Altra Holdings, Inc.
Form 10-Q
November 06, 2008

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

# FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 27, 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** | **61-1478870** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **14 Hayward Street, Quincy, Massachusetts** | **02171** |
| (Address of principal executive offices) | (Zip code) |

**(617) 328-3300**

(Registrant s telephone number, including area code)

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

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 o | Accelerated filer þ | Non-accelerated filer o | Smaller reporting company o |
| | | (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 o No þ

As of November 3, 2008, 26,395,209 shares of Common Stock, $.001 par value per share, were outstanding.

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**ALTRA HOLDINGS, INC.**
**Condensed Consolidated BalanceSheets**
**Amounts in thousands, except share amounts**
**(unaudited)**

| | September 27, 2008 | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 49,822 | $ 45,807 |
| Trade receivable, less allowance for doubtful accounts of $1,373 and $1,548 at September 27, 2008 and December 31, 2007, respectively | 86,631 | 73,248 |
| Inventories | 106,374 | 101,835 |
| Deferred income taxes | 8,447 | 8,286 |
| Receivable from sale of Electronics Division (See Note 5) | | 17,100 |
| Assets held for sale (See Note 8) | 4,676 | 4,728 |
| Prepaid expenses and other current assets | 5,871 | 5,578 |
| Total current assets | 261,821 | 256,582 |
| Property, plant and equipment, net | 111,677 | 113,043 |
| Intangible assets, net | 83,642 | 88,943 |
| Goodwill | 112,932 | 114,979 |
| Deferred income taxes | 151 | 231 |
| Other non-current assets | 4,643 | 6,747 |
| Total assets | $ 574,866 | $ 580,525 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 42,893 | $ 41,668 |
| Accrued payroll | 19,035 | 16,988 |
| Accruals and other current liabilities | 26,079 | 22,001 |
| Taxes payable | 512 | |
| Deferred income taxes | 8,060 | 8,060 |
| Current portion of long-term debt | 3,343 | 2,667 |
| Total current liabilities | 99,922 | 91,384 |
| Long-term debt less current portion and net of unaccreted discount and premium | 259,423 | 291,399 |
| Deferred income taxes | 24,443 | 24,490 |
| Pension liablities | 9,219 | 13,431 |
| Other post retirement benefits | 2,343 | 3,170 |
| Long-term taxes payable | 4,726 | 5,911 |

| | | | | |
|---|---|---|---|---|
| Other long-term liabilities | | 4,155 | | 4,308 |
| Commitments and contingencies (See Note 17) | | | | |
| Shareholders equity: | | | | |
| Common stock ($0.001 par value, 90,000,000 shares authorized, 25,514,877 and 25,128,873 issued and outstanding at September 27, 2008 and December 31, 2007, respectively) | | 26 | | 25 |
| Additional paid-in capital | | 129,169 | | 127,653 |
| Retained earnings | | 44,068 | | 16,831 |
| Accumulated other comprehensive income | | (2,628) | | 1,923 |
| Total shareholders equity | | 170,635 | | 146,432 |
| Total liabilities and shareholders equity | $ | 574,866 | $ | 580,525 |

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

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**ALTRA HOLDINGS, INC.**
**Condensed Consolidated Statements of Income**
**Amounts in thousands, except per share data**
**(Unaudited)**

| | Quarter Ended | | Year to Date Ended | |
|---|---|---|---|---|
| | September 27, 2008 | September 29, 2007 | September 27, 2008 | September 29, 2007 |
| Net sales | $ 159,448 | $ 147,278 | $ 490,523 | $ 433,512 |
| Cost of sales | 113,627 | 105,597 | 346,517 | 310,666 |
| Gross profit | 45,821 | 41,681 | 144,006 | 122,846 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 25,655 | 22,981 | 76,816 | 67,386 |
| Research and development expenses | 1,663 | 1,606 | 5,160 | 4,465 |
| OPEB curtailment gain | (107) | | (276) | |
| Restructuring costs | 81 | 189 | 1,149 | 1,180 |
| | 27,292 | 24,776 | 82,849 | 73,031 |
| Income from operations | 18,529 | 16,905 | 61,157 | 49,815 |
| Other non-operarting income and expense: | | | | |
| Interest expense, net | 7,302 | 11,406 | 22,456 | 31,280 |
| Other non-operating (income) expense, net | (1,408) | 438 | (2,887) | 522 |
| | 5,894 | 11,844 | 19,569 | 31,802 |
| Income from continuing operations before income taxes | 12,635 | 5,061 | 41,588 | 18,013 |
| Provision for income taxes | 4,000 | 1,637 | 14,127 | 6,485 |
| Net income from continuing operations | 8,635 | 3,424 | 27,461 | 11,528 |
| Net income (loss) from discontinued operations, net of income taxes of $43 and $583 for the year to date periods ended September 27, 2008 and September 29, 2007, respectively | 172 | 886 | (224) | 1,352 |
| Net income | $ 8,807 | $ 4,310 | $ 27,237 | $ 12,880 |
| **Consolidated Statement of Comprehensive Income** | | | | |
| Pension liability adjustment | $ 1,500 | $ | $ 1,500 | $ |
| Foreign currency translation adjustment | (6,051) | 2,643 | (8,353) | 3,903 |

| | | | | |
|---|---|---|---|---|
| Comprehensive income | $ 4,256 | $ 6,953 | $ 20,384 | $ 16,783 |
| Weighted average shares, basic | 25,488 | 25,075 | 25,479 | 23,069 |
| Weighted average shares, diluted | 26,157 | 26,119 | 26,159 | 24,094 |
| Basic earnings per share: | | | | |
| Net income from continuing operations | $ 0.34 | $ 0.14 | $ 1.08 | $ 0.50 |
| Net income (loss) from discontinued operations | 0.01 | 0.03 | (0.01) | 0.06 |
| Net income | $ 0.35 | $ 0.17 | $ 1.07 | $ 0.56 |
| Diluted earnings per share: | | | | |
| Net income from continuing operations | $ 0.33 | $ 0.13 | $ 1.05 | $ 0.48 |
| Net income (loss) from discontinued operations | 0.01 | 0.04 | (0.01) | 0.05 |
| Net income | $ 0.34 | $ 0.17 | $ 1.04 | $ 0.53 |

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

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**ALTRA HOLDINGS, INC.**
**Condensed Consolidated Statements of Cash Flows**
**Amounts in thousands**
**(Unaudited)**

| | Year to Date ended | |
|---|---|---|
| | **September 27, 2008** | **September 29, 2007** |
| **Cash flows from operating activities** | | |
| Net income | $ 27,237 | $ 12,880 |
| Adjustments to reconcile net income to net cash flows: | | |
| Depreciation | 12,409 | 12,378 |
| Amortization of intangible assets | 4,346 | 3,999 |
| Amortization and write-offs of deferred loan costs | 1,863 | 2,980 |
| Loss (gain) on foreign currency, net | (1,597) | 409 |
| Accretion of debt discount and premium, net | 759 | 594 |
| Amortization of inventory fair value adjustment | | 651 |
| Loss on sale of Electronics Division | 224 | |
| Loss on sale of fixed assets | 193 | 112 |
| OPEB curtailment gain | (276) | |
| Stock based compensation | 1,516 | 1,092 |
| Changes in assets and liabilities: | | |
| Trade receivables | (14,905) | (6,884) |
| Inventories | (5,871) | (2,281) |
| Accounts payable and accrued liabilities | 5,885 | (8,382) |
| Other current assets and liabilities | (383) | 4,147 |
| Other operating assets and liabilities | 234 | 6 |
| Net cash provided by operating activities | 31,634 | 21,701 |
| **Cash flows from investing activities** | | |
| Purchase of fixed assets | (12,234) | (6,803) |
| Proceeds from sale of Electronics Division | 17,310 | |
| Acquisitions, net of $5,222 cash acquired | | (117,911) |
| Net cash provided by (used in) investing activities | 5,076 | (124,714) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of Senior Secured Notes | | 106,050 |
| Payments on Senior Secured Notes | (27,500) | |
| Payment of debt issuance costs | | (3,692) |
| Payments on senior notes | (1,346) | (58,428) |
| Borrowings under Revolving Credit Agreement | | 8,315 |
| Payments on Revolving Credit Agreement | (1,723) | (9,847) |
| Payment on mortgages | (228) | (178) |
| Proceeds from secondary public offering | | 49,583 |
| Payment of public offering costs | | (1,990) |

| | | | |
|---|---|---|---|
| Payment on capital leases | (779) | | (534) |
| Net cash (used in) provided by financing activities | (31,576) | | 89,279 |
| Effect of exchange rate changes on cash and cash equivalents | (1,119) | | 1,244 |
| Net change in cash and cash equivalents | 4,015 | | (12,490) |
| Cash and cash equivalents at beginning of year | 45,807 | | 42,527 |
| Cash and cash equivalents at end of period | $ 49,822 | $ | 30,037 |
| Cash paid during the period for: | | | |
| Interest | $ 21,840 | $ | 24,076 |
| Income taxes | $ 11,964 | $ | 10,338 |
| Non-cash Financing: | | | |
| Acquisition of capital equipment under capital lease | $ | $ | 1,655 |
| Accrued offering costs | $ | $ | 145 |

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**ALTRA HOLDINGS, INC.**
**Notes to Unaudited Condensed Consolidated Interim Financial Statements**
**Amounts in thousands, unless otherwise noted**

## 1. Organization and Nature of Operations

Headquartered in Quincy, Massachusetts, Altra Holdings, Inc. ( the Company ), through its wholly-owned subsidiary Altra Industrial Motion, Inc. ( Altra Industrial ), is a leading multi-national designer, producer and marketer of a wide range of mechanical power transmission products. The Company brings together strong brands covering over 40 product lines with production facilities in eight countries and sales coverage in over 70 countries. The Company s leading brands include Boston Gear, Warner Electric, TB Wood s, Formsprag Clutch, Ameridrives Couplings, Industrial Clutch, Kilian Manufacturing, Marland Clutch, Nuttall Gear, Stieber Clutch, Wichita Clutch, Twiflex Limited, Bibby Transmissions, Matrix International, Inertia Dynamics, Huco Dynatork, and Warner Linear.

## 2. Basis of Presentation

The Company was formed on November 30, 2004 following acquisitions of certain subsidiaries of Colfax Corporation ( Colfax ) and The Kilian Company ( Kilian ). During 2006, the Company acquired Hay Hall Holdings Limited ( Hay Hall ) and Bear Linear ( Warner Linear ). On April 5, 2007, the Company acquired TB Wood s Corporation ( TB Wood s ), and on October 5, 2007, the Company acquired substantially all of the assets of All Power Transmission Manufacturing, Inc. ( All Power ). These acquisitions are discussed in detail in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, which is incorporated herein by reference.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which include normal recurring adjustments, necessary to present fairly the unaudited condensed consolidated financial statements as of September 27, 2008 and for the quarters and year to date periods ended September 27, 2008 and September 29, 2007.

The Company follows a four, four, five week calendar per quarter with all quarters consisting of thirteen weeks of operations with the fiscal year end always on December 31.

The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

Certain prior period amounts have been reclassified in the condensed consolidated financial statements to conform to the current period presentation.

## 3. Net Income per Share

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

**ALTRA HOLDINGS, INC.**
**Notes to Unaudited Condensed Consolidated Interim Financial Statements**
**Amounts in thousands, unless otherwise noted**

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

| | Quarter Ended | | Year to Date Ended | |
|---|---|---|---|---|
| | September 27, 2008 | September 29, 2007 | September 27, 2008 | September 29, 2007 |
| Net income from continuing operations | $ 8,635 | $ 3,424 | $ 27,461 | $ 11,528 |
| Net income (loss) from discontinued operations | 172 | 886 | (224) | 1,352 |
| Net income | $ 8,807 | $ 4,310 | $ 27,237 | $ 12,880 |
| Shares used in net income per common share - basic | 25,488 | 25,075 | 25,479 | 23,069 |
| Incremental shares of unvested restricted common stock | 669 | 1,044 | 680 | 1,025 |
| Shares used in net income per common share - diluted | 26,157 | 26,119 | 26,159 | 24,094 |
| Earnings per share - Basic: | | | | |
| Net income from continuing operations | $ 0.34 | $ 0.14 | $ 1.08 | $ 0.50 |
| Net income (loss) from discontinued operations | $ 0.01 | $ 0.03 | $ (0.01) | $ 0.06 |
| Net income | $ 0.35 | $ 0.17 | $ 1.07 | $ 0.56 |
| Earnings per share - Diluted: | | | | |
| Net income from continuing operations | $ 0.33 | $ 0.13 | $ 1.05 | $ 0.48 |
| Net income (loss) from discontinued operations | $ 0.01 | $ 0.04 | $ (0.01) | $ 0.06 |
| Net income | $ 0.34 | $ 0.17 | $ 1.04 | $ 0.54 |

**4. Recent Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115* ( SFAS 159 ), which allows an entity to choose to measure certain financial instruments and liabilities at fair value. Subsequent measurements for the financial instruments and liabilities an entity elects to fair value will be recognized in earnings. SFAS 159 also establishes additional disclosure requirements. SFAS 159 was effective for the Company beginning January 1, 2008. The adoption of SFAS 159 did not have a material impact on the Company s condensed consolidated statement of financial position, results of operations and cash flows. The Company did not elect to remeasure any existing financial assets or liabilities under the provisions of SFAS 159.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ) effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS 157 replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair value measurements that already are required or permitted by other accounting standards and does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, which delayed until the first quarter of 2009 the effective date of SFAS 157 for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis.

The adoption of SFAS 157 for the Company s financial assets and liabilities in the first quarter of 2008 did not have a material impact on the Company s financial position or results of operations. The Company s nonfinancial assets and liabilities that meet the deferral criteria set forth in FSP 157-2 include goodwill, intangible assets, property, plant and equipment. The Company does not expect that the adoption of SFAS 157 for these nonfinancial assets and liabilities will have a material impact on the Company s financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets

**ALTRA HOLDINGS, INC.**
**Notes to Unaudited Condensed Consolidated Interim Financial Statements**
**Amounts in thousands, unless otherwise noted**

acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for the Company beginning January 1, 2009. The Company is currently evaluating the potential impact of the adoption of SFAS 141R on the Company s consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* ( SFAS 160 ). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for the Company beginning January 1, 2009. The Company is currently evaluating the potential impact of the adoption of SFAS 160 on their consolidated financial position, results of operations and cash flows.

**5. Discontinued Operations**

On December 31, 2007, the Company completed the divestiture of the TB Wood s adjustable speed drives business ( Electronics Division ) to Vacon PLC ( Vacon ) for $29.0 million. The decision to sell the Electronics Division was made to allow the Company to continue its strategic focus on its core electro-mechanical power transmission business.

As of December 31, 2007, $11.9 million of cash had been received from Vacon for the purchase of the Electronics Division. The remaining $17.1 million was received in January 2008 and was recorded as a receivable from sale of the Electronics Division on the consolidated balance sheet. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS 144 ), the Company determined that the Electronics Division became a discontinued operation in the fourth quarter of 2007. Accordingly, the operating results of the Electronics Division have been segregated from continuing operations in the consolidated statements of income and comprehensive income for the periods subsequent to the acquisition of TB Wood s (April 5, 2007) through December 31, 2007.

In connection with the sale of the Electronics Division, the Company entered into a transition services agreement. Pursuant to the Agreement, the Company will provide services such as sales support, warehousing, accounting and IT services to Vacon. The Company has recorded the income received as an offset to the related expense of providing the service. During the year to date period ended September 27, 2008, $0.3 million was recorded against cost of sales. During the year to date and quarter to date period ended September 27, 2008, $0.9 million and $0.2 million was recorded as an offset to selling, general and administrative expenses, respectively. The Company also leases building space to Vacon. The Company recorded $0.2 million and $0.5 million of lease income in other income in the condensed consolidated statement of income during the quarter to date and year to date periods ended September 27, 2008, respectively.

Loss from discontinued operations in the year to date period ended September 27, 2008 was comprised of a purchase price working capital adjustment, an adjustment to deferred taxes and an adjustment to the tax provision. The tax provision is comprised of taxes on the working capital adjustment and a revision of tax estimates made during 2007 based on the actual amounts filed on the Company s tax return in 2008.

**6. Inventories**

Inventories located at certain subsidiaries acquired in connection with the TB Wood s acquisition are stated at the lower of current cost or market, principally using the last-in, first-out ( LIFO ) method. The remaining subsidiaries are stated at the lower of cost or market, using the first-in, first-out ( FIFO ) method. Market is defined as net realizable value. Inventories at September 27, 2008 and December 31, 2007 consisted of the following:

| | September 27, 2008 | December 31, 2007 |
|---|---|---|
| Raw Materials | 35,674 | $ 33,601 |
| Work in process | 22,932 | 20,376 |
| Finished goods | 47,769 | 47,858 |
| Inventories, net | $ 106,374 | $ 101,835 |

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**ALTRA HOLDINGS, INC.**
**Notes to Unaudited Condensed Consolidated Interim Financial Statements**
**Amounts in thousands, unless otherwise noted**

Approximately 14% of total inventories at September 27, 2008 were valued using the LIFO method. A LIFO provision of $1.2 million and $0.4 million was recorded as a component of cost of sales in the accompanying statement of income and comprehensive income in the year to date and quarter to date periods ended September 27, 2008, respectively.

All LIFO inventory acquired as part of the TB Wood s acquisition was valued at the estimated fair market value less costs to sell. The adjustment resulted in a $1.7 million increase in the carrying value of the inventory. As of September 27, 2008, the net LIFO reserve included as part of inventory on the consolidated balance sheet was an asset of $0.2 million.

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**ALTRA HOLDINGS, INC.**
**Notes to Unaudited Condensed Consolidated Interim Financial Statements**
**Amounts in thousands, unless otherwise noted**

**7. Goodwill and Intangible Assets**

A roll forward of goodwill from December 31, 2007 through September 27, 2008 was as follows:

**Goodwill**

| | |
|---|---|
| Balance December 31, 2007 | $ 114,979 |
| Adjustments to acquisition related tax contingencies | (995) |
| Impact of changes in foreign currency | (1,052) |
| Balance September 27, 2008 | $ 112,932 |

Other intangible assets as of September 27, 2008 and December 31, 2007 consisted of the following:

| | September 27, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| **Other Intangible assets** | | | | |
| Intangible assets not subject to amortization: | | | | |
| Tradenames and trademarks | $ 30,730 | $ | $ 30,730 | $ |
| Intangible assets subject to amortization: | | | | |
| Customer relationships | 62,038 | 13,952 | 62,038 | 10,139 |
| Product technology and patents | 5,232 | 2,881 | 5,232 | 2,348 |
| Impact of changes in foreign currency | 2,475 | | 3,430 | |
| Total intangible assets | $ 100,475 | $ 16,833 | $ 101,430 | $ 12,487 |

The Company recorded $1.4 million and $1.5 million of amortization expense for the quarters ended September 27, 2008 and September 29, 2007, respectively and $4.3 million and $4.0 million for the year to date periods ended September 27, 2008 and Septembe