-1478870**

*(I.R.S. Employer  
Identification No.)*

**02184**

*(Zip Code)*

**Registrant's telephone number, including area code:**

**(781) 917-0600**

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of Each Class**

**Name of Each Exchange on Which Registered**

Common Stock, \$0.001 par value

NASDAQ Global Market

**Securities registered pursuant to Section 12(g) of the Act:**

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☒ No ☐

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant based on the closing price (as reported by NASDAQ) of such common stock on the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2008) was approximately \$419.8 million.

As of March 1, 2009, there were 26,663,399 shares of Common Stock, \$.001 par value per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the following document are incorporated herein by reference into the Part of the Form 10-K indicated.

| <b>Document</b>  | <b>Part of Form 10-K into which Incorporated</b> |
|--|--|
| Altra Holdings, Inc. Proxy Statement for the 2009 Annual Meeting of Stockholders | Part III   |

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**FORWARD-LOOKING STATEMENTS**

We make forward-looking statements throughout this Form 10-K. Whenever you read a statement that is not solely a statement of historical fact, such as when we state that we believe, expect, anticipate or plan that an event will occur and other similar statements, you should understand that our expectations may not be correct, although we believe they are reasonable, and that our plans may change. We do not guarantee that the transactions and events described in this Form 10-K will happen as described or that any positive trends noted in this Form 10-K will continue. The forward-looking information contained in this Form 10-K is generally located under the headings, Risk Factors,

Management's Discussion and Analysis of Financial Condition and Results of Operations and Business, but may be found in other locations as well. These forward-looking statements generally relate to our strategies, plans and objectives for, and potential results of, future operations and are based upon management's current plans and beliefs or current estimates of future results or trends.

Forward-looking statements regarding management's present plans or expectations for new product offerings, capital expenditures, increasing sales, cost-saving strategies and growth involve risks and uncertainties relative to among other things, return expectations, allocation of resources and changing economic or competitive conditions, and as a result, actual results could differ from present plans or expectations and such differences could be material. Similarly, forward-looking statements regarding management's present expectations for operating results and cash flow involve risks and uncertainties relative to these and other factors, such as the ability to increase revenues and/or to achieve cost reductions, and other factors discussed under Risk Factors or elsewhere in this Form 10-K, which also would cause actual results to differ from present plans or expectations. Such differences could be material.

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### **Item 1. *Business***

#### **Our Company**

We are a leading global designer, producer and marketer of a wide range of mechanical power transmission, or MPT, and motion control products serving customers in a diverse group of industries, including energy, general industrial, material handling, mining, transportation and turf and garden. Our product portfolio includes industrial clutches and brakes, enclosed gear drives, open gearing, engineered belted drives, couplings, engineered bearing assemblies, linear components and other related products. Our products are used in a wide variety of high-volume manufacturing processes, where the reliability and accuracy of our products are critical in both avoiding costly down time and enhancing the overall efficiency of manufacturing operations. Our products are also used in non-manufacturing applications where product quality and reliability are especially critical, such as clutches and brakes for elevators and residential and commercial lawnmowers. For the year ended December 31, 2008, we had net sales of \$635.3 million and net income of \$6.5 million.

We market our products under well recognized and established brands, many of which have been in existence for over 50 years. We believe many of our brands, when taken together with our brands in the same product category have achieved the number one or number two position in terms of consolidated market share and brand awareness in their respective product categories. Our products are either incorporated into products sold by original equipment manufacturers, or OEMs, sold to end users directly or sold through industrial distributors.

We are led by a highly experienced management team that has established a proven track record of executing, successfully completing and integrating major strategic acquisitions and delivering significant growth in both revenue and profits. We employ a comprehensive business process called the Altra Business System, or ABS, which focuses on eliminating inefficiencies from every business process to improve quality, delivery and cost.

We file reports and other documents with the Securities and Exchange Commission. You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You should call 1-800-SEC-0330 for more information on the public reference room. Our SEC Filings are also available to you on the SEC's internet site at <http://www.sec.gov>.

Our internet address is [www.altramotion.com](http://www.altramotion.com). We are not including the information contained in our website as part of, or incorporating it by reference into, this annual report on Form 10-K.

#### **Our Industry**

Based on industry data supplied by Penton Information Services, we estimate that industrial power transmission products generated sales in the United States of approximately \$36.0 billion in 2008. These products are used to generate, transmit, control and transform mechanical energy. The industrial power transmission industry can be divided into three areas: MPT products; motors and generators; and adjustable speed drives. We compete primarily in the MPT area which, based on industry data, we estimate was a \$17.8 billion market in the United States in 2008.

The global MPT market is highly fragmented, with over 1,000 small manufacturers. While smaller companies tend to focus on regional niche markets with narrow product lines, larger companies that generate annual sales of over \$100 million generally offer a much broader range of products and have global capabilities. The industry's customer base is broadly diversified across many sectors of the economy and typically places a premium on factors such as quality, reliability, availability and design and application engineering support. We believe the most successful industry participants are those that leverage their distribution network, their products' reputations for quality and reliability and their service and technical support capabilities to maintain attractive margins on products and gain

market share.

### **Our Strengths**

*Leading Market Shares and Brand Names.* We believe we hold the number one or number two market position in key products across several of our core platforms. We believe that over 50% of our sales

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from continuing operations are derived from products where we hold the number one or number two share and brand recognition, on a consolidated basis with our brands in the same product category, in the markets we serve.

*Large Installed Base Supporting Aftermarket Sales.* With a history dating back to 1857 with the formation of TB Woods, we believe we benefit from one of the largest installed customer bases in the industry which has led to significant aftermarket replacement demand creating a recurring revenue stream. For the year ended December 31, 2008, we estimate that approximately 44% of our revenues from continuing operations were derived from aftermarket sales.

*Diversified End-Markets.* Our revenue base has balanced exposure across a diverse mix of end user industries, including energy, general industrial, material handling, mining, transportation and turf and garden, which helps mitigate the impact of business and economic cycles. In 2008, no single industry represented more than 8% of our total sales from continuing operations, and approximately 31% of our sales from continuing operations were from outside North America.

*Strong Relationships with Distributors and OEMs.* We have over 1,000 direct OEM customers and enjoy established, long-term relationships with the leading MPT industrial distributors, critical factors that contribute to our high base of recurring aftermarket revenues. We sell our products through more than 3,000 distributor outlets worldwide.

*The Altra Business System.* We benefit from an established culture of lean management emphasizing quality, delivery and cost through the ABS. ABS is at the core of our performance-driven culture and drives both our strategic development and operational improvements.

*Proven Product Development Capabilities.* Our extensive application engineering know-how drives both new and repeat sales. Our broad portfolio of products, knowledge and expertise across various MPT applications allows us to provide our customers customized solutions to meet their specific needs. We are highly focused on developing new products in response to customer requirements. We employ approximately 183 non-manufacturing engineers involved with product development, research and development, test and technical customer support. Recent new product development examples include the Foot/Deck Mount Kopper Kool Brake which was designed for very high heat dissipation in extremely rugged tensioning applications such as draw works for oil and gas wells and anchoring systems for on-shore and off-shore drilling platforms.

## **Our Business Strategy**

Our long-term strategy is to increase our sales through organic growth, expand our geographic reach and product offering through strategic acquisitions and improve our profitability through cost reduction initiatives. In the near term, we are focused on cost reduction measures and working capital improvements. We seek to achieve these objectives through the following strategies:

*Leverage Our Sales and Distribution Network.* We intend to continue to leverage our relationships with our distributors to gain shelf space, further integrate our recently acquired brands with our core brands and sell new products. We seek to capitalize on customer brand preference for our products to generate pull-through aftermarket demand from our distribution channel.

*Focus our Strategic Marketing on New Growth Opportunities.* Through a systematic process that leverages our core brands and products, we seek to identify attractive markets and product niches, collect customer and market data, identify market drivers, tailor product and service solutions to specific market and customer requirements and deploy resources to gain market share and drive future sales growth.



*Accelerate New Product and Technology Development.* We focus on developing new products across our business in response to customer needs in various markets. In total, new products developed by us during the past three years generated approximately \$86 million in revenues from continuing operations in 2008.

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*Capitalize on Growth and Sourcing Opportunities in the Asia-Pacific Market.* We intend to leverage our established sales offices in the Asia Pacific region and expand into regions where we currently do not have sales representation,. We also intend to expand our manufacturing presence in Asia beyond our current plant in Shenzhen, China. During 2008, we sourced approximately 21% of our purchases from low-cost countries, resulting in average cost reductions of approximately 45% for these products. Within the next five years, we intend to utilize our sourcing office in Shanghai to significantly increase our current level of low-cost country sourced purchases. We may also consider additional opportunities to outsource some of our production from North American and Western European locations to Asia or lower cost regions.

*Continue to Improve Operational and Manufacturing Efficiencies through ABS.* We believe we can continue to improve profitability through cost control, overhead rationalization, global process optimization, continued implementation of lean manufacturing techniques and strategic pricing initiatives. We have implemented these principles with our acquisitions of Hay Hall, Warner Linear, All Power and TB Wood s and intend to apply such principles to future acquisitions.

*Pursue Strategic Acquisitions that Complement our Strong Platform.* Management believes that there may be a number of attractive potential acquisition candidates in the future, in part due to the fragmented nature of the industry. We plan to continue our disciplined pursuit of other strategic acquisitions to accelerate our growth, enhance our industry leadership and create value.

***Products***

We produce and market a wide variety of MPT products. Our product portfolio includes industrial clutches and brakes, open and enclosed gearing, couplings, engineered belted drives, engineered bearing assemblies and other related power transmission components which are sold across a wide variety of industries. Our products benefit from our industry leading brand names including Warner Electric, Boston Gear, TB Wood s, Kilian, Nuttall Gear, Ameridrives, Wichita Clutch, Formsprag Clutch, Bibby Transmissions, Stieber, Matrix, Inertia Dynamics, Twiflex, Industrial Clutch, Huco Dynatork, Marland Clutch, Delroyd, Warner Linear and Saftek. Our products serve a wide variety of end markets including aerospace, energy, food processing, general industrial, material handling, mining, petrochemical, transportation and turf and garden. We primarily sell our products to OEMs and through long-standing relationships with the industry s leading industrial distributors such as Motion Industries, Applied Industrial Technologies, Kaman Industrial Technologies and W.W. Grainger. The following discussion of our products does not include detailed product category revenue because such information is not individually tracked by our financial reporting system and is not separately reported by our general purpose financial statements. Conducting a detailed product revenue internal assessment and audit would involve unreasonable effort and expense as revenue information by product line is not available. We maintain sales information by operating facility, but do not maintain any accounting sales data by product line.

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

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

*Clutches and Brakes.* Clutches are devices which use mechanical, magnetic, 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. We manufacture a variety of clutches and brakes in three main product categories: electromagnetic, overrunning and heavy duty. Our core clutch and brake manufacturing facilities are located in Connecticut, Indiana, Illinois, Michigan, Texas, the United Kingdom, Germany, France and China.

*Electromagnetic Clutches and Brakes.* Our industrial products include clutches and brakes with specially designed controls for material handling, forklift, elevator, medical mobility, mobile off-highway, baggage handling and plant productivity applications. We also offer a line of clutch and brake products for walk-behind mowers, residential lawn tractors and commercial mowers. While industrial applications are predominant, we also manufacture several vehicular niche applications including on-road refrigeration compressor clutches and agricultural equipment clutches. We market our electromagnetic products under the Warner Electric, Inertia Dynamics and Matrix brand names.

*Overrunning Clutches.* Specific product lines include indexing and backstopping clutches. Primary industrial applications include conveyors, gear reducers, hoists and cranes, mining machinery, machine tools, paper machinery, packaging machinery, pumping equipment and other specialty machinery. We market and sell these products under the Formsprag, Marland and Stieber brand names.

*Heavy Duty Clutches and Brakes.* Our heavy duty clutch and brake product lines serve various markets including metal forming, off-shore and land-based oil and gas drilling platforms, mining, material handling, marine applications and various off-highway and



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construction equipment segments. Our line of heavy duty pneumatic, hydraulic and caliper clutches and brakes are marketed under the Wichita Clutch and Twiflex brand names.

*Gearing.* Gears reduce the output speed and increase the torque of an electric motor or engine to the level required to drive a particular piece of equipment. These products are used in various industrial, material handling, mixing, transportation and food processing applications. Specific product lines include vertical and horizontal gear drives, speed reducers and increasers, high-speed compressor drives, enclosed custom gear drives, various enclosed gear drive configurations and open gearing products such as spur, helical, worm and miter/bevel gears. We design and manufacture a broad range of gearing products under the Boston Gear, Nuttall Gear and Delroyd brand names. We manufacture our gearing products at our facilities in New York and North Carolina and sell to a variety of end markets.

*Engineered Couplings.* Couplings are the interface between two shafts, which enable power to be transmitted from one shaft to the other. Because shafts are often misaligned, we designed our couplings with a measure of flexibility that accommodates various degrees of misalignment. Our coupling product line includes gear couplings, high-speed disc and diaphragm couplings, elastomeric couplings, grid couplings, universal joints, jaw couplings and spindles. Our coupling products are used in a wide range of markets including power generation, steel and custom machinery industries. We manufacture a broad range of coupling products under the Ameridrives, Bibby and TB Wood's brand names. Our engineered couplings are manufactured in our facilities in Mexico, Michigan, Pennsylvania, Texas, the United Kingdom and Wisconsin.

*Engineered Bearing Assemblies.* Bearings are components that support, guide and reduce friction of motion between fixed and moving machine parts. Our engineered bearing assembly product line includes ball bearings, roller bearings, thrust bearings, track rollers, stainless steel bearings, polymer assemblies, housed units and custom assemblies. We manufacture a broad range of engineered bearing products under the Kilian brand name. We sell bearing products to a wide range of end markets, including the general industrial and automotive markets, with a particularly strong OEM customer focus. We manufacture our bearing products at our facilities in New York, Canada and China.

*Engineered Belted Drives.* Belted drives incorporate both a rubber-based belt and at least two sheaves or sprockets. Belted drives typically change the speed of an electric motor or engine to the level required for a particular piece of equipment. Our belted drive line includes three types of v-belts, three types of synchronous belts, standard and made-to-order sheaves and sprockets, and split taper bushings. We sell belted drives to a wide range of end markets, including aggregate, energy, chemical and material handling. Our engineered belted drives are primarily manufactured under the TB Wood's brand in our facilities in Pennsylvania and Mexico.

*Power Transmission Components.* Power transmission components are used in a number of industries to generate, transfer or control motion from a power source to an application requiring rotary or linear motion. Power transmission products are applicable in most industrial markets, including, but not limited to metals processing, turf and garden and material handling applications. Specific product lines include linear actuators, miniature and small precision couplings, air motors, friction materials, hydrostatic drives and other various items. We manufacture or market a broad array of power transmission components under several businesses including Warner Linear, Huco Dynatork, Saftek, Boston Gear, Warner Electric, TB Wood's and Matrix. Our core power transmission component manufacturing facilities are located in Illinois, Michigan, North Carolina, the United Kingdom and China.

*Warner Linear.* Warner Linear is a designer and manufacturer of rugged service electromechanical linear actuators for off-highway vehicles, agriculture, turf care, special vehicles, medical equipment, industrial and marine applications.

*Huco Dynatork.* Huco Dynatork is a leading manufacturer and supplier of a complete range of precision couplings, universal joints, rod ends and linkages.

*Other Accessories.* Our Boston Gear, Warner Electric, Matrix and TB Woods businesses make or market several other accessories such as sensors, sleeve bearings, AC/DC motors,

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shaft accessories, face tooth couplings, mechanical variable speed drives, and fluid power components that are used in numerous end markets.

## **Research and Development and Product Engineering**

We closely integrate new product development with marketing, manufacturing and product engineering in meeting the needs of our customers. We have product engineering teams that work to enhance our existing products and develop new product applications for our growing base of customers that require custom solutions. We believe these capabilities provide a significant competitive advantage in the development of high quality industrial power transmission products. Our product engineering teams focus on:

- lowering the cost of manufacturing our existing products;
- redesigning existing product lines to increase their efficiency or enhance their performance; and
- developing new product applications.

Our continued investment in new product development is intended to help drive customer growth as we address key customer needs.

## **Sales and Marketing**

We sell our products in over 70 countries to over 1,000 direct OEM customers and over 3,000 distributor outlets. We offer our products through our direct sales force comprised of 94 company-employed sales associates as well as independent sales representatives. Our worldwide sales and distribution presence enables us to provide timely and responsive support and service to our customers, many of which operate globally, and to capitalize on growth opportunities in both developed and emerging markets around the world.

We employ an integrated sales and marketing strategy concentrated on both key industries and individual product lines. We believe this dual vertical market and horizontal product approach distinguishes us in the marketplace allowing us to quickly identify trends and customer growth opportunities and deploy resources accordingly. Within our key industries, we market to OEMs, encouraging them to incorporate our products into their equipment designs, to distributors and to end-users, helping to foster brand preference. With this strategy, we are able to leverage our industry experience and product breadth to sell MPT and motion control solutions for a host of industrial applications.

## **Distribution**

Our MPT components are either incorporated into end products sold by OEMs or sold through industrial distributors as aftermarket products to end users and smaller OEMs. We operate a geographically diversified business. For the year ended December 31, 2008, we derived approximately 69% of our net sales from continuing operations from customers in North America, 22% from customers in Europe and 9% from customers in Asia and the rest of the world. Our global customer base is served by an extensive global sales network comprised of our sales staff as well as our network of over 3,000 distributor outlets.

Rather than serving as passive conduits for delivery of product, our industrial distributors are active participants in influencing product purchasing decisions in the MPT industry. In addition, distributors play a critical role through stocking inventory of our products, which affects the accessibility of our products to aftermarket buyers. It is for this reason that distributor partner relationships are so critical to the success of the business. We enjoy strong established relationships with the leading distributors as well as a broad, diversified base of specialty and regional distributors.

## Competition

We operate in highly fragmented and very competitive markets within the MPT market. Some of our competitors have achieved substantially more market penetration in certain of the markets in which we operate, such as helical gear drives and some of our competitors are larger than us and have greater financial



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and other resources. In particular, we compete with Emerson Power Transmission Manufacturing LP, Rexnord LLC., Regal-Beloit Corporation and Baldor Electric, Inc.. In addition, with respect to certain of our products, we compete with divisions of our OEM customers. Competition in our business lines is based on a number of considerations including quality, reliability, pricing, availability and design and application engineering support. Our customers increasingly demand a broad product range and we must continue to develop our expertise in order to manufacture and market these products successfully. To remain competitive, we will need to invest regularly in manufacturing, customer service and support, marketing, sales, research and development and intellectual property protection. We may have to adjust the prices of some of our products to stay competitive. In addition, some of our larger, more sophisticated customers are attempting to reduce the number of vendors from which they purchase in order to increase their efficiency. There is substantial and continuing pressure on major OEMs and larger distributors to reduce costs, including the cost of products purchased from outside suppliers such as us. As a result of cost pressures from our customers, our ability to compete depends in part on our ability to generate production cost savings and, in turn, find reliable, cost-effective outside component suppliers or manufacturers for our products. See *Risk Factors* *Risks Related to our Business* *We operate in the highly competitive mechanical power transmission industry and if we are not able to compete successfully our business may be significantly harmed.*

## **Intellectual Property**

We rely on a combination of patents, trademarks, copyright and trade secret laws in the United States and other jurisdictions, as well as employee and third-party non-disclosure agreements, license arrangements and domain name registrations to protect our intellectual property. We sell our products under a number of registered and unregistered trademarks, which we believe are widely recognized in the MPT industry. With the exception of Boston Gear, Warner Electric and TB Wood s, we do not believe any single patent, trademark or trade name is material to our business as a whole. Any issued patents that cover our proprietary technology and any of our other intellectual property rights may not provide us with adequate protection or be commercially beneficial to us and, patents applied for, may not be issued. The issuance of a patent is not conclusive as to its validity or its enforceability. Competitors may also be able to design around our patents. If we are unable to protect our patented technologies, our competitors could commercialize technologies or products which are substantially similar to ours.

With respect to proprietary know-how, we rely on trade secret laws in the United States and other jurisdictions and on confidentiality agreements. Monitoring the unauthorized use of our technology is difficult and the steps we have taken may not prevent unauthorized use of our technology. The disclosure or misappropriation of our intellectual property could harm our ability to protect our rights and our competitive position.

Some of our registered and unregistered trademarks include: Warner Electric, Boston Gear, TB Wood s, Kilian, Nuttall Gear, Ameridrives, Wichita Clutch, Formsprag, Bibby Transmissions, Stieber, Matrix, Inertia Dynamics, Twiflex, Industrial Clutch, Huco Dynatork, Marland, Delroyd, Warner Linear and Saftek.

## **Employees**

As of December 31, 2008, we had 3,164 full-time employees, of whom approximately 62.9% were located in North America, 22.1% in Europe, and 15.1% in Asia. 17.7% of our full-time factory North American employees are represented by labor unions. In addition, approximately 36.8% of our employees in our facility in Scotland are represented by a labor union. Additionally, approximately 100 employees in the TB Wood s production facilities in Mexico are unionized under collective bargaining agreements that are subject to annual renewals. We are a party to four U.S. collective bargaining agreements. Two of the agreements will expire on June 2, 2011 and August 10, 2010, respectively. Another new collective bargaining agreement was reached in February 2009. The new agreement will expire on September 18, 2011. The fourth and final collective bargaining agreement expired in February 2009. The terms of the original agreement will continue to be honored during the negotiations for a new agreement, which are

ongoing.

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One of the four U.S. collective bargaining agreements contains provisions for additional, potentially significant, lump-sum severance payments to all employees covered by that agreement who are terminated as the result of a plant closing and one of our collective bargaining agreements contains provisions restricting our ability to terminate or relocate operations. See *Risk Factors – Risks Related to Our Business – We may be subject to work stoppages at our facilities, or our customers may be subjected to work stoppages, which could seriously impact our operations and the profitability of our business.*

The remainder of our European facilities have employees who are generally represented by local and national social works councils which are common in Europe. Social works councils meet with employer industry associations every two to three years to discuss employee wages and working conditions. Our facilities in France and Germany often participate in such discussions and adhere to any agreements reached.

During 2009, we expect to take aggressive actions to reduce costs. One cost reduction effort will be through headcount reductions.

## **Suppliers and Raw Materials**

We obtain raw materials, component parts and supplies from a variety of sources, generally from more than one supplier. Our suppliers and sources of raw materials are based in both the United States and other countries and we believe that our sources of raw materials are adequate for our needs for the foreseeable future. We do not believe the loss of any one supplier would have a material adverse effect on our business or results of operations. Our principal raw materials are steel, castings and copper. We generally purchase our materials on the open market, where certain commodities such as steel and copper have fluctuated in price significantly in recent years. We have not experienced any significant shortage of our key materials and have not historically engaged in hedging transactions for commodity suppliers.

## **Regulation**

We are subject to a variety of government laws and regulations that apply to companies engaged in international operations. These include compliance with the Foreign Corrupt Practices Act, U.S. Department of Commerce export controls, local government regulations and procurement policies and practices (including regulations relating to import-export control, investments, exchange controls and repatriation of earnings). We maintain controls and procedures to comply with laws and regulations associated with our international operations. In the event we are unable to remain compliant with such laws and regulations, our business may be adversely affected.

## **Environmental and Health and Safety Matters**

We are subject to a variety of federal, state, local, foreign and provincial environmental laws and regulations, including those governing health and safety requirements, the discharge of pollutants into the air or water, the management and disposal of hazardous substances and wastes and the responsibility to investigate and cleanup contaminated sites that are or were owned, leased, operated or used by us or our predecessors. Some of these laws and regulations require us to obtain permits, which contain terms and conditions that impose limitations on our ability to emit and discharge hazardous materials into the environment and periodically may be subject to modification, renewal and revocation by issuing authorities. Fines and penalties may be imposed for non-compliance with applicable environmental laws and regulations and the failure to have or to comply with the terms and conditions of required permits. From time to time, our operations may not be in full compliance with the terms and conditions of our permits. We periodically review our procedures and policies for compliance with environmental laws and requirements. We believe that our operations generally are in material compliance with applicable environmental laws and requirements and that any non-compliance would not be expected to result in us incurring material liability or cost to achieve

compliance. Historically, the costs of achieving and maintaining compliance with environmental laws and requirements have not been material.

Certain environmental laws in the United States, such as the federal Superfund law and similar state laws, impose liability for the cost of investigation or remediation of contaminated sites upon the current or, in

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some cases, the former site owners or operators and upon parties who arranged for the disposal of wastes or transported or sent those wastes to an off-site facility for treatment or disposal, regardless of when the release of hazardous substances occurred or the lawfulness of the activities giving rise to the release. Such liability can be imposed without regard to fault and, under certain circumstances, can be joint and several, resulting in one party being held responsible for the entire obligation. As a practical matter, however, the costs of investigation and remediation generally are allocated among the viable responsible parties on some form of equitable basis. Liability also may include damages to natural resources. We have not been notified that we are a potentially responsible party in connection with any sites we currently or formerly owned or operated or for liability at any off-site waste disposal facility.

However, there is contamination at some of our current facilities, primarily related to historical operations at those sites, for which we could be liable for the investigation and remediation under certain environmental laws. The potential for contamination also exists at other of our current or former sites, based on historical uses of those sites. We currently are not undertaking any remediation or investigations and our costs or liability in connection with potential contamination conditions at our facilities cannot be predicted at this time because the potential existence of contamination has not been investigated or not enough is known about the environmental conditions or likely remedial requirements. Currently, other parties with contractual liability are addressing or have plans or obligations to address those contamination conditions that may pose a material risk to human health, safety or the environment. In addition, while we attempt to evaluate the risk of liability associated with our facilities at the time we acquire them, there may be environmental conditions currently unknown to us relating to our prior, existing or future sites or operations or those of predecessor companies whose liabilities we may have assumed or acquired which could have a material adverse effect on our business.

We are being indemnified, or expect to be indemnified by third parties subject to certain caps or limitations on the indemnification, for certain environmental costs and liabilities associated with certain owned or operated sites. Accordingly, based on the indemnification and the experience with similar sites of the environmental consultants who we have hired, we do not expect such costs and liabilities to have a material adverse effect on our business, operations or earnings. We cannot assure you, however, that those third parties will in fact satisfy their indemnification obligations. If those third parties become unable to, or otherwise do not, comply with their respective indemnity obligations, or if certain contamination or other liability for which we are obligated is not subject to these indemnities, we could become subject to significant liabilities.

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**Executive Officers of Registrant**

The following sets forth certain information with regard to our executive officers as of March 2, 2009 (ages are as of December 31, 2008):

**MANAGEMENT**

*Michael L. Hurt (age 63)*, P.E. has been our Executive Chairman since January 2009. Prior to his current position, Mr. Hurt served as Chief Executive Officer and a director since our formation in 2004. In November 2006, Mr. Hurt was elected as chairman of our board. During 2004, prior to our formation, Mr. Hurt provided consulting services to Genstar Capital and was appointed Chairman and Chief Executive Officer of Kilian in October 2004. From January 1991 to November 2003, Mr. Hurt was the President and Chief Executive Officer of TB Wood's Incorporated, a manufacturer of industrial power transmission products. Prior to TB Wood's, Mr. Hurt spent 23 years in a variety of management positions at the Torrington Company, a major manufacturer of bearings and a subsidiary of Ingersoll Rand. Mr. Hurt holds a B.S. degree in Mechanical Engineering from Clemson University and an M.B.A. from Clemson-Furman University.

*Carl R. Christenson (age 49)* has been our Chief Executive Officer since January 2009. Prior to his current position, Mr. Christenson served as our President and Chief Operating Officer from January 2005 to December 2008. From 2001 to 2005, Mr. Christenson was the President of Kaydon Bearings, a manufacturer of custom-engineered bearings and a division of Kaydon Corporation. Prior to joining Kaydon, Mr. Christenson held a number of management positions at TB Wood's Incorporated and several positions at the Torrington Company. Mr. Christenson holds a M.S. and B.S. degree in Mechanical Engineering from the University of Massachusetts and an M.B.A. from Rensselaer Polytechnic.

*Christian Storch (age 49)* has been our Chief Financial Officer since December 2007. From 2001 to 2007, Mr. Storch was the Vice President and Chief Financial Officer at Standex International Corporation. Mr. Storch also served on the Board of Directors of Standex International from October 2004 to December 2007. Mr. Storch also served as Standex International's Treasurer from 2003 to April 2006 and Manager of Corporate Audit and Assurance Services from July 1999 to 2003. Prior to Standex International, Mr. Storch was a Divisional Financial Director and Corporate Controller at Vossloh AG, a publicly held German transport technology company. Mr. Storch has also previously served as an Audit Manager with Deloitte & Touche, LLP. Mr. Storch holds a degree in business administration from the University of Passau, Germany.

*Glenn Deegan (age 42)* has been our Vice President, General Counsel and Secretary since September 2008. From March 2007 to August 2008, Mr. Deegan served as Vice President, General Counsel and Secretary of Averion International Corp., a publicly held global provider of clinical research services. Prior to Averion, from June 2001 to March 2007, Mr. Deegan served as Director of Legal Affairs and then as Vice President, General Counsel and Secretary of MacroChem Corporation, a publicly held specialty pharmaceutical company. From 1999 to 2001, Mr. Deegan served as Assistant General Counsel of Summit Technology, Inc., a publicly held manufacturer of ophthalmic laser systems. Mr. Deegan previously spent over six years engaged in the private practice of law and also served as law clerk to the Honorable Francis J. Boyle in the United States District Court for the District of Rhode Island. Mr. Deegan holds a B.S. from Providence College and a J.D. from Boston College.

*Gerald Ferris (age 59)* has been our Vice President of Global Sales since May 2007 and held the same position with Power Transmission Holdings, LLC, our Predecessor, since March 2002. He is responsible for the worldwide sales of our broad product platform. Mr. Ferris joined our Predecessor in 1978 and since joining has held various positions. He became the Vice President of Sales for Boston Gear in 1991. Mr. Ferris holds a B.A. degree in Political Science from Stonehill College.

*Todd B. Patriacca (age 39)* has been our Vice President of Finance, Corporate Controller and Assistant Treasurer since October 2008. Prior to his current position, Mr. Patriacca served as Vice President of Finance and Corporate Controller since May 2007 and previous to that, Corporate Controller since May 2005. Prior to joining us, Mr. Patriacca was Corporate Finance Manager at MKS Instrument Inc., a semi-conductor equipment manufacturer since March 2002. Prior to MKS, Mr. Patriacca spent over ten years at Arthur

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Andersen LLP in the Assurance Advisory practice. Mr. Patriacca is a Certified Public Accountant and holds a B.A. in History from Colby College and an M.B.A. and an M.S. in Accounting from Northeastern University.

*Craig Schuele (age 45)* has been our Vice President of Marketing and Business Development since May 2007 and held the same position with our Predecessor since July 2004. Prior to his current position, Mr. Schuele has been Vice President of Marketing since March 2002, and previous to that he was a Director of Marketing. Mr. Schuele joined our Predecessor in 1986 and holds a B.S. degree in Management from Rhode Island College.

*Chet Shubert (age 52)* has been our Vice President of Human Resources since January 2009. Prior to his current position, from 2006 to 2008, Mr. Shubert served as Vice President of Human Resources for the Electronic Materials Division of National Starch and Chemicals, Inc. From 1993 to 2006, Mr. Shubert held senior human resources positions at various divisions of Wyeth. Earlier in his career, Mr. Shubert held a senior human resources role at Nabisco Brands. He holds a B.S. degree in safety and health management from Indiana University of Pennsylvania.



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**Item 1A. Risk Factors**

**Risks Related to Our Business**

***We operate in the highly competitive mechanical power transmission industry and if we are not able to compete successfully our business may be significantly harmed.***

We operate in highly fragmented and very competitive markets in the MPT industry. Some of our competitors have achieved substantially more market penetration in certain of the markets in which we operate, such as helical gear drives and some of our competitors are larger than us and have greater financial and other resources. With respect to certain of our products, we compete with divisions of our OEM customers. Competition in our business lines is based on a number of considerations, including quality, reliability, pricing, availability and design and application engineering support. Our customers increasingly demand a broad product range and we must continue to develop our expertise in order to manufacture and market these products successfully. To remain competitive, we will need to invest regularly in manufacturing, customer service and support, marketing, sales, research and development and intellectual property protection. In the future we may not have sufficient resources to continue to make such investments and may not be able to maintain our competitive position within each of the markets we serve. We may have to adjust the prices of some of our products to stay competitive.

Additionally, some of our larger, more sophisticated customers are attempting to reduce the number of vendors from which they purchase in order to increase their efficiency. If we are not selected to become one of these preferred providers, we may lose market share in some of the markets in which we compete.

There is substantial and continuing pressure on major OEMs and larger distributors to reduce costs, including the cost of products purchased from outside suppliers such as us. As a result of cost pressures from our customers, our ability to compete depends in part on our ability to generate production cost savings and, in turn, find reliable, cost effective outside suppliers to source components or manufacture our products. If we are unable to generate sufficient cost savings in the future to offset price reductions, then our gross margin could be materially adversely affected.

***Changes in or the cyclical nature of our markets could harm our operations and financial performance.***

Our financial performance depends, in large part, on conditions in the markets that we serve and on the U.S. and global economies in general. Some of the markets we serve are highly cyclical, such as the metals, mining, industrial equipment and energy markets. In addition, these markets may experience cyclical downturns. The present uncertain economic environment may have a significant adverse affect on business cycles in industries we serve as our customers may face significantly decreased sales and an inability to predict future demand. In such an adverse environment, expected cyclical activity or sales may not occur or may be delayed and may result in significant quarter-to-quarter variability in our performance. Any sustained weakness in demand, downturn or uncertainty in cyclical markets may reduce our sales and profitability.

***We rely on independent distributors and the loss of these distributors could adversely affect our business.***

In addition to our direct sales force and manufacturer sales representatives, we depend on the services of independent distributors to sell our products and provide service and aftermarket support to our customers. We support an extensive distribution network, with over 3,000 distributor locations worldwide. Rather than serving as passive conduits for delivery of product, our independent distributors are active participants in the overall competitive dynamics in the MPT industry. During the year ended December 31, 2008, approximately 37% of our net sales from continuing operations were generated through independent distributors. In particular, sales through our largest distributor accounted for approximately 8% of our net sales for the year ended December 31, 2008. Almost all of the

distributors with whom we transact business offer competitive products and services to our customers. In addition, the distribution agreements we have are typically non-exclusive and cancelable by the distributor after a short notice period. The loss of any major distributor or a substantial number of smaller distributors or an increase in the distributors' sales of our competitors' products to our customers could materially reduce our sales and profits.

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***We must continue to invest in new technologies and manufacturing techniques; however, our ability to develop or adapt to changing technology and manufacturing techniques is uncertain and our failure to do so could place us at a competitive disadvantage.***

The successful implementation of our business strategy requires us to continuously invest in new technologies and manufacturing techniques to evolve our existing products and introduce new products to meet our customers' needs in the industries we serve and want to serve. For example, motion control products offer more precise positioning and control compared to industrial clutches and brakes. If manufacturing processes are developed to make motion control products more price competitive and less complicated to operate, our customers may decrease their purchases of MPT products.

Our products are characterized by performance and specification requirements that mandate a high degree of manufacturing and engineering expertise. If we fail to invest in improvements to our technology and manufacturing techniques to meet these requirements, our business could be at risk. We believe that our customers rigorously evaluate their suppliers on the basis of a number of factors, including:

- product quality and availability;
- price competitiveness;
- technical expertise and development capability;
- reliability and timeliness of delivery;
- product design capability;
- manufacturing expertise; and
- sales support and customer service.

Our success depends on our ability to invest in new technologies and manufacturing techniques to continue to meet our customers' changing demands with respect to the above factors. We may not be able to make required capital expenditures and, even if we do so, we may be unsuccessful in addressing technological advances or introducing new products necessary to remain competitive within our markets. Furthermore, our own technological developments may not be able to produce a sustainable competitive advantage.

***Our operations are subject to international risks that could affect our operating results.***

Our net sales outside North America represented approximately 31% of our total net sales for the year ended December 31, 2008. In addition, we sell products to domestic customers for use in their products sold overseas. We also source a significant portion of our products and materials from overseas, a practice which is increasing. Our business is subject to risks associated with doing business internationally, and our future results could be materially adversely affected by a variety of factors, including:

- fluctuations in currency exchange rates;
- exchange rate controls;
- tariffs or other trade protection measures and import or export licensing requirements;

potentially negative consequences from changes in tax laws;

interest rates;

unexpected changes in regulatory requirements;

changes in foreign intellectual property law;

differing labor regulations;

requirements relating to withholding taxes on remittances and other payments by subsidiaries;

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restrictions on our ability to own or operate subsidiaries, make investments or acquire new businesses in various jurisdictions;

potential political instability and the actions of foreign governments; and

restrictions on our ability to repatriate dividends from our subsidiaries.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. However, any of these factors could materially adversely affect our international operations and, consequently, our operating results.

***Our operations depend on production facilities throughout the world, many of which are located outside the United States and are subject to increased risks of disrupted production causing delays in shipments and loss of customers and revenue.***

We operate businesses with manufacturing facilities worldwide, many of which are located outside the United States including in Canada, China, France, Germany, Mexico and the United Kingdom. Serving a global customer base requires that we place more production in emerging markets to capitalize on market opportunities and cost efficiencies. Our international production facilities and operations could be disrupted by a natural disaster, labor strike, war, political unrest, terrorist activity or public health concerns, particularly in emerging countries that are not well-equipped to handle such occurrences.

***We rely on estimated forecasts of our OEM customers' needs, and inaccuracies in such forecasts could materially adversely affect our business.***

We generally sell our products pursuant to individual purchase orders instead of under long-term purchase commitments. Therefore, we rely on estimated demand forecasts, based upon input from our customers, to determine how much material to purchase and product to manufacture. Because our sales are based on purchase orders, our customers may cancel, delay or otherwise modify their purchase commitments with little or no consequence to them and with little or no notice to us. For these reasons, we generally have limited visibility regarding our customers' actual product needs. The quantities or timing required by our customers for our products could vary significantly. Whether in response to changes affecting the industry or a customer's specific business pressures, any cancellation, delay or other modification in our customers' orders could significantly reduce our revenue, impact our working capital, cause our operating results to fluctuate from period to period and make it more difficult for us to predict our revenue. In the event of a cancellation or reduction of an order, we may not have enough time to reduce operating expenses to minimize the effect of the lost revenue on our business and we may purchase too much inventory and spend more capital than expected.

As a result of slowing global economic growth, the credit market crisis, declining consumer and business confidence, reduced levels of capital expenditures and other challenges currently affecting the global economy, our customers may experience deterioration of their businesses. In addition, due to an inability to predict the duration and severity of the current economic crisis, our customers may not be able to accurately estimate demand forecasts and may scale back orders in an abundance of caution. As a result, existing or potential customers may delay or cancel plans to purchase our products and may not be able to fulfill their obligations to us in a timely fashion. Such cancellations, reductions or inability to fulfill obligations could significantly reduce our revenue, impact our working capital, cause our operating results to fluctuate adversely from period to period and make it more difficult for us to predict our revenue.

***The materials used to produce our products are subject to price fluctuations that could increase costs of production and adversely affect our profitability.***

The materials used to produce our products, especially copper and steel, are sourced on a global or regional basis and the prices of those materials are susceptible to price fluctuations due to supply and demand trends, transportation costs, government regulations and tariffs, changes in currency exchange rates, price

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controls, the economic climate and other unforeseen circumstances. From the first quarter of 2004 to the fourth quarter of 2008, the average price of copper and steel has increased approximately 44% and 66%, respectively. If we are unable to continue to pass a substantial portion of such price increases on to our customers on a timely basis, our future profitability may be materially and adversely affected. In addition, passing through these costs to our customers may also limit our ability to increase our prices in the future.

***We face potential product liability claims relating to products we manufacture or distribute, which could result in our having to expend significant time and expense to defend these claims and to pay material damages or settlement amounts.***

We face a business risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in injury or other adverse effects. We currently have several product liability claims against us with respect to our products. Although we currently maintain product liability insurance coverage, we may not be able to obtain such insurance on acceptable terms in the future, if at all, or obtain insurance that will provide adequate coverage against potential claims. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome. An unsuccessful product liability defense could have a material adverse effect on our business, financial condition, results of operations or our ability to make payments under our debt obligations when due. In addition, we believe our business depends on the strong brand reputation we have developed. In the event that our reputation is damaged, we may face difficulty in maintaining our pricing positions with respect to some of our products, which would reduce our sales and profitability.

***We may be subject to work stoppages at our facilities, or our customers may be subjected to work stoppages, which could seriously impact our operations and the profitability of our business.***

As of December 31, 2008, we had approximately 3,164 full time employees, of whom approximately 41.4% were employed outside the United States. Approximately 350 of our North American employees and 45 of our employees in Scotland are represented by labor unions. In addition, our employees in Europe are generally represented by local and national social works councils that hold discussions with employer industry associations regarding wage and work issues every two to three years. Our European facilities, particularly those in France and Germany, may participate in such discussions and be subject to any agreements reached with employees. Additionally, approximately 100 employees in the TB Wood's production facilities in Mexico are unionized under collective bargaining agreements that are subject to annual renewals.

We are a party to four U.S. collective bargaining agreements. Two of the agreements will expire on June 2, 2011 and August 10, 2010, respectively. Another new collective bargaining agreement was reached in February 2009. The new agreement will expire on September 18, 2011. The fourth and final collective bargaining agreement expired in February 2009 but the terms of the original agreement will continue to be honored during the negotiations for a new agreement, which are ongoing. We may be unable to renew these agreements on terms that are satisfactory to us, if at all. In addition, one of our four U.S. collective bargaining agreements contains provisions for additional, potentially significant, lump-sum severance payments to all employees covered by the agreements who are terminated as the result of a plant closing and one of our collective bargaining agreements contains provisions restricting our ability to terminate or relocate operations.

If our unionized workers or those represented by a works council were to engage in a strike, work stoppage or other slowdown in the future, we could experience a significant disruption of our operations. Such disruption could interfere with our ability to deliver products on a timely basis and could have other negative effects, including decreased productivity and increased labor costs. In addition, if a greater percentage of our work force becomes unionized, our business and financial results could be materially adversely affected. Many of our direct and indirect customers have unionized work forces. Strikes, work stoppages or slowdowns experienced by these customers or their suppliers could

result in slowdowns or closures of assembly plants where our products are used and could cause cancellation of purchase orders with us or otherwise result in reduced revenues from these customers.



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***Changes in employment laws could increase our costs and may adversely affect our business.***

Various federal, state and international labor laws govern our relationship with employees and affect operating costs. These laws include minimum wage requirements, overtime, unemployment tax rates, workers' compensation rates paid, leaves of absence, mandated health and other benefits, and citizenship requirements. Significant additional government-imposed increases or new requirements in these areas could materially affect our business, financial condition, operating results or cash flow.

In the event our employee-related costs rise significantly, we may have to curtail the number of our employees or shut down certain manufacturing facilities. Any such actions would be not only be costly but could also materially adversely affect our business.

***We depend on the services of key executives, the loss of whom could materially harm our business.***

Our senior executives are important to our success because they are instrumental in setting our strategic direction, operating our business, maintaining and expanding relationships with distributors, identifying, recruiting and training key personnel, identifying expansion opportunities and arranging necessary financing. Losing the services of any of these individuals could adversely affect our business until a suitable replacement could be found. We believe that our senior executives could not easily be replaced with executives of equal experience and capabilities. Although we have entered into employment agreements with certain of our key domestic executives, we cannot prevent our key executives from terminating their employment with us. We do not maintain key person life insurance policies on any of our executives.

***If we lose certain of our key sales, marketing or engineering personnel, our business may be adversely affected.***

Our success depends on our ability to recruit, retain and motivate highly skilled sales, marketing and engineering personnel. Competition for these persons in our industry is intense and we may not be able to successfully recruit, train or retain qualified personnel. If we fail to retain and recruit the necessary personnel, our business and our ability to obtain new customers, develop new products and provide acceptable levels of customer service could suffer. If certain of these key personnel were to terminate their employment with us, we may experience difficulty replacing them, and our business could be harmed.

***We are subject to environmental laws that could impose significant costs on us and the failure to comply with such laws could subject us to sanctions and material fines and expenses.***

We are subject to a variety of federal, state, local, foreign and provincial environmental laws and regulations, including those governing the discharge of pollutants into the air or water, the management and disposal of hazardous substances and wastes and the responsibility to investigate and cleanup contaminated sites that are or were owned, leased, operated or used by us or our predecessors. Some of these laws and regulations require us to obtain permits, which contain terms and conditions that impose limitations on our ability to emit and discharge hazardous materials into the environment and periodically may be subject to modification, renewal and revocation by issuing authorities. Fines and penalties may be imposed for non-compliance with applicable environmental laws and regulations and the failure to have or to comply with the terms and conditions of required permits. From time to time, our operations may not be in full compliance with the terms and conditions of our permits. We periodically review our procedures and policies for compliance with environmental laws and requirements. We believe that our operations generally are in material compliance with applicable environmental laws, requirements and permits and that any lapses in compliance would not be expected to result in us incurring material liability or cost to achieve compliance. Historically, the costs of achieving and maintaining compliance with environmental laws, and requirements and permits have not been material; however, the operation of manufacturing plants entails risks in these areas, and a failure by us to comply

with applicable environmental laws, regulations, or permits could result in civil or criminal fines, penalties, enforcement actions, third party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup, or regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, including the installation of pollution control

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equipment or remedial actions. Moreover, if applicable environmental laws and regulations, or the interpretation or enforcement thereof, become more stringent in the future, we could incur capital or operating costs beyond those currently anticipated.

Certain environmental laws in the United States, such as the federal Superfund law and similar state laws, impose liability for the cost of investigation or remediation of contaminated sites upon the current or, in some cases, the former site owners or operators and upon parties who arranged for the disposal of wastes or transported or sent those wastes to an off-site facility for treatment or disposal, regardless of when the release of hazardous substances occurred or the lawfulness of the activities giving rise to the release. Such liability can be imposed without regard to fault and, under certain circumstances, can be joint and several, resulting in one party being held responsible for the entire obligation. As a practical matter, however, the costs of investigation and remediation generally are allocated among the viable responsible parties on some form of equitable basis. Liability also may include damages to natural resources. We have not been notified that we are a potentially responsible party in connection with any sites we currently or formerly owned or operated any liabilities relating to any off-site waste disposal facility.

However, there is contamination at some of our current facilities, primarily related to historical operations at those sites, for which we could be liable for the investigation and remediation under certain environmental laws. The potential for contamination also exists at other of our current or former sites, based on historical uses of those sites. We currently are not undertaking any remediation or investigations and our costs or liability in connection with potential contamination conditions at our facilities cannot be predicted at this time because the potential existence of contamination has not been investigated or not enough is known about the environmental conditions or likely remedial requirements. Currently, other parties with contractual liability are addressing or have plans or obligations to address those contamination conditions that may pose a material risk to human health, safety or the environment. In addition, while we attempt to evaluate the risk of liability associated with our facilities at the time we acquire them, there may be environmental conditions currently unknown to us relating to our prior, existing or future sites or operations or those of predecessor companies whose liabilities we may have assumed or acquired which could have a material adverse effect on our business.

We are being indemnified, or expect to be indemnified by third parties subject to certain caps or limitations on the indemnification, for certain environmental costs and liabilities associated with certain owned or operated sites. Accordingly, based on the indemnification and the experience with similar sites of the environmental consultants who we have hired, we do not expect such costs and liabilities to have a material adverse effect on our business, operations or earnings. We cannot assure you, however, that those third parties will in fact satisfy their indemnification obligations. If those third parties become unable to, or otherwise do not, comply with their respective indemnity obligations, or if certain contamination or other liability for which we are obligated is not subject to these indemnities, we could become subject to significant liabilities.

***We may face additional costs associated with our post-retirement and post-employment obligations to employees which could have an adverse effect on our financial condition.***

As part of the acquisition of our original core business through the acquisition of PTH from Colfax Corporation, the PTH Acquisition, we agreed to assume pension plan liabilities for active U.S. employees under the Retirement Plan for Power Transmission Employees of Colfax and the Ameridrives International Pension Fund for Hourly Employees Represented by United Steelworkers of America, Local 3199-10, collectively referred to as the Prior Plans. We have established a defined benefit plan, the Altra Industrial Motion, Inc. Retirement Plan or New Plan, mirroring the benefits provided under the Prior Plans. The New Plan accepted a spin-off of assets and liabilities from the Prior Plans, in accordance with Section 414(l) of the Internal Revenue Code, or the Code, with such assets and liabilities relating to active U.S. employees as of the closing of the PTH Acquisition. Given the funded status of the Prior Plans and the asset allocation requirements of Code Section 414(l), liabilities under the New Plan greatly exceed the assets

that were transferred from the Prior Plans. The accumulated benefit obligation (not including accumulated benefit obligations of non-U.S. pension plans in the amount of \$2.9 million) was approximately \$23.7 million as of December 31, 2008 while the fair value of plan assets was approximately \$14.8 million as of December 31,

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2008. As the New Plan has a considerable funding deficit, the cash funding requirements are expected to be substantial over the next several years, and could have a material adverse effect on our financial condition. As of December 31, 2008, minimum funding requirements are estimated to be \$1.9 million in 2009 and \$1.5 million for each of the next four years. These amounts are based on actuarial assumptions and actual amounts could be materially different.

Additionally, as part of the PTH Acquisition, we agreed to assume all pension plan liabilities related to non-U.S. employees. The accumulated benefit obligations of non-U.S. pension plans were approximately \$2.9 million as of December 31, 2008. There are no assets associated with these plans.

Finally, as part of the PTH Acquisition, we also agreed to assume all post-employment and post-retirement welfare benefit obligations with respect to active U.S. employees. The benefit obligation for post-retirement benefits, which are not funded, was approximately \$2.6 million as of December 31, 2008.

For a description of the post-retirement and post-employment costs, see Note 10 to our audited financial statements included elsewhere in this Form 10-K.

***Our future success depends on our ability to integrate acquired companies and manage our growth effectively.***

Our growth through acquisitions has placed, and will continue to place, significant demands on our management, operational and financial resources. Realization of the benefits of acquisitions often requires integration of some or all of the acquired companies' sales and marketing, distribution, manufacturing, engineering, finance and administrative organizations. Integration of companies demands substantial attention from senior management and the management of the acquired companies. In addition, we will continue to pursue new acquisitions, some of which could be material to our business if completed. We may not be able to integrate successfully our recent acquisitions, or any future acquisitions, operate these acquired companies profitably, or realize the potential benefits from these acquisitions.

***We may not be able to protect our intellectual property rights, brands or technology effectively, which could allow competitors to duplicate or replicate our technology and could adversely affect our ability to compete.***

We rely on a combination of patent, trademark, copyright and trade secret laws in the United States and other jurisdictions, as well as on license, non-disclosure, employee and consultant assignment and other agreements and domain names registrations in order to protect our proprietary technology and rights. Applications for protection of our intellectual property rights may not be allowed, and the rights, if granted, may not be maintained. In addition, third parties may infringe or challenge our intellectual property rights. In some cases, we rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology. In addition, in the ordinary course of our operations, we pursue potential claims from time to time relating to the protection of certain products and intellectual property rights, including with respect to some of our more profitable products. Such claims could be time consuming, expensive and divert resources. If we are unable to maintain the proprietary nature of our technologies or proprietary protection of our brands, our ability to market or be competitive with respect to some or all of our products may be affected, which could reduce our sales and profitability.

***Goodwill and indefinite-lived intangibles comprises a significant portion of our total assets, and if we determine that goodwill has become impaired in the future, net income in such years may be materially and adversely affected.***

Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. Due to the acquisitions we have completed historically, goodwill comprises a significant portion of our total assets. We

review goodwill and indefinite-lived intangibles annually for impairment and any excess in carrying value over the estimated fair value is charged to the results of operations. Our prior review of goodwill and indefinite-lived intangibles in December 2008 resulted in a \$31.8 million reduction to the value of such assets in our financial statements. Future reviews of goodwill and indefinite-lived intangibles could result in

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further reductions. Any reduction in net income resulting from the write down or impairment of goodwill and indefinite-lived intangibles could adversely affect our financial results. If economic conditions continue to deteriorate we may be required to impair goodwill and indefinite-lived intangibles in future periods.

### ***Unplanned repairs or equipment outages could interrupt production and reduce income or cash flow.***

Unplanned repairs or equipment outages, including those due to natural disasters, could result in the disruption of our manufacturing processes. Any interruption in our manufacturing processes would interrupt our production of products, reduce our income and cash flow and could result in a material adverse effect on our business and financial condition.

### ***Our operations are highly dependent on information technology infrastructure and failures could significantly affect our business.***

We depend heavily on our information technology, or IT, infrastructure in order to achieve our business objectives. If we experience a problem that impairs this infrastructure, such as a computer virus, a problem with the functioning of an important IT application, or an intentional disruption of our IT systems by a third party, the resulting disruptions could impede our ability to record or process orders, manufacture and ship in a timely manner, or otherwise carry on our business in the ordinary course. Any such events could cause us to lose customers or revenue and could require us to incur significant expense to eliminate these problems and address related security concerns.

### ***Our leverage could adversely affect our financial health and make us vulnerable to adverse economic and industry conditions.***

We have incurred indebtedness that is substantial relative to our stockholders' investment. As of December 31, 2008, we had approximately \$263.4 million of indebtedness outstanding and \$22.4 million available under lines of credit. Our indebtedness has important consequences; for example, it could:

- make it more challenging for us to obtain additional financing to fund our business strategy and acquisitions, debt service requirements, capital expenditures and working capital;

- increase our vulnerability to interest rate changes and general adverse economic and industry conditions;

- require us to dedicate a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the availability of our cash flow to finance acquisitions and to fund working capital, capital expenditures, research and development efforts and other general corporate activities;

- make it difficult for us to fulfill our obligations under our credit and other debt agreements;

- limit our flexibility in planning for, or reacting to, changes in our business and our markets; and

- place us at a competitive disadvantage relative to our competitors that have less debt.

Substantially all of our assets have been pledged as collateral against any outstanding borrowings under the credit agreements, or the Credit Agreements, governing Altra Industrial's senior revolving credit facility and the credit facility we entered into in connection with the TB Wood's Acquisition, or the TB Wood's senior secured credit facility. In addition, the Credit Agreements require us to maintain specified financial ratios and satisfy certain financial condition tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business

objectives. If an event of default were to occur under the Credit Agreements, then the lenders could declare all amounts outstanding under the senior revolving credit facility and the TB Wood's senior secured credit facility, together with accrued interest, to be immediately due and payable. In addition, our senior revolving credit facility, the TB Wood's senior secured credit facility and the indentures governing the 9% senior secured notes and 11 1/4% senior notes have cross-default provisions such that a default under any one would constitute an event of default in any of the others.

The current economic conditions and severe tightening of credit markets may limit our access to additional capital. In particular, the cost of raising money in the credit markets has increased substantially while



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the availability of funds from those markets has diminished significantly. While currently these conditions have not impaired our ability to access capital under our credit facilities and to finance our operations, there can be no assurance that there will not be a further deterioration in the credit markets, a deterioration in the financial condition of our lenders or their ability to fund their commitments or, if necessary, that we will be able to find replacement financing on similar or acceptable terms. An inability to access sufficient capital could have an adverse impact on our operations and thus on our operating results and financial position.

***We are subject to tax laws and regulations in many jurisdictions and the inability to successfully defend claims from taxing authorities related to our current or acquired businesses could adversely affect our operating results and financial position.***

We conduct business in many countries, which requires us to interpret the income tax laws and rulings in each of those taxing jurisdictions. Due to the subjectivity of tax laws between those jurisdictions as well as the subjectivity of factual interpretations, our estimates of income tax liabilities may differ from actual payments or assessments. Claims from taxing authorities related to these differences could have an adverse impact on our operating results and financial position.

***Continued extreme volatility and disruption in global financial markets could significantly impact our customers, weaken the markets we serve and harm our operations and financial performance.***

Our financial performance depends, in large part, on conditions in the markets that we serve and on the U.S. and global economies in general. As widely reported, U.S. and global financial markets have been experiencing extreme disruption recently, including, among other things, concerns regarding the stability and viability of major financial institutions, the declining state of the housing markets, a severe tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in credit and equity markets. Given the significance and widespread nature of these nearly unprecedented circumstances, the U.S. and global economies could remain significantly challenged in a recessionary state for an indeterminate period of time. While currently these conditions have not impaired our ability to access credit markets and finance our operations, there can be no assurance that there will not be a further deterioration in financial markets and confidence in major economies. In addition, the current tightening of credit in financial markets may adversely affect the ability of our customers to obtain financing for significant purchases and operations and could result in a decrease in or cancellation of orders for our products and services as well as impact the ability of our customers to make payments. Similarly, this tightening of credit may adversely affect our supplier base and increase the potential for one or more of our suppliers to experience financial distress or bankruptcy. These conditions would harm our business by adversely affecting our sales, results of operations, profitability, cash flows, financial condition and long-term anticipated growth rate.

***We have taken, and continue to take, cost-reduction actions. Our ability to complete these actions and the impact of such actions on our business may be limited by a variety of factors. The cost-reduction actions, in turn, may expose us to additional production risk and have an adverse effect on our sales, profitability and ability to attract and retain employees.***

We have been reducing costs in all of our businesses and will continue to do so. We are reducing our employee population, changing our compensation and benefit programs, and working to reduce our procurement costs. In addition, we also expect to consolidate certain of our manufacturing operations. The impact of these cost-reduction actions on our sales and profitability may be influenced by many factors including, but not limited to: (i) our ability to successfully complete these ongoing efforts; (ii) our ability to generate the level of cost savings we expect or that are necessary to enable us to effectively compete; (iii) delays in implementation of anticipated workforce reductions in highly-regulated locations outside the United States, particularly in Europe; (iv) decline in employee morale and the potential inability to meet operational targets due to the loss of employees; (v) our ability to retain or recruit key

employees; and (vi) the adequacy of our manufacturing capacity. While we have business continuity and risk mitigation plans in place in case capacity is significantly reduced or eliminated at a given facility, the reduced number of alternative facilities could cause the duration of any manufacturing disruption to be longer. As a result, we could have difficulties fulfilling our orders and our sales and profits could decline.

**Table of Contents****Item 1B. *Unresolved Staff Comments***

None

**Item 2. *Properties***

In addition to our leased headquarters in Braintree, Massachusetts, we maintain twenty eight production facilities, fifteen of which are located in the United States, one in Canada, ten in Europe and one each in China and Mexico. The following table lists all of our facilities, other than sales offices and distribution centers, as of December 31, 2008, indicating the location, principal use and whether the facilities are owned or leased.

| <b>Location</b>                         | <b>Brand</b>     | <b>Major Products</b>                     | <b>Sq. Ft.</b> | <b>Leased</b> | <b>Expiration</b> |
|---|------------------|---|----------------|---------------|-------------------|
| <i>United States</i>                    |                  |   |                |               |                   |
| Chambersburg, Pennsylvania              | TB Wood s        | Belted Drives, Couplings, Castings        | 440,000        | Owned         | N/A               |
| South Beloit, Illinois                  | Warner Electric  | Electromagnetic Clutches & Brakes         | 104,288        | Owned         | N/A               |
| Syracuse, New York                      | Kilian           | Engineered Bearing Assemblies             | 97,000         | Owned         | N/A               |
| Wichita Falls, Texas                    | Wichita Clutch   | Heavy Duty Clutches and Brakes            | 90,400         | Owned         | N/A               |
| Warren, Michigan                        | Formsprag        | Overrunning Clutches                      | 79,000         | Owned         | N/A               |
| Erie, Pennsylvania                      | Ameridrives      | Engineered Couplings                      | 76,200         | Owned         | N/A               |
| Chattanooga, Tennessee <sup>(4)</sup>   | TB Wood s        | Space is leased to a third party          | 60,000         | Owned         | N/A               |
| Scotland, Pennsylvania <sup>(4)</sup>   | TB Wood s        | Space is leased to a third party          | 51,300         | Owned         | N/A               |
| San Marcos, Texas                       | TB Wood s        | Engineered Couplings                      | 51,000         | Owned         | N/A               |
| Columbia City, Indiana                  | Warner Electric  | Electromagnetic Clutches & Brakes & Coils | 35,000         | Owned         | N/A               |
| Mt. Pleasant, Michigan                  | TB Wood s        | Power Transmission Components, Couplings  | 30,000         | Owned         | N/A               |
| Charlotte, North Carolina               | Boston Gear      | Gearing & Power Transmission Components   | 193,000        | Leased        | February 28, 2013 |
| Niagara Falls, New York                 | Nuttall Gear     | Gearing                                   | 155,509        | Leased        | March 31, 2013    |
| New Hartford, Connecticut               | Inertia Dynamics | Electromagnetic Clutches & Brakes         | 72,000         | Leased        | July 30, 2019     |
| Braintree, Massachusetts <sup>(1)</sup> | Altra            |   | 13,804         | Leased        | November 1, 2016  |
| Belvidere, Illinois                     | Warner Linear    | Linear Actuators                          | 21,000         | Leased        | June 30, 2009     |
| New Braunsfels, Texas                   | Ameridrives      | Engineered Couplings                      | 16,200         | Leased        |                   |

|                                  |                     |  |         |        |                       |
|----------------------------------|---------------------|--|---------|--------|-----------------------|
|                                  |                     |  |         |        | December<br>31, 2009  |
| Green Bay, Wisconsin             | Ameridrives         | Engineered Couplings   | 85,250  | Leased | March 31,<br>2011     |
| <i>International</i>             |                     |  |         |        |                       |
| Heidelberg, Germany              | Stieber             | Overrunning Clutches   | 57,609  | Owned  | N/A                   |
| Saint Barthelemy, France         | Warner Electric     | Electromagnetic<br>Clutches & Brakes   | 50,129  | Owned  | N/A                   |
| Bedford, England                 | Wichita Clutch      | Heavy Duty Clutches<br>and Brakes  | 49,000  | Owned  | N/A                   |
| Allones, France                  | Warner Electric     | Electromagnetic<br>Clutches & Brakes   | 38,751  | Owned  | N/A                   |
| Toronto, Canada                  | Kilian              | Engineered Bearing<br>Assemblies   | 29,000  | Owned  | N/A                   |
| Dewsbury, England                | Bibby Transmissions | Engineered Couplings<br>Power Transmission<br>Components                         | 26,100  | Owned  | N/A                   |
| Stratford, Canada <sup>(4)</sup> | TB Woods            | Vacant   | 46,000  | Owned  | N/A                   |
| Shenzhen, China                  | Warner Electric     | Electromagnetic<br>Clutches & Brakes<br>Precision Components                     | 112,271 | Leased | <sup>(3)</sup>        |
| San Luis Potosi, Mexico          | TB Woods            | Couplings and Belted<br>Drives   | 71,800  | Leased | June 8, 2014          |
| Brechin, Scotland                | Matrix              | Clutch Brakes,<br>Couplings  | 52,500  | Leased | February 28,<br>2011  |
| Garching, Germany                | Stieber             | Overrunning Clutches   | 32,292  | Leased | <sup>(2)</sup>        |
| Twickenham, England              | Twiflex             | Heavy Duty Clutches<br>and Brakes Couplings,<br>Power Transmission<br>Components | 27,500  | Leased | September<br>30, 2009 |
| Hertford, England                | Huco Dynatork       |  | 13,565  | Leased | July 30,<br>2012      |
| Telford, England                 | Saftek              | Friction Material  | 4,400   | Leased | August 31,<br>2009    |

(1) Corporate Headquarters and selective customer service functions.

(2) Must give the lessor twelve months notice for termination.

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(3) Month to month lease.

(4) Building is currently held for sale.

**Item 3. *Legal Proceedings***

We are, from time to time, party to various legal proceedings arising out of our business. These proceedings primarily involve commercial claims, product liability claims, intellectual property claims, environmental claims, personal injury claims and workers' compensation claims. We cannot predict the outcome of these lawsuits, legal proceedings and claims with certainty. Nevertheless, we believe that the outcome of any currently existing proceedings, even if determined adversely, would not have a material adverse effect on our business, financial condition and results of operations.

**Item 4. *Submission of Matters to a Vote of Security Holders***

During the fourth quarter of fiscal year 2008, there were no matters submitted to a vote of security holders.

**PART II****Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters and Issuer Repurchases of Equity Securities*****Market Information**

Our common stock trades on the NASDAQ Global Market under the symbol AIMC. As of March 1, 2009, the number of holders of record of our common stock was approximately 26.

The following table sets forth, for the periods indicated, the high and low sales price for our common stock as reported on The NASDAQ Global Market. Our common stock commenced trading on the NASDAQ Global Market on December 15, 2006.

|                     | <b>High</b> | <b>Low</b> |
|---------------------|-------------|------------|
| <b>Fiscal 2007:</b> |             |            |
| First Quarter       | \$ 16.87    | \$ 15.40   |
| Second Quarter      | \$ 18.00    | \$ 15.04   |
| Third Quarter       | \$ 18.72    | \$ 13.94   |
| Fourth Quarter      | \$ 16.99    | \$ 13.71   |
| <b>Fiscal 2008:</b> |             |            |
| First Quarter       | \$ 16.42    | \$ 11.44   |
| Second Quarter      | \$ 17.79    | \$ 13.32   |
| Third Quarter       | \$ 18.55    | \$ 14.35   |
| Fourth Quarter      | \$ 13.98    | \$ 5.46    |

**Dividends**

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any earnings for use in the operation and expansion of our business and, therefore do not anticipate paying any cash dividends in the foreseeable future. In addition, the Credit Agreement governing the senior revolving credit facility and the indentures governing the 9% senior secured notes and 11 1/4% senior notes limit our ability to pay dividends or other distributions on our common stock.

**Recent Sales of Unregistered Securities**

None

**Issuer Repurchases of Equity Securities**

None

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**Performance Graph**

The following graph compares the cumulative total stockholder return on our common stock since the time of our initial public offering, December 15, 2006, through December 31, 2008, with the cumulative total return on shares of companies comprising the S&P Small Cap 600 index and a special Peer Group index, in each case assuming an initial investment of \$100.

|                      | <b>December 31,<br/>2006</b> | <b>March 31,<br/>2007</b> | <b>June 30,<br/>2007</b> | <b>September 29,<br/>2007</b> | <b>December 31,<br/>2007</b> | <b>March 29,<br/>2008</b> | <b>June 28,<br/>2008</b> | <b>September 27,<br/>2008</b> | <b>December<br/>2008</b> |
|----------------------|------------------------------|---------------------------|--------------------------|-------------------------------|------------------------------|---------------------------|--------------------------|-------------------------------|--------------------------|
| Altra Holdings, Inc. | \$ 104.07                    | \$ 101.56                 | \$ 128.00                | \$ 123.48                     | \$ 123.19                    | \$ 99.41                  | \$ 123.04                | \$ 112.37                     | \$ 58.59                 |
| S&P Small Cap 600    | \$ 99.24                     | \$ 102.20                 | \$ 107.25                | \$ 105.05                     | \$ 98.03                     | \$ 89.80                  | \$ 91.42                 | \$ 92.67                      | \$ 66.67                 |
| Peer Group           | \$ 100.62                    | \$ 101.28                 | \$ 117.45                | \$ 107.73                     | \$ 103.29                    | \$ 84.99                  | \$ 98.47                 | \$ 97.76                      | \$ 66.64                 |

The peer Group consists of the following publicly traded companies: Franklin Electric Co. Inc., RBC Bearings, Inc., Regal Beloit Corp., Baldor Electric Co., and Kaydon Bearings Corp.

**Table of Contents****Item 6. *Selected Financial Data***

We were formed to facilitate the PTH Acquisition. The following table contains our selected historical financial data for the years ended December 31, 2008, 2007, 2006, 2005 and the period from inception (December 1, 2004) to December 31, 2004 and PTH (the Predecessor), for the period from January 1, 2004 through November 30, 2004. Colfax Corporation did not maintain separate financial statements for PTH as a stand-alone business. At the time of the PTH Acquisition, Colfax Corporation produced historical financial statements for PTH for the eleven month period January 1, 2004 – November 30, 2004. The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes included elsewhere in this Form 10-K.

|  | <b>Altra</b>     |                  |                  |                  | <b>(Period</b>      | <b>Predecessor</b>  |
|--|------------------|------------------|------------------|------------------|---------------------|---------------------|
|  |                  |                  |                  |                  | <b>From</b>         | <b>(Period</b>      |
|  |                  |                  |                  |                  | <b>December 1</b>   | <b>From</b>         |
|  |                  |                  |                  |                  | <b>Through</b>      | <b>January 1</b>    |
|  | <b>Year</b>      | <b>Year</b>      | <b>Year</b>      | <b>Year</b>      |                     |                     |
|  | <b>Ended</b>     | <b>Ended</b>     | <b>Ended</b>     | <b>Ended</b>     |                     |                     |
|  | <b>December,</b> | <b>December,</b> | <b>December,</b> | <b>December,</b> | <b>December 31,</b> | <b>November 30,</b> |
|  | <b>31</b>        | <b>31</b>        | <b>31</b>        | <b>31</b>        | <b>2004)</b>        | <b>2004)</b>        |
|  | <b>2008</b>      | <b>2007</b>      | <b>2006</b>      | <b>2005</b>      |                     |                     |
| Net sales  | \$ 635,336       | \$ 584,376       | \$ 462,285       | \$ 363,465       | \$ 28,625           | \$ 275,037          |
| Cost of sales  | 449,244          | 419,109          | 336,836          | 271,952          | 23,847              | 209,253             |
| Gross profit   | 186,092          | 165,267          | 125,449          | 91,513           | 4,778               | 65,784              |
| Operating expenses:  |                  |                  |                  |                  |                     |                     |
| Selling, general and administrative expenses               | 99,185           | 93,211           | 83,276           | 61,579           | 8,973               | 45,321              |
| Research and development expenses                          | 6,589            | 6,077            | 4,938            | 4,683            | 378                 | 3,947               |
| Goodwill impairment  | 31,810           |                  |                  |                  |                     |                     |
| Restructuring costs  | 2,310            | 2,399            |                  |                  |                     | 947                 |
| Loss (gain) on curtailment of post-retirement benefit plan | (925)            | 2,745            | (3,838)          |                  |                     |                     |
| Loss (gain) on disposal of assets                          | 1,584            |                  |                  | (99)             |                     | (1,300)             |
|  | 140,553          | 104,432          | 84,376           | 66,163           | 9,351               | 48,915              |
| Income (loss) from operations                              | 45,539           | 60,835           | 41,073           | 25,350           | (4,573)             | 16,869              |
| Other non-operating income and expense:                    |                  |                  |                  |                  |                     |                     |
| Interest expense, net                                      | 28,339           | 38,554           | 25,479           | 19,514           | 1,612               | 4,294               |
| Other non-operating income, net                            | (6,249)          | 612              | 856              | (17)             |                     | 148                 |
|  | 22,090           | 39,166           | 26,335           | 19,497           | 1,612               | 4,442               |



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|  |           |           |           |           |            |          |
|--|-----------|-----------|-----------|-----------|------------|----------|
| Income (loss) from continuing operations before income taxes                             | 23,449    | 21,669    | 14,738    | 5,853     | (6,185)    | 12,427   |
| Provision (benefit) for income taxes   | 16,731    | 8,208     | 5,797     | 3,349     | (292)      | 5,532    |
| Income (loss) from continuing operations   | 6,718     | 13,461    | 8,941     | 2,504     | (5,893)    | 6,895    |
| Loss from discontinued operations, net of income taxes of \$43 in 2008 and \$583 in 2007 | (224)     | (2,001)   |           |           |            |          |
| Net income (loss)  | \$ 6,494  | \$ 11,460 | \$ 8,941  | \$ 2,504  | \$ (5,893) | \$ 6,895 |
| <b>Other Financial Data:</b>   |           |           |           |           |            |          |
| Depreciation and amortization  | \$ 21,068 | \$ 21,939 | \$ 14,611 | \$ 11,533 | \$ 919     | \$ 6,074 |
| Purchases of fixed assets  | 19,289    | 11,633    | 9,408     | 6,199     | 289        | 3,489    |
| Cash flow provided by (used in):   |           |           |           |           |            |          |
| Operating activities   | 45,114    | 41,808    | 11,128    | 12,023    | 5,623      | 3,604    |
| Investing activities   | (3,687)   | (124,672) | (63,163)  | (5,197)   | (180,401)  | 953      |
| Financing activities   | (31,760)  | 84,537    | 83,837    | (971)     | 179,432    | (6,696)  |
| Weighted average shares, basic   | 25,496    | 23,579    | 1,183     | 9         | n/a        | n/a      |
| Weighted average shares, diluted   | 26,095    | 24,630    | 19,525    | 18,969    | n/a        | n/a      |
| <b>Basic earnings per share:</b>   |           |           |           |           |            |          |
| Net income from continuing operations  | \$ 0.26   | \$ 0.57   | \$ 7.56   | \$ 278.22 | n/a        | n/a      |
| Net income from discontinued operations  | (0.01)    | (0.08)    |           |           | n/a        | n/a      |
| Net income   | \$ 0.25   | \$ 0.49   | \$ 7.56   | \$ 278.22 | n/a        | n/a      |
| <b>Diluted earnings per share:</b>   |           |           |           |           |            |          |
| Net income from continuing operations  | \$ 0.26   | \$ 0.55   | \$ 0.46   | \$ 0.13   | n/a        | n/a      |
| Net loss from discontinued operations  | (0.01)    | (0.08)    |           |           | n/a        | n/a      |
| Net income   | \$ 0.25   | \$ 0.47   | \$ 0.46   | \$ 0.13   | n/a        | n/a      |

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|  | <b>December 31,<br/>2008</b> | <b>December 31,<br/>2007</b> | <b>December 31,<br/>2006</b> | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Balance Sheet Data:</b>                                     |                              |                              |                              |                              |                              |
| Cash and cash equivalents                                      | \$ 52,073                    | \$ 45,807                    | \$ 42,527                    | \$ 10,060                    | \$ 4,729                     |
| Total assets   | 513,584                      | 580,525                      | 409,368                      | 297,691                      | 299,387                      |
| Total debt   | 261,523                      | 294,066                      | 229,128                      | 173,760                      | 173,851                      |
| Convertible preferred stock<br>and other long-term liabilities | 46,870                       | 51,310                       | 29,471                       | 79,168                       | 76,665                       |

Comparability of the information included in the selected financial data has been impacted by the acquisitions of Hay Hall and Warner Linear in 2006 and TB Woods and All Power in 2007.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion of the financial condition and results of income of Altra Holdings, Inc. should be read together with the Selected Historical Financial Data, and the financial statements of Altra Holdings, Inc. and its Predecessor and related notes included elsewhere in this Form 10-K. The following discussion includes forward-looking statements. For a discussion of important factors that could cause actual results to differ materially from the results referred to in the forward-looking statements, see Forward-Looking Statements and Risk Factors.*

**General**

We are a leading global designer, producer and marketer of a wide range of MPT 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 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.

Our net sales have grown at a compound annual growth rate of approximately 20.4% over the last three fiscal years. We believe this growth has been a result of recent acquisitions, greater overall global demand for our products due to a strong economy during this period, increased consumption in certain geographic markets such as China, expansion of our relationships with our customers and distributors and implementation of improved sales and marketing initiatives.

We improved our gross profit margin and operating profit margin every year from fiscal year 2003 through fiscal year 2008 by implementing strategic price increases, utilizing low-cost country sourcing of components, increasing our productivity and employing a more efficient sales and marketing strategy.

While the power transmission industry has undergone some consolidation, we estimate that in 2008 the top five broad-based MPT companies represented approximately 20% of the U.S. power transmission market. The remainder of the power transmission industry remains fragmented with many small and family-owned companies that cater to a specific market niche often due to their narrow product offerings. We believe that consolidation in our industry will continue because of the increasing demand for global distribution channels, broader product mixes and better brand recognition to compete in this industry.

## **Business Outlook**

Our future financial performance depends, in large part, on conditions in the markets that we serve and on the U.S. and global economies in general. During November and December 2008 we saw a significant change in economic conditions both in North America and internationally as most of our end markets experienced dramatic downturns. Several of our distributors and OEM customers began to make inventory adjustments during this period. During this period, we saw a significant decline in bookings. Due to the

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inability to predict the duration and severity of the current global economic downturn, our visibility regarding the outlook for our markets and business during 2009 is limited. Assuming that the downturn continues, we expect continued weakness in our order rates in 2009 for certain of our end markets as a result of the worldwide economic downturn.

In response to the likely challenging conditions of 2009, we are taking swift and aggressive actions to reduce our expenses and maximize near-term profitability. Our cost-reduction initiatives are centered on three areas: workforce cutbacks, plant consolidations and procurement and other cost reductions. In 2009, we expect to reduce our world-wide headcount by 232 employees. Effective in February 2009, the company's discretionary 401(k) match was suspended. We also have announced a general hiring freeze and that all non-union employee salaries will be frozen for at least twelve months. We expect to incur between \$2.1 and \$2.5 million of costs in 2009 related to these activities.

In an effort to reduce costs and become more efficient, we are closing up to six manufacturing plants during the next 18 months. We estimate the cost of consolidating these facilities will total between \$10 and \$12 million. In connection with the manufacturing plant consolidation we expect to reduce world-wide headcount by 100 employees.

In addition, we have accelerated procurement and other cost reduction efforts. We expect that the resulting savings will begin during the first quarter of 2009 and continue to increase throughout the year.

We will continue our strong focus on working capital management and cash flow generation with the intent of improving our liquidity. As of December 31, 2008, we have a cash balance of \$52.1 million.

This outlook presents management's present expectations, however, although we believe they are reasonable, our expectations may not be correct and our plans may change. As with any forward-looking statements, there are inherent risks and uncertainties that could cause actual results to differ from present plans or expectations and such differences could be material.

## **Initial Public Offering**

In December 2006, the Company completed an initial public offering. The Company offered 3,333,334 of its own shares. In addition selling stockholders offered 6,666,666 shares. Proceeds to the Company after the underwriting discount were \$41.9 million.

## **Secondary Public Offering**

In June 2007, we completed a secondary public offering of 12,650,000 shares of our common stock, par value \$0.001 per share, which included 1,650,000 sold as a result of the underwriters' exercise of their over-allotment option in full at closing. We received proceeds of \$48.9 million, net of issuance costs. In the offering, we sold 3,178,494 shares and certain selling stockholders sold 9,471,506 shares.

## **History and the Acquisitions**

Our current business began with the acquisition by Colfax Corporation, or Colfax, of the MPT group of Zurn Technologies, Inc. in December 1996. Colfax subsequently acquired Industrial Clutch Corp. in May 1997, Nuttall Gear Corp. in July 1997 and the Boston Gear and Delroyd Worm Gear brands in August 1997 as part of Colfax's acquisition of Imo Industries, Inc. In February 2000, Colfax acquired Warner Electric, Inc., which sold products under the Warner Electric, Formsprag Clutch, Stieber and Wichita Clutch brands. Colfax formed PTH in June 2004 to serve as a holding company for all of these power transmission businesses.

On November 30, 2004, we acquired our original core business through the acquisition of PTH from Colfax for \$180.0 million in cash. We refer to this transaction as the PTH Acquisition.

On October 22, 2004, The Kilian Company, or Kilian, acquired Kilian Manufacturing Corporation from Timken U.S. Corporation for \$8.8 million in cash and the assumption of \$12.2 million of debt. At the completion of the PTH Acquisition, (i) all of the outstanding shares of Kilian capital stock were exchanged for approximately

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\$8.8 million of shares of our capital stock and Kilian and its subsidiaries were transferred to our wholly owned subsidiary, Altra Industrial Motion, Inc., or Altra Industrial and (ii) all outstanding debt of Kilian was retired with a portion of the proceeds of the sale of Altra Industrial's 9% Senior Secured Notes due 2011, or the 9% senior secured notes.

On February 10, 2006, we purchased all of the outstanding share capital of Hay Hall for \$49.2 million. During 2007, the purchase price was reduced by \$0.4 million related to the finalization of the working capital adjustment in accordance with the terms of the purchase price agreement. Included in the purchase price was \$6.0 million paid in the form of deferred consideration. At the closing, we deposited such deferred consideration into an escrow account for the benefit of the former Hay Hall shareholders. The deferred consideration is represented by a loan note. While the former Hay Hall shareholders will hold the note, their rights will be limited to receiving the amount of the deferred consideration placed in the escrow account. They will have no recourse against us unless we take action to prevent or interfere in the release of such funds from the escrow account. At closing, Hay Hall and its subsidiaries became our direct or indirect wholly owned subsidiaries. Hay Hall is a UK-based holding company established in 1996 that is focused primarily on the manufacture of couplings and clutch brakes. Hay Hall consists of five main businesses that are niche focused and have strong brand names and established reputations within their primary markets.

Through Hay Hall, we acquired 15 strong brands in complementary product lines, improved customer leverage and expanded geographic presence in over 11 countries. Hay Hall's product offerings diversified our revenue base and strengthened our key product areas, such as electric clutches, brakes and couplings. Matrix International, Inertia Dynamics and Twiflex, three Hay Hall businesses, combined with Warner Electric, Wichita Clutch, Formsprag Clutch and Stieber, make the consolidated company one of the largest individual manufacturers of industrial clutches and brakes in the world.

On May 18, 2006, we acquired substantially all of the assets of Bear Linear for \$4.5 million. Bear Linear manufactures high value-added linear actuators which are electromechanical power transmission devices designed to move and position loads linearly for mobile off-highway and industrial applications. Bear Linear's product design and engineering expertise, coupled with our sourcing alliance with a low cost country manufacturer, were critical components in our strategic expansion into the motion control market.

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

On October 5, 2007, we acquired substantially all of the assets of All Power Transmission Manufacturing, Inc. (All Power). Approximately \$5.0 million was paid at closing and the remaining \$2.6 million of consideration was issued in the form of a note payable, due in installments over a 2 year period. The total cash payments including deal costs and the net present value of the \$2.6 million note payable reflect the total purchase consideration of \$7.2 million.

## **Divestitures**

On December 31, 2007, we sold the TB Wood's adjustable speed drives business or Electronics Division to Vacon, Inc. for \$29.0 million. We sold the Electronics Division in order to continue our strategic focus on our core electro-mechanical power transmission business.

## **Critical Accounting Policies**

The methods, estimates and judgments we use in applying our critical accounting policies have a significant impact on the results we report in our financial statements. We evaluate our estimates and judgments on an on-going basis. Our estimates are based upon historical experience and assumptions that we believe are reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

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Actual results may vary from what our management anticipates and different assumptions or estimates about the future could change our reported results.

We believe the following accounting policies are the most critical in that they are important to the financial statements and they require the most difficult, subjective or complex judgments in the preparation of the financial statements.

*Revenue Recognition.* Product revenues are recognized, net of sales tax collected, at the time title and risk of loss pass to the customer, which generally occurs upon shipment to the customer. Service revenues are recognized as services are performed. Amounts billed for shipping and handling are recorded as revenue. Product return reserves are accrued at the time of sale based on the historical relationship between shipments and returns, and are recorded as a reduction of net sales. Certain large distribution customers receive quantity discounts which are recognized net at the time the sale is recorded.

*Inventory.* Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method for all of our subsidiaries except TB Wood s. TB Wood s inventory is stated at the lower of current cost or market, principally using the last-in, first-out (LIFO) method. Inventory stated using the LIFO method approximates 13% of total inventory. We state inventories acquired by us through acquisitions at their fair values at the date of acquisition as determined by us based on the replacement cost of raw materials, the sales price of the finished goods less an appropriate amount representing the expected profitability from selling efforts, and for work-in-process the sales price of the finished goods less an appropriate amount representing the expected profitability from selling efforts and costs to complete.

We periodically review our quantities of inventories on hand and compare these amounts to the expected usage of each particular product or product line. We record as a charge to cost of sales any amounts required to reduce the carrying value of inventories to net realizable value.

*Retirement Benefits.* Obligations for pension obligations and other post retirement benefits are actuarially determined and are affected by several assumptions, including the discount rate, assumed annual rates of return on plan assets, mortality rates and per capita cost of covered health care benefits. Changes to the discount rate and mortality rate judgments could affect the estimated fair value of the projected benefit obligation. A decrease of 50 basis points in our discount rate assumption would result in an increase of \$1.7 million in our projected benefit obligation. An average increase in the average life expectancy assumption of two years would result in an increase of \$0.9 million in the pension projected benefit obligation.

A decrease of 50 basis points in our discount rate assumption would result in an increase of \$0.1 million in our accumulated projected benefit obligation related to our other post-retirement benefits. An average increase of two years in the average life expectancy would result in an increase of \$0.1 million in the accumulated projected benefit obligation related to our other post-retirement benefits.

*Goodwill, Intangibles and other long-lived assets.* In connection with our acquisitions, goodwill and intangible assets were identified and recorded at their fair value, in accordance with Statement of Financial Accounting Standards ( SFAS ) SFAS No. 141, *Business Combinations*. We recorded intangible assets for customer relationships, trade names and trademarks, product technology, patents and goodwill. In valuing the customer relationships, trade names and trademarks, we utilized variations of the income approach. The income approach was considered the most appropriate valuation technique because the inherent value of these assets is their ability to generate current and future income. The income approach relies on historical financial and qualitative information, as well as assumptions and estimates for projected financial information. Projected financial information is subject to risk if our estimates are incorrect. The most significant estimate relates to our projected revenues and profitability. If we do not meet the projected revenues and profitability used in the valuation calculations then the intangible assets could be impaired. In determining the value of customer relationships, we reviewed historical customer attrition rates which were determined to be



approximately 5% per year. Most of our customers tend to be long-term customers with very little turnover. While we do not typically have long-term contracts with customers, we have established long-term relationships with customers which make it difficult for competitors to displace us. Additionally, we assessed historical revenue growth within our industry and customers' industries in determining the value of customer relationships. The value of

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our customer relationships intangible asset could become impaired if future results differ significantly from any of the underlying assumptions. This could include a higher customer attrition rate or a change in industry trends such as the use of long-term contracts which we may not be able to obtain successfully. Customer relationships and product technology and patents are considered finite-lived assets, with estimated lives ranging from 8 years and 16 years. The estimated lives were determined by calculating the number of years necessary to obtain 95% of the value of the discounted cash flows of the respective intangible asset. Goodwill and trade names and trademarks are considered indefinite lived assets. Trade names and trademarks were determined to be indefinite lived assets based on the criteria stated in paragraph 11 in SFAS 142 *Goodwill and Other Intangible Assets*. Other intangible assets include trade names and trademarks that identify us and differentiate us from competitors, and therefore competition does not limit the useful life of these assets. All of our brands have been in existence for over 50 years and therefore are not susceptible to obsolescence risk. Additionally, we believe that our trade names and trademarks will continue to generate product sales for an indefinite period.

We evaluate goodwill for impairment at the reporting unit level. We establish our reporting units based on an analysis of the components that comprise each of our operating segments. Components of an operating segment are aggregated to form one reporting unit if the components have similar economic characteristics. Goodwill is assigned to reporting units as of the date of the related acquisition. To the extent assets and liabilities relate to multiple reporting units, they are allocated on a pro-rata basis to the reporting units. This requires significant use of judgment and estimates.

In accordance with SFAS 142, we conduct an annual impairment review of goodwill and indefinite lived intangible assets in December of each year, unless events occur which trigger the need for an interim impairment review. In connection with our annual impairment review, we assess goodwill and indefinite lived intangible assets for impairment by comparing the fair value of the reporting unit to the carrying value using a two step approach. In the first step we estimate future cash flows based upon historical results and current market projections, discounted at a market comparable rate. If the carrying amount of the reporting unit exceeds the estimated fair value, impairment may be present, we would then be required to perform a second step in our impairment analysis. In the second step, we evaluate impairment losses based upon the fair value of the underlying assets and liabilities of the reporting unit, including any unrecognized intangible assets, and estimate the implied fair value of the goodwill. An impairment loss is recognized to the extent that a reporting unit's recorded value of the goodwill asset exceeded its calculated fair value. In addition, to the extent the implied fair value of any indefinite-lived intangible asset is less than the assets carrying value, an impairment loss is recognized on those assets.

As a result of the annual goodwill impairment review in December of 2008, we determined that goodwill was impaired at three of our reporting units and therefore recorded a pre-tax charge of \$31.8 million in the consolidated statement of income. Significant declines in macroeconomic market conditions, substantial declines in global equity valuations and the company's market capitalization were the main causes of the goodwill impairment. If market conditions continue to deteriorate in 2009, we may be required to take an additional charge for goodwill and intangible asset impairment in future periods.

Preparation of forecasts of revenue and profitability growth for use in the long-range plan and the discount rate require significant use of judgment. Changes to the discount rate and the forecasted profitability could affect the estimated fair value of one or more of our reporting units. A 10% decrease in our profitability forecast judgment would require four reporting units to perform a step two analysis. The remaining goodwill and indefinite-lived intangible balances at these four reporting units are \$34.5 million as of December 31, 2008. An increase of 100 basis points in our discount rate judgment would require two reporting units to perform a step two analysis. The remaining goodwill and indefinite-lived intangible balances at these two reporting units are \$29.2 million.

In accordance with SFAS 144 *Accounting for the Impairment or Disposal of Long-lived Assets*, long-lived assets, including definite-lived intangible assets, are reviewed for impairment when events or circumstances indicate that the

carrying amount of a long-lived asset may not be recovered. Long-lived assets are considered to be impaired if the carrying amount of the asset exceeds the undiscounted future cash flows

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expected to be generated by the asset over its remaining useful life. If an asset is considered to be impaired, the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value, and is charged to results of operations at that time.

During the fourth quarter of 2008, a goodwill impairment was identified and recorded. This indicated that there could be an impairment of long-lived assets at those reporting units. We performed an impairment analysis of our long-lived assets at the three reporting units that recorded a goodwill impairment charge. We did not identify an impairment of our long-lived assets. If market conditions continue to deteriorate in 2009, we may be required to take a charge for impairment of long-lived assets in future periods.

Determining fair values based on discounted cash flows requires our management to make significant estimates and assumptions, including long-term projections of cash flows, market conditions and appropriate discount rates. A 10% decrease in our profitability forecast judgment could result in an indication that four of our reporting units could have long-lived asset impairment. The aggregate carrying value of our long-lived assets at these reporting units are \$22.2 million. An increase of 100 basis points in our discount rate judgment would result in an indication that two of our reporting units could have long-lived asset impairment. The carrying values of our long-lived assets at these reporting units are \$21.1.

*Income Taxes.* We record income taxes using the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards. We evaluate the realizability of our net deferred tax assets and assess the need for a valuation allowance on a quarterly basis. The future benefit to be derived from our deferred tax assets is dependent upon our ability to generate sufficient future taxable income to realize the assets. We record a valuation allowance to reduce our net deferred tax assets to the amount that may be more likely than not to be realized. To the extent we establish a valuation allowance, an expense will be recorded within the provision for income taxes line on the statement of operations. In periods subsequent to establishing a valuation allowance, if we were to determine that we would be able to realize our net deferred tax assets in excess of our net recorded amount, an adjustment to the valuation allowance would be recorded as a reduction to income tax expense in the period such determination was made.

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**Results of Operations**

|  | <b>Year Ended<br/>December 31,<br/>2008</b> | <b>Year Ended<br/>December 31,<br/>2007</b> | <b>Year Ended<br/>December 31,<br/>2006</b> |
|--|---|---|---|
| Net sales  | \$ 635,336                                  | \$ 584,376                                  | \$ 462,285                                  |
| Cost of sales  | 449,244                                     | 419,109                                     | 336,836                                     |
| Gross profit   | 186,092                                     | 165,267                                     | 125,449                                     |
| <i>Gross profit percentage</i>                             | 29.29%                                      | 28.28%                                      | 27.14%                                      |
| Selling, general and administrative expenses               | 99,185                                      | 93,211                                      | 83,276                                      |
| Research and development expenses                          | 6,589                                       | 6,077                                       | 4,938                                       |
| Goodwill impairment  | 31,810                                      |   |   |
| Loss (gain) on curtailment of post-retirement benefit plan | (925)                                       | 2,745                                       | (3,838)                                     |
| Restructuring costs  |   |   |   |