Altra Industrial Motion Corp.
Form 10-Q
November 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-33209

ALTRA INDUSTRIAL MOTION CORP.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	61-1478870 (I.R.S. Employer Identification No.)
300 Granite Street, Suite 201, Braintree, MA (Address of principal executive offices)	02184 (Zip Code)

(781) 917-0600

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

As of October 29, 2018, there were 64,440,696 outstanding shares of the registrant's common stock, $0.001 par value per share.

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ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Balance Sheets

Amounts in thousands, except share amounts

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,097	$ 51,994
Trade receivables, less allowance for doubtful accounts of $4,545 and $4,542 at September 30, 2018 and December 31, 2017, respectively	139,863	135,499
Inventories	157,049	145,611
Income tax receivable	1,548	6,634
Prepaid expenses and other current assets	21,215	17,344
Assets held for sale	696	1,081
Total current assets	370,468	358,163
Property, plant and equipment, net	187,800	191,918
Intangible assets, net	148,389	159,613
Goodwill	202,114	206,040
Deferred income taxes	1,542	2,608
Other non-current assets, net	2,256	2,315
Total assets	$ 912,569	$ 920,657
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 61,466	$ 68,014
Accrued payroll	31,139	32,091
Accruals and other current liabilities	53,169	32,921
Income tax payable	11,115	9,082
Current portion of long-term debt	1,306	384
Total current liabilities	158,195	142,492
Long-term debt - less current portion	255,161	275,587
Deferred income taxes	49,929	52,250
Pension liabilities	24,520	25,038
Long-term taxes payable	5,418	6,322
Other long-term liabilities	2,186	22,263
Commitments and Contingencies (Note 16)		
Stockholders' equity:		
Common stock ($0.001 par value per share, 90,000,000 shares authorized, 29,167,951, and 29,058,117 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively)	29	29
Additional paid-in capital	224,316	223,336

Retained earnings	248,534	223,204
Accumulated other comprehensive loss	(55,719)	(49,864)
Total stockholders' equity	417,160	396,705
Total liabilities, and stockholders' equity	$ 912,569	$ 920,657

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

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ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Operations

Amounts in thousands, except per share data

	Quarter Ended		Year to Date Ended	
	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Net sales	$228,483	$ 214,623	$706,191	$ 653,415
Cost of sales	156,543	145,610	481,770	446,109
Gross profit	71,940	69,013	224,421	207,306
Operating expenses:				
Selling, general and administrative expenses	44,860	41,009	135,372	123,012
Research and development expenses	5,733	6,051	18,464	18,434
Restructuring and consolidation costs	610	680	2,119	3,776
	51,203	47,740	155,955	145,222
Income from operations	20,737	21,273	68,466	62,084
Other non-operating income and expense:				
Loss on settlement of pension plan	—	—	5,086	—
Interest expense, net	1,958	1,811	5,857	5,547
Other non-operating expense/(income), net	644	696	216	30
Loss on extinguishment of convertible debt	—	—	—	1,797
	2,602	2,507	11,159	7,374
Income before income taxes	18,135	18,766	57,307	54,710
Provision for income taxes	5,822	5,489	16,986	15,723
Net income	$12,313	$ 13,277	$40,321	$ 38,987
Weighted average shares, basic	29,010	29,008	29,101	28,912
Weighted average shares, diluted	29,049	29,074	29,178	29,001
Net income per share:				
Basic net income	$0.42	$ 0.46	$1.39	$ 1.35
Diluted net income	$0.42	$ 0.46	$1.38	$ 1.34
Cash dividend declared	$0.17	$ 0.17	$0.51	$ 0.49

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

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Comprehensive Income

(Amounts in thousands)

	Quarter Ended		Year to Date Ended	
	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Net Income	$12,313	$ 13,277	$40,321	$ 38,987
Other Comprehensive income:				
Foreign currency translation adjustment	(2,652)	6,673	(11,170)	21,157
Reclassification adjustment from loss on partial settlement of pension plan, net of tax	—	—	3,815	—
Change in defined benefit pension plans, net of tax	—	65	577	(232)
Change in fair value of derivative financial instruments	(155)	(331)	923	326
Other comprehensive income:	(2,807)	6,407	(5,855)	21,251
Comprehensive income	$9,506	$ 19,684	$34,466	$ 60,238

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

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Cash Flows

(Amounts in thousands)

	Year to Date Ended	
	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Cash flows from operating activities		
Net income	$40,321	$ 38,987
Adjustments to reconcile net income to net operating cash flows:		
Depreciation	20,735	19,764
Amortization of intangible assets	7,296	7,139
Amortization of deferred financing costs	449	449
Loss on foreign currency, net	204	241
Loss on settlement of pension plan	5,086	—
(Gain)/Loss on disposal / impairment of fixed assets	293	(36)
Loss on extinguishment of debt	—	1,797
Stock based compensation	3,830	4,543
Amortization of inventory fair value adjustment	—	2,347
Changes in assets and liabilities:		
Trade receivables	(7,550)	(9,701)
Inventories	(13,828)	(9,478)
Accounts payable and accrued liabilities	7,129	(8,799)
Other current assets and liabilities	(4,256)	(2,392)
Other operating assets and liabilities	(730)	(1,572)
Net cash provided by operating activities	58,979	43,289
Cash flows from investing activities		
Purchase of property, plant and equipment	(21,129)	(23,261)
Working capital settlement from prior year acquisitions	—	2,883
Proceeds from sale of Altra Industrial Motion (Changzhou) Co. Ltd.	—	3,221
Acquisition of Aluminum Die Casting, S.r.L.	(2,663)	—
Net cash used in investing activities	(23,792)	(17,157)
Cash flows from financing activities		
Payments on 2015 Revolving Credit Facility	(36,673)	(39,036)
Dividend payments	(14,964)	(13,256)
Borrowing under 2015 Revolving Credit Facility	19,000	7,000
Payments of equipment, working capital notes, mortgages, and other debts	(1,132)	(913)
Cash paid to redeem Convertible Notes	—	(954)
Shares surrendered for tax withholding	(2,848)	(2,089)
Net cash used in financing activities	(36,617)	(49,248)
Effect of exchange rate changes on cash and cash equivalents	(467)	7,149
Net change in cash and cash equivalents	(1,897)	(15,967)
Cash and cash equivalents at beginning of year	51,994	69,118
Cash and cash equivalents at end of period	$50,097	$ 53,151
Cash paid during the period for:		
Interest	$6,257	$ 5,413

Income taxes	11,388	18,505
Non-cash Financing and Investing		
Conversion of Convertible Notes to common stock	-	51,851

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

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Stockholders' Equity

Amounts in thousands

(Unaudited)

	Common Stock	Shares	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2018	$ 29	29,058	$223,336	$223,204	$ (49,864)	$396,705
Stock-based compensation and vesting of restricted stock	—	110	980	—	—	980
Net income	—	—	—	40,321	—	40,321
Dividends declared, $0.51 per share	—	—	—	(14,991)	—	(14,991)
Change in fair value of Derivative Financial Instruments, net of tax	—	—	—	—	923	923
Minimum Pension adjustment, net of tax	—	—	—	—	4,392	4,392
Cumulative foreign currency translation adjustment	—	—	—	—	(11,170)	(11,170)
Balance at September 30, 2018	$ 29	29,168	$224,316	$248,534	$ (55,719)	$417,160
Balance at June 30, 2018	$ 29	29,108	$224,526	$241,249	$ (52,912)	$412,892
Stock-based compensation and vesting of restricted stock	—	60	(210)	—	—	(210)
Net income	—	—	—	12,313	—	12,313
Dividends declared, $0.17 per share	—	—	—	(5,028)	—	(5,028)
Change in fair value of Derivative Financial Instruments, net of tax	—	—	—	—	(155)	(155)
Cumulative foreign currency translation adjustment	—	—	—	—	(2,652)	(2,652)
Balance at September 30, 2018	$ 29	29,168	$224,316	$248,534	$ (55,719)	$417,160

Balance at January 1, 2017	$27	27,206	$168,299	$191,108	$(76,086)	$283,348
Stock-based compensation and vesting of restricted stock	—	100	2,457	—	—	2,457
Net income	—	—	—	38,987	—	38,987
Conversion of convertible debt	2	1,748	51,849	—	—	51,851
Dividends declared	—	—	—	(14,329)	—	(14,329)
Changes in Accumulated Other Comprehensive Income	—	—	—	—	21,251	21,251
Balance at September 30, 2017	$29	29,054	$222,605	$215,766	$(54,835)	$383,565
Balance at June 30, 2017	$29	28,996	$222,913	$207,439	$(61,602)	$368,779
	—	58	(308)	—	—	(308)

Stock-based compensation and vesting of restricted stock						
Net income	—	—	—	13,277	—	13,277
Dividends declared, $0.17 per share	—	—	—	(4,950)	—	(4,950)
Changes in Accumulated Other Comprehensive Income	—	—	—	—	6,767	6,767
Balance at September 30, 2017	$29	$29,054	$222,605	$215,766	$(54,835)	$383,565

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

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

1. Organization and Nature of Operations

Headquartered in Braintree, Massachusetts, Altra Industrial Motion Corp. (the "Company", "Altra", "we", or "our") is a premier industrial manufacturer of highly engineered power transmission, motion control and engine braking systems and components. Altra's portfolio consists of 27 well-respected brands including Bauer Gear Motor, Boston Gear, Jacobs Vehicle Systems, Kollmorgen, Portescap, Stromag, Svendborg Brakes, TB Wood's, Thomson, and Warner Electric. Altra has approximately 9,300 employees and over 50 production facilities in sixteen countries around the world.

2. Basis of Presentation

The Company's unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles in the United States, or GAAP. These statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the U.S. Securities and Exchange Commission (the "SEC") on February 23, 2018. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company's financial position for the interim periods presented, and cash flows for the interim periods presented. The results are not necessarily indicative of future results. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

3. Recent Accounting Standards

Recent Accounting Pronouncements

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act (the "2017 U.S. Tax Act"). The ultimate impact of the U.S. Tax Act may differ from this estimate, possibly materially, due to changes in interpretations and assumptions, and guidance that may be issued and actions we may take in response to the 2017 U.S. Tax Act. The 2017 U.S. Tax Act is highly complex and we will continue to assess the impact that various provisions will have on our business. Any subsequent adjustment to these amounts will be recorded to current tax expense in the period when the analysis is complete.

As of September 30, 2018, the Company has not completed the accounting for the tax effects of enactment of the 2017 U.S. Tax Act; however, the Company has made a reasonable estimate of the effects on its existing deferred tax balances, the one-time transition tax and provisional state taxes on future repatriations. For the items for which the Company was able to determine a reasonable estimate, the Company recognized a provisional amount of $7.4 million under SAB 118 as a component of income tax expense in the year ended December 31, 2017.

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”), which will require, among other items, lessees to recognize a right-of-use asset and lease liability for most leases. The standard also requires lessees and lessors to disclose the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for periods beginning after January 1, 2019, (with early adoption permitted), and it also provides for certain practical expedients that we plan to elect. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842), Targeted Improvements, which provides an additional transition method that allows the initial application of the lease standard at the adoption date using a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company will adopt this standard as of January 1, 2019 utilizing the new transition

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method. We are in the process of assessing the impact of the standard and designing related internal control procedures. Based on our efforts to date, we expect to recognize a significant lease obligation upon adoption.

Recently Adopted Accounting Standards

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule is effective on November 5, 2018. The Company is in the process of evaluating the impact of the final rule on its consolidated financial statements.

On January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (“Topic 606”) (“ASU 2014-09”) and all the related amendments using the modified retrospective approach. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods, which has been discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

The Company recognizes revenue under the core principle of depicting the transfer of control to the Company’s customers in an amount reflecting the consideration to which the Company expects to be entitled. In order to achieve that core principle, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

Our sales revenue for product sales is recognized based on a point in time model, at the point control transfers to our customers, which is generally when products are shipped from our manufacturing facilities or when products are delivered to the customer’s named location. When the Company performs shipping and handling activities after the transfer of control to the customer (e.g., when control transfers prior to delivery), such activities are considered as fulfillment activities and, accordingly, the costs are accrued for when the related revenue is recognized. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenues. See Note 4 Revenue Recognition for further disclosures and detail regarding revenue.

The adoption of ASU 2014-09 was not material to the Company and, as such, there was no cumulative effect upon the January 1, 2018 adoption date. As the impact of the new revenue standard is not material to the Company, there is no impact disclosure presented as of and for the quarter ended September 30, 2018.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”). ASU 2017-07 changes the income statement presentation of defined benefit and post-retirement benefit plan expense by requiring separation between operating expense (service cost component of net periodic benefit expense) and non-operating expense (all other components of net periodic benefit expense, including but not limited to interest cost, amortization of prior service cost, curtailments and settlements, etc.). ASU 2017-07 became effective for interim and annual periods for the Company on January 1, 2018. The operating expense component is reported with similar compensation costs while the non-operating components are reported outside of operating income. The Company adopted ASU 2017-07 in the first quarter of 2018 using a retrospective transition method. The impact of the adoption was immaterial for the three and nine months ended September 30, 2017. The financial statements for the nine months ended September 30, 2018 include the impact of the adoption.

4. Revenue Recognition

The following disclosure represents the Company’s effort to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers in accordance with ASU 2014-09. The Company operates through three business segments that are aligned with key product types and end markets served:

- Couplings, Clutches & Brakes. Couplings are the interface between two shafts, which enable power to be transmitted from one shaft to the other. Clutches in this segment are devices that use mechanical, hydraulic, pneumatic, or friction type connections to facilitate engaging or disengaging two rotating members. Brakes are combinations of interacting parts

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that work to slow or stop machinery. Products in this segment are generally used in heavy industrial applications and energy markets.

- Electromagnetic Clutches & Brakes. Products in this segment include brakes and clutches that are used to electronically slow, stop, engage or disengage equipment utilizing electromagnetic friction type connections. Products in this segment are used in industrial and commercial markets including agricultural machinery, material handling, motion control, and turf & garden.
- Gearing. Gears are utilized to reduce the speed and increase the torque of an electric motor or engine to the level required to drive a particular piece of equipment. Gears produced by the Company are primarily utilized in industrial applications.

We distribute our products through three primary distribution channels: Industrial distributors, original equipment manufacturers (OEMs), and direct to end users. Each of these segments sells similar products, which are balanced across end-user industries including, without limitation, energy, food processing, general industrial, material handling, mining, transportation, and turf & garden.

The following table disaggregates our revenue for each reportable segment. The Company believes that disaggregating revenue into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

	Quarter Ended		Year to Date Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net Sales:				
Couplings, Clutches & Brakes	$118,662	$ 110,109	$361,569	$ 327,310
Electromagnetic Clutches & Brakes	57,915	58,304	192,158	187,463
Gearing	54,198	48,368	159,650	144,545
Inter-segment eliminations	(2,292)	(2,158)	(7,186)	(5,903)
Net sales	$228,483	$ 214,623	$706,191	$ 653,415

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

	Net Sales			
	Quarter Ended		Year to Date Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017

North America (primarily U.S.)	$115,133	$ 101,569	$359,849	$ 331,945
Europe	90,015	87,866	274,805	256,142
Asia and other	23,335	25,188	71,537	65,328
Total	$228,483	$ 214,623	$706,191	$ 653,415

The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. The Company's contracts with customers are generally for product only, and do not include other performance obligations such as professional services, extended warranties, or other material rights. In situations where sales are to a distributor, the Company has concluded that its contracts are with the distributor as the Company holds a contract bearing enforceable rights and obligations only with the distributor. As part of its consideration of the contract, the Company evaluates certain factors including the customer's ability to pay (or credit risk). For each contract, the Company considers the promises to transfer products, each of which is distinct, to be the identified performance obligations. In determining the transaction price the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. As the Company's standard payment terms are less than one year, the Company has elected the practical expedient under ASC 606-10-32-18 to not assess whether a contract has a significant financing component. Revenue is recognized when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs at shipment from the Company's manufacturing site or delivery to the customer's named location. In determining whether control has transferred, the Company considers if there is a present right to payment and legal title, along with risks and rewards of ownership having transferred

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to the customer. In certain circumstances, the Company manufactures customized product without alternative use for its customers, which would generally result in the transfer of control over time. The Company has evaluated the amount of revenue subject to recognition over time and concluded that it is immaterial.

At times, the Company receives orders for products to be delivered over multiple dates that may extend across reporting periods. The Company invoices for each delivery upon shipment and recognizes revenues for each distinct product delivered, assuming transfer of control has occurred. As scheduled delivery dates are within one year, under the optional exemption provided by ASC 606-10-50-14 revenues allocated to future shipments of partially completed contracts are not disclosed.

The Company generally provides an assurance warranty that its products will be free from defects in material and workmanship for twelve months from the date of shipment. The Company's liability typically is limited to either the repair or replacement of the defective part. Returns under warranty have historically been immaterial. The Company does not consider activities related to such warranty, if any, to be a separate performance obligation. For certain of its products, the Company will separately offer extended warranty and service policies to its customers. These policies typically are for periods ranging from one to five years. Payments received are deferred and recognized over the policy period. For all periods presented, the revenue recognized and the revenue deferred under these policies are not material to the unaudited condensed consolidated financial statements.

The payment terms and conditions in our customer contracts vary. In some cases, customers will partially prepay for their goods; in other cases, after appropriate credit evaluations, payment will be due in arrears. In addition, there are constraints that cause variability in the ultimate consideration to be recognized. These constraints typically include early payment discounts, volume rebates, rights of return, surcharges, and other customer consolidation. When the timing of the Company's recognition of revenue is different from the timing of payments made by the customer, the Company recognizes either a contract asset (performance precedes contractual due date) or a contract liability (customer payment precedes performance or is in excess of estimates of what the Company expects to be entitled to). Contracts with payment in arrears are recognized as receivables. The opening and closing balances of the Company's contract asset, contract liability, and receivables are as follows:

	Deferred Revenue (Current)	Accounts Receivable
Beginning - January 1, 2018	$ 2,189	$ 135,499
Closing - September 30, 2018	4,167	139,863
Increase/(Decrease)	$ 1,978	$ 4,364

The amount of revenue recognized in the year to date period ended September 30, 2018 that were included in deferred revenue was $4.2 million. This revenue consists primarily of revenue recognized for prepaid shipments of product.

The Company has concluded that none of the costs it has incurred to obtain and fulfill its contracts meet the capitalization criteria, and as such, there are no costs deferred and recognized as assets on the unaudited condensed consolidated balance sheets.

5. Fair Value of Financial Instruments

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

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets with insufficient volume or infrequent transactions (markets that are not active); or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

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

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Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

The carrying values of financial instruments, including accounts receivable, cash equivalents, accounts payable, and other accrued liabilities approximate fair value. Debt under the 2015 Credit Agreement (and defined below in Note 11 Debt) approximates the fair value due to the variable rate and the fact that (i) the 2015 Credit Agreement was renegotiated in December 2016 and (ii) there have been no significant changes in our credit rating.

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

6. Changes in Accumulated Other Comprehensive Loss by Component

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

	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Cumulative Foreign Currency Translation Adjustment	Total
Accumulated Other Comprehensive Loss by Component, January 1, 2018	$ (452)	$ (3,678)	$ (45,734)	$ (49,864)
Net current-period Other Comprehensive Income Gain/(Loss)	923	577	(11,170)	(9,670)
Reclassification adjustment from loss on partial settlement of pension plan, net of tax		3,815		3,815
Accumulated Other Comprehensive Gain/(Loss) by Component, September 30, 2018	$ 471	$ 714	$ (56,904)	$ (55,719)

	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Cumulative Foreign Currency Translation Adjustment	Total
Accumulated Other Comprehensive Loss by Component, January 1, 2017	$ (646)	$ (5,668)	$ (69,772)	$ (76,086)
Net current-period Other Comprehensive Income Gain/(Loss)	326	(232)	21,157	21,251
Accumulated Other Comprehensive Gain/(Loss) by Component, September 30, 2017	$ (320)	$ (5,900)	$ (48,615)	$ (54,835)

7. Net Income per Share

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

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

	Quarter Ended		Year to Date Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	$12,313	$ 13,277	$40,321	$ 38,987
Shares used in net income per common share - basic	29,010	29,008	29,101	28,912
Incremental shares of unvested restricted common stock	39	66	77	89
Shares used in net income per common share - diluted	29,049	29,074	29,178	29,001
Earnings per share:				
Basic net income	$0.42	$ 0.46	$1.39	$ 1.35
Diluted net income	$0.42	$ 0.46	$1.38	$ 1.34

On October 1, 2018, upon consummation of the Fortive Transaction, the Company issued 35.0 million shares of Altra common stock pursuant to the Merger Agreement and the Distribution Agreement. As a result, the total amount of common stock issued and outstanding is approximately 64.4 million.

8. Inventories

Inventories at September 30, 2018 and December 31, 2017 consisted of the following:

	September 30, 2018	December 31, 2017
Raw materials	$ 55,317	$ 49,351
Work in process	20,310	22,914
Finished goods	81,422	73,346
	$ 157,049	$ 145,611

9. Goodwill and Intangible Assets

Changes in goodwill from January 1, 2018 through September 30, 2018 were as follows:

	Couplings, Clutches & Brakes	Electromagnetic Clutches & Brakes	Gearing	Total
Net goodwill balance January 1, 2018	$ 119,963	$ 37,905	$ 48,172	$ 206,040
Acquisition of Aluminum Die Casting	766	-	-	766
Impact of changes in foreign currency	(4,240)	(157)	(295)	(4,692)
Net goodwill balance September 30, 2018	$ 116,489	$ 37,748	$ 47,877	$ 202,114

Other intangible assets as of September 30, 2018 and December 31, 2017 consisted of the following:

	September 30, 2018			December 31, 2017		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Other intangible assets						
Intangible assets not subject to amortization:						
Tradenames and trademarks	$ 53,620	$ —	$ 53,620	$ 54,883	$ —	$ 54,883
Intangible assets subject to amortization:						
Customer relationships	172,966	78,880	94,086	177,207	72,970	104,237
Product technology and patents	6,039	5,356	683	5,853	5,360	493
Total intangible assets	$ 232,625	$ 84,236	$ 148,389	$ 237,943	$ 78,330	$ 159,613

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The Company recorded $2.4 million and $2.4 million of amortization expense in the quarters ended September 30, 2018 and 2017, respectively, and recorded $7.3 million and $7.1 million of amortization expense in the year to date periods ended September 30, 2018 and 2017, respectively.

The estimated amortization expense for intangible assets is approximately $2.4 million for the remainder of 2018, $9.6 million in each of the next four years and then $54.0 million thereafter.

10. Warranty Costs

The contractual warranty period of the Company's products generally ranges from three months to two years with certain warranties extending for longer periods. Estimated expenses related to product warranties are accrued at the time products are sold to customers and are recorded in accruals and other current liabilities on the unaudited condensed consolidated balance sheets. Estimates are established using historical information as to the nature, frequency and average costs of warranty claims. Changes in the carrying amount of accrued product warranty costs for each of the quarters ended September 30, 2018 and 2017 are as follows:

	September 30, 2018	September 30, 2017
Balance at beginning of period	$ 7,479	$ 9,158
Accrued current period warranty expense	99	511
Payments and adjustments	(2,049)	(2,047)
Balance at end of period	$ 5,529	$ 7,622

11. Debt

Outstanding debt obligations at September 30, 2018 and December 31, 2017 were as follows.

	September 30, 2018	December 31, 2017
Debt:		
2015 Revolving Credit Facility	$ 244,941	$ 262,915
Mortgages	11,410	12,833

Capital leases	116	223
Total debt	256,467	275,971
Less current portion of long-term debt	(1,306)	(384)
Total long-term debt, net of unaccreted discount	$ 255,161	$ 275,587

2015 Credit Agreement

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

The amounts available under the 2015 Revolving Credit Facility may be drawn upon in accordance with the terms of the 2015 Credit Agreement. All amounts outstanding under the 2015 Revolving Credit Facility are due on the stated maturity or such earlier time, if any, required under the 2015 Credit Agreement. The amounts owed under the 2015 Revolving Credit Facility may be prepaid at any time, subject to usual notification and breakage payment provisions. Interest on the amounts outstanding under the 2015 Revolving Credit Facility is calculated using either an ABR Rate or Eurodollar Rate, plus the applicable margin. The applicable margins for Eurodollar Loans are between 1.25% to 2.00%, and for ABR Loans are between 0.25% and 1.00%. The amounts of the margins are calculated based on either a consolidated total net leverage ratio (as defined in the 2015 Credit Agreement), or the then applicable rating(s) of the Company's debt and then to the extent as provided in the 2015 Credit Agreement. The rate at September 30, 2018 was 1.5%. A portion of the 2015 Revolving Credit Facility may also be used for the issuance of letters of credit, and a portion of the amount of the 2015 Revolving Credit Facility is available for borrowings in certain agreed upon foreign currencies. The 2015

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Credit Agreement contains various affirmative and negative covenants and restrictions, which among other things, will require the Borrowers (as defined in the 2015 Credit Agreement) to provide certain financial reports to the Lenders (as defined in the 2015 Credit Agreement), require the Company to maintain certain financial covenants relating to consolidated leverage and interest coverage, limit maximum annual capital expenditures, and limit the ability of the Company and its subsidiaries to incur or guarantee additional indebtedness, pay dividends or make other equity distributions, purchase or redeem capital stock or debt, make certain investments, sell assets, engage in certain transactions, and effect a consolidation or merger. The 2015 Credit Agreement also contains customary events of default.

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

As of September 30, 2018, we had $244.9 million outstanding on our 2015 Revolving Credit Facility-at an interest rate of 3.58%. During the quarter, the Company paid down the remaining principal of €10.5 million, or $12.2 million outstanding on our Euro tranche. As of September 30, 2018, and December 31, 2017, we had $4.2 million and 3.5 million in letters of credit outstanding, respectively. We had $175.9 million available to borrow under the 2015 Revolving Credit Facility at September 30, 2018.

On October 1, 2018, The 2015 Credit Agreement, was terminated and all outstanding indebtedness for borrowed money thereunder was repaid in full, as discussed in Note 17, Subsequent Events.

2018 Credit Agreement and Newco Notes

On October 1, 2018, the Company and Fortive consummated the Fortive Transaction. In connection with consummating the Fortive Transaction, the Company entered into a new credit facility and refinanced the amounts due under the 2015 Credit Agreement as contemplated by the Commitment Letter and guaranteed, on a senior unsecured basis, promissory notes issued by Newco, each as described in Note 17 Subsequent Events.

Convertible Senior Notes

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

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On December 12, 2016 the Company gave notice to The Bank of New York Mellon Trust Company, N.A., the Trustee under the Indenture governing the Convertible Notes of its intention to redeem all of the Convertible Notes outstanding on January 12, 2017 (the "Redemption Date"), pursuant to the optional redemption provisions in the Indenture. The redemption price for the Convertible Notes was 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the Redemption Date plus a Make-Whole Premium equal to the present values of the remaining scheduled payments of interest on any Convertible Notes through March 1, 2018 (excluding interest accrued to, but excluding, the Redemption Date). In lieu of receiving the redemption price, holders of the Convertible Notes could surrender their Convertible Notes for conversion at any time before January 9, 2017. The conversion rate of the Convertible Notes was 39.0809 shares of the Company's common stock, for each $1,000 of outstanding principal of the Convertible Notes. As of December 31, 2016, Convertible Notes with an outstanding principal amount of approximately $39.3 million were surrendered for conversion, resulting in the issuance of 1.5 million shares of the Company's common stock. As a result of the conversion, the Company incurred a loss on extinguishment of debt of approximately $1.9 million and the carrying value of the remaining Convertible Notes was $42.9 million net of unamortized discount as of December 31, 2016. In January 2017, additional Convertible Notes with an outstanding principal amount of approximately $44.7 million were converted resulting in the issuance of 1.7 million shares of the Company's common stock, and $0.9 million of Convertible Notes were redeemed for cash. The Company incurred an additional loss on extinguishment of debt of approximately $1.8 million during the quarter ended March 31, 2017. All Convertible Notes were converted or redeemed as of January 12, 2017.

Mortgages

Heidelberg Germany

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €1.5 million, or $1.7 million, secured by its facility in Heidelberg, Germany to replace its previously existing mortgage. The mortgage has an interest rate of 1.79%, which is payable in monthly installments through August 2023. The mortgage had a remaining principal balance of €0.9 million, or $1.0 million, at September 30, 2018.

Esslingen Germany

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €6.0 million, or $6.7 million, secured by its facility in Esslingen, Germany. The mortgage has an interest rate of 2.5% per year, which is payable in annual interest payments of €0.1 million, or $0.1 million, to be paid in monthly installments. The mortgage had a remaining principal balance of €6.0 million, or $7.0 million, at September 30, 2018. The principal portion of the mortgage will be due in a lump-sum payment in May 2019.

Zlate Moravce Slovakia

During the quarter ended March 31, 2016, a foreign subsidiary of the Company entered into a loan with a bank to equip its facility in Zlate Moravce, Slovakia. As of September 30, 2018, the total principal outstanding was €1.5 million, or $1.7 million, and is guaranteed by land security at its parent company facility in Esslingen, Germany. The loan is due in installments from 2016 through 2020, with an interest rate of 1.95%.

Angers France

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €2.1 million, or $2.3 million, secured by its facility in Angers, France. The mortgage has an interest rate of 1.85% per year which is payable in monthly installments until May 2025. The mortgage had a balance of €1.5 million, or $1.7 million, at September 30, 2018.

Capital Leases

The Company leases certain equipment under capital lease arrangements, whose obligations are included in both short-term and long-term debt. Capital lease obligations amounted to approximately $0.1 million at September 30, 2018 and approximately $0.2 million at December 31, 2017. Assets subject to capital leases are included in property, plant and equipment with the related amortization recorded as depreciation expense.

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Overdraft Agreements

Certain of our foreign subsidiaries maintain overdraft agreements with financial institutions. There were no borrowings as of September 30, 2018 or December 31, 2017 under any of the overdraft agreements.

12. Stockholders' Equity

Stock-Based Compensation

The Company's 2004 Equity Incentive Plan (the "2004 Plan") permitted the grant of various forms of stock based compensation to our officers and senior level employees. The 2004 Plan expired in 2014 and, upon expiration, there were 750,576 shares subject to outstanding awards under the 2004 Plan. The 2014 Omnibus Incentive Plan (the "2014 Plan") was approved by the Company's stockholders at the Company's 2014 Annual Meeting of Stockholders. The 2014 Plan provides for various forms of stock based compensation to our directors, executive personnel and other key employees and consultants. Under the 2014 Plan, the total number of shares of common stock available for delivery pursuant to the grant of awards ("Awards") was originally 750,000. At the Company's 2017 Annual Meeting of Stockholders, its stockholders approved amendments to the 2014 Plan which, among other things, made an additional 750,000 shares of common stock available for delivery pursuant to the grant of Awards under the 2014 Plan. At the Company's 2018 Special Meeting of Stockholders held on September 4, 2018, the Company's stockholders approved amendments to the 2014 Plan, which, upon the closing of the Fortive Transaction (as defined in Note 17, Subsequent Events), increased the number of shares of common stock authorized for issuance under the 2014 Plan by 2,200,000 shares, for a total of 3,700,000 authorized shares of common stock. Shares of our common stock subject to Awards previously granted under the 2004 Plan and outstanding as of the effective date of the 2014 Plan (except for substitute awards) that terminate without being exercised, expire, are forfeited or canceled, are exchanged for Awards that did not involve shares of common stock, are not issued on the stock settlement of a stock appreciation right, are withheld by the Company or tendered by a participant (either actually or by attestation) to pay an option exercise price or to pay the withholding tax on any Award, or are settled in cash in lieu of shares will again be available for Awards under the 2014 Plan.

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

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

Stock-based compensation expense recorded during the quarters ended September 30, 2018 and 2017, was $3.8 million and $4.5 million, respectively. The Company recognizes stock-based compensation expense on a straight-line basis for the shares vesting ratably under the 2014 Plan and uses the graded-vesting method of recognizing stock-based compensation expense for the performance share awards based on the probability of the specific performance metrics being achieved over the requisite service period.

The following table sets forth the activity of the Company's outstanding restricted stock grants, including shares of restricted stock awarded as a result of the achievement of performance objectives under outstanding performance shares awards, in the quarter ended September 30, 2018:

	Shares	Weighted-average grant date fair value
Shares unvested January 1, 2018	221,313	$ 31.42
Shares granted	151,143	45.61
Shares for which restrictions lapsed	(177,526)	42.52
Shares unvested September 30, 2018	194,930	$ 41.30

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Total remaining unrecognized compensation cost was $6.0 million as of September 30, 2018, which will be recognized over a weighted average remaining period of 3 years. The fair market value of the restricted stock for which the restrictions have lapsed during the quarter ended September 30, 2018 was approximately $7.5 million. Awards of restricted stock are valued based on the fair market value of the Company’s common stock underlying the Awards on the date of grant.

2016 Share Repurchase Program

On October 19, 2016, our Board of Directors approved a share repurchase program authorizing the buyback of up to $30.0 million of the Company's common stock through December 31, 2019 (the “2016 Repurchase Program”). The 2016 Repurchase Program replaced the previous share repurchase program, which was terminated. The Company is authorized to purchase shares on the open market, through block trades, in privately negotiated transactions, in compliance with SEC Rule 10b-18 (including through Rule 10b5-1 plans), or in any other appropriate manner. The timing of any shares repurchased will be at the discretion of management and will depend on a number of factors, including price, market conditions and regulatory requirements. Shares acquired through the 2016 Repurchase Program will be retired. The Company retains the right to limit, terminate or extend the 2016 Repurchase Program at any time without prior notice. The Company expects to fund any further repurchases of its common stock through a combination of cash on hand and cash generated by operations. During the quarter ended September 30, 2018, the Company did not repurchase any of its common stock under the 2016 Repurchase Program.

Dividends

The Company declared a dividend of $0.17 per share of common stock related to the quarter ended September 30, 2018 which was accrued in the balance sheet at September 30, 2018.

Future declarations of quarterly cash dividends are subject to approval by the Board of Directors and to the Board of Director’s continuing determination that the declaration of dividends are in the best interest of the Company’s stockholders and are in compliance with all laws and agreements of the Company applicable to the declaration and payment of cash dividends.

13. Restructuring, Asset Impairment, and Transition Expenses

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

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

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

	Quarter Ended		Year to Date Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Couplings, Clutches & Brakes	$ —	$ —	$ —	$ 1,849
Electromagnetic Clutches & Brakes	—	—	—	—
Gearing	—	25	—	809
Corporate	—	24	—	487
Total	$ —	$ 49	$ —	$ 3,145

There were no costs incurred under the 2015 Altra Plan for the quarter ended September 30, 2018.

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

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

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	Quarter Ended		Year to Date Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Couplings, Clutches & Brakes	$ 609	$ 631	$ 2,030	$ 631
Electromagnetic Clutches & Brakes	—	—	—	—
Gearing	43	—	110	—
Corporate	(42)	—	(21)	—
Total	$ 610	$ 631	$ 2,119	$ 631

The amounts for the quarter ended September 30, 2018 were comprised primarily of severance costs, and are classified in the accompanying unaudited condensed consolidated statement of income as restructuring costs.

The following is a reconciliation of the accrued restructuring costs between January 1, 2018 and September 30, 2018.

	2015 Altra Plan	2017 Altra Plan	Total All Plans
Balance at January 1, 2018	$ 800	$ 208	$ 1,008
Restructuring expense incurred	—	2,119	2,119
Cash payments	(532)	(1,971)	(2,503)
Balance at September 30, 2018	$ 268	$ 356	$ 624

The total accrued restructuring reserve as of September 30, 2018 relates to severance costs to be paid to former Company employees. These severance costs are expected to be paid during 2018 and 2019 are recorded in accruals and other current liabilities on the accompanying unaudited condensed consolidated balance sheet. The Company does not expect to incur any additional material restructuring expenses related to the 2015 Altra Plan. The Company expects to incur an additional amount of approximately $1.0 to $3.0 million in expense under the 2017 Altra Plan through 2019.

14. Segments, Concentrations and Geographic Information

Segments

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

- Couplings, Clutches & Brakes.

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

- Electromagnetic Clutches & Brakes.

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

- Gearing.

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

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

	Quarters Ended		Year to Date Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net Sales:				
Couplings, Clutches & Brakes	$118,662	$ 110,109	$361,569	$ 327,310
Electromagnetic Clutches & Brakes	57,915	58,304	192,158	187,463
Gearing	54,198	48,368	159,650	144,545
Inter-segment eliminations	(2,292)	(2,158)	(7,186)	(5,903)
Net sales	$228,483	$ 214,623	$706,191	$ 653,415
Income from operations:				