Con-way Inc.
Form 11-K
June 18, 2015

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

FORM 11-K

ý ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year end December 31, 2014

OR

o TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___ to___

Commission File Number: 1-05046

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:
Con-way 401(k) Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Con-way Inc.
2211 Old Earhart Road, Suite 100
Ann Arbor, MI 48105

CON-WAY 401(k) PLAN

Financial Statements and Supplemental Schedule

December 31, 2014 and 2013

(With Report of Independent Registered Public Accounting Firm)

CON-WAY 401(k) PLAN

Table of Contents

Report of Independent Registered Public Accounting Firm

Con-way Inc. Administrative Committee
Con-way 401(k) Plan:

We have audited the accompanying statements of net assets available for benefits of Con-way 401(k) Plan as of December 31, 2014 and 2013, and the related statement of changes in net assets available for benefits for the year ended December 31, 2014. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2014 and 2013, and the changes in net assets available for benefits for the year ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

The supplemental information in the accompanying schedule of assets (held at end of year) as of December 31, 2014 has been subjected to audit procedures performed in conjunction with the audit of Con-way 401(k) Plan's financial statements. The supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements but include supplemental information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information in the accompanying schedule, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information in the accompanying schedule is fairly stated in all material respects in relation to the financial statements as a whole.

/s/ Kieckhafer Schiffer & Company LLP

Portland, Oregon
June 18, 2015

1

CON-WAY 401(k) PLAN
Statements of Net Assets Available for Benefits

	December 31, 2014	2013
Assets		
Investments, at fair value:		
Mutual funds	$36,292,554	$36,197,025
Common trust funds	4,950,868	3,988,153
Con-way common stock	1,398,645	1,318,586
Total investments	42,642,067	41,503,764
Receivables:		
Con-way contributions	266,182	239,584
Notes receivable from participants	1,926,090	1,850,339
Total receivables	2,192,272	2,089,923
Net assets available for benefits	$44,834,339	$43,593,687

See accompanying notes to financial statements.

CON-WAY 401(k) PLAN
Statement of Changes in Net Assets Available for Benefits

	Year Ended December 31, 2014
Additions:	
Participant contributions	$2,819,041
Con-way contributions	989,179
Rollover contributions	44,246
Net appreciation in fair value of investments	912,188
Dividend and interest income	1,787,408
Interest received on notes receivable from participants	69,043
Total additions	6,621,105
Deductions:	
Distributions to participants	(5,380,453)
Net increase	1,240,652
Net assets available for benefits, beginning of year	43,593,687
Net assets available for benefits, end of year	$44,834,339

See accompanying notes to financial statements.

CON-WAY 401(k) PLAN
Notes to Financial Statements
December 31, 2014 and 2013

1. Description of Plan
The following description of the Con-way 401(k) Plan (the "Plan"), is provided for general information purposes only. Participants should refer to the Con-way Employee Benefits Plan Description or the Plan document for more complete information. The term “Con-way” or “Company” refers to Con-way Inc. and subsidiaries.
General
The Con-way sponsored Plan is a defined contribution plan with profit-sharing, salary deferral and employee stock ownership plan features and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. The Plan is intended to qualify under Section 401(a) of the Internal Revenue Code (the "Code").
Overall responsibility for administering the Plan rests with the Con-way Inc. Administrative Committee (the "Committee"), which is appointed by the Chief Executive Officer of Con-way. The Plan’s trustee, T. Rowe Price (the "Trustee"), is responsible for the control of the Plan’s assets, which are held in individual participant investment accounts (collectively known as the "Trust").
Eligibility
Prior to January 1, 2012, eligibility was restricted to employees of Con-way Truckload, a subsidiary of the Company, who were not sales managers, directors, vice presidents or the president. Effective January 1, 2012, this restriction was changed to permit Con-way employees who are classified as sales managers, directors, vice presidents, or president to participate in the Plan so long as they are not considered a Qualified Employee under the Con-way Retirement Savings Plan and so long as they otherwise meet the Plan’s definition of a Qualified Employee. Employees are eligible to participate in the Plan if they are not covered by a collective bargaining agreement, are not a leased employee, are not a nonresident alien or are not a resident of Puerto Rico. There are no age requirements for eligibility. One year of service is required for participation. A supplemental employee must complete one year of service during which the employee works 1,000 hours.
Contributions
Participants may contribute up to 50% of their eligible compensation subject to certain limitations. Con-way, at its discretion, makes Matching Contributions to the Plan. During 2014, Con-way made Matching Contributions equal to 50% of the first seven percent of eligible compensation that participants contributed to the Plan.
Participant Accounts
The Plan allows participants to select any one or more of the investment funds established under the Plan in which contributions can be invested.
A separate account is maintained for each participant of the Plan. Allocations of net Plan earnings are based upon participant account balances. The benefits to which participants are entitled are the benefits that can be provided from participants’ vested accounts.
Vesting
Participants are fully vested at all times in all elective deferrals and rollover contributions made to the Plan plus net earnings thereon. Matching Contributions for current employees vest as follows:

Less than two years	—%
Two years	20
Three years	40
Four years	60
Five years	80
Six or more years	100

Forfeited balances are used to reduce future Con-way contributions or are redistributed to Plan participants. At December 31, 2014 and 2013, forfeitures totaling approximately $30,000 and $16,000, respectively, were available to reduce future contributions. During 2014, forfeitures totaling approximately $83,000 were used to reduce employer contributions.

Voting Rights

Each participant is entitled to exercise voting rights attributable to the common shares of the Company allocated to his or her account and is notified by the Trustee prior to the time that such rights are to be exercised.

Notes Receivable from Participants

The Plan has a loan provision allowing participants access to funds. Loans can be no less than $1,000 and cannot exceed the lesser of $50,000 or 50% of a participant's vested account balance (subject to administrative adjustment to assure compliance with the 50% limit). Loans can be made for a term not to exceed 4-1/2 years. Loans outstanding at December 31, 2014 bear interest at rates of 4.25%. Principal and interest are paid ratably through payroll deductions.

Payments and Benefits

Participants can receive a total distribution from their accounts upon death or termination of employment. Disabled participants can receive a partial distribution of their accounts, provided they qualify for benefits under Con-way's long-term disability coverage. Other types of withdrawals are permitted by the Plan in limited situations. Participants can elect to have their accounts distributed in a single lump sum or in a series of substantially equal annual installments, as defined by the Plan. Distributions will be made in cash except participant accounts invested in Con-way common stock which can, at the direction of the participant, be paid in shares.

Plan Termination

Although Con-way has no current intention to terminate the Plan, it may do so at any time by resolution of the Board of Directors. In the event that the Plan is terminated, all balances will become 100% vested and the net assets of the Plan shall be distributed to participants in the amount credited to their accounts.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared using the accrual method of accounting.

Risks and Uncertainties

The Plan offers various investments that are generally exposed to various risks, such as interest-rate, credit and overall market-volatility risks. Investments are reported at fair value. Due to the risk associated with certain investment securities, it is reasonably possible that the value of investment securities will change and that such changes could materially affect amounts reported in the statements of net assets available for benefits.

Investment Valuation and Income Recognition

Investments are reported at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3, "Fair-Value Measurements," for a discussion of fair value measurements.

The annual change in market value, including realized gains and losses, is reported in net appreciation in fair value of investments in the accompanying statement of changes in net assets available for benefits.

Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Purchases and sales of securities are recorded on the trade-date basis.

Administrative Expenses

During 2014, administrative expenses of the Plan were paid by Con-way and by Plan participants. Participant payments of administrative expenses were collected in administrative fees through a reduction in certain funds' net asset value and paid directly to the Trustee. Certain funds also charge investment management fees in accordance with each fund's prospectus, through a reduction in the funds' net asset value.

Payment of Benefits

Benefits paid to participants are recorded upon distribution.

Estimates

Con-way makes estimates and assumptions when preparing the financial statements in conformity with U.S. generally accepted accounting principles. These estimates and assumptions affect the amounts reported in the accompanying financial statements and notes. Actual results could differ from those estimates.

Notes Receivable from Participants

Notes receivable from participants are carried at amortized cost plus accrued interest.

3. Fair-Value Measurements

Assets and liabilities reported at fair value are classified in one of the following three levels in the fair-value hierarchy:

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

Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3 - Unobservable inputs that are not corroborated by market data

The following table summarizes the valuation of Plan assets within the fair-value hierarchy:

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Targeted retirement date	$27,234,027	$—	$—	$27,234,027
U.S. large company growth	4,434,046	—	—	4,434,046
U.S. large company value	1,364,862	—	—	1,364,862
Fixed income	1,277,293	—	—	1,277,293
International equity	1,218,951	—	—	1,218,951
U.S. small company growth	763,375	—	—	763,375
Total mutual funds	36,292,554	—	—	36,292,554
Common trust funds:				
Money market	—	3,580,348	—	3,580,348
U.S. equity index	—	737,087	—	737,087
Fixed income	—	345,695	—	345,695
Balanced	—	287,738	—	287,738
Total common trust funds	—	4,950,868	—	4,950,868
Con-way common stock	1,398,645	—	—	1,398,645
Total assets at fair value	$37,691,199	$4,950,868	$—	$42,642,067

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Targeted retirement date	$27,328,018	$—	$—	$27,328,018
U.S. large company growth	4,466,058	—	—	4,466,058
Fixed income	1,275,002	—	—	1,275,002
International equity	1,258,370	—	—	1,258,370
U.S. large company value	1,182,025	—	—	1,182,025
U.S. small company growth	687,552	—	—	687,552
Total mutual funds	36,197,025	—	—	36,197,025
Common trust funds:				
Money market	—	2,984,560	—	2,984,560
U.S. equity index	—	525,253	—	525,253
Balanced	—	306,625	—	306,625
Fixed income	—	171,715	—	171,715
Total common trust funds	—	3,988,153	—	3,988,153
Con-way common stock	1,318,586	—	—	1,318,586
Total assets at fair value	$37,515,611	$3,988,153	$—	$41,503,764

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013.

Mutual funds and Con-way common stock - valued at the daily closing price reported on the active market on which the individual securities are traded.

Common trust funds - valued at the fair value of the underlying investments determined by and reported at the net asset value ("NAV") of units held by the Plan at year end. The common trust funds are considered Level 2 investments as the underlying securities are publicly traded.

The following table provides information regarding redemption of investments where the NAV has been used as a practical expedient to measure fair value at December 31:

	Fair Value		Redemption	Redemption
	2014	2013	Frequency	Notice Period
Common trust funds	$4,950,868	$3,988,153	Daily	1 - 2 days

The common trust funds include investments that are operated by a trust company that manages a pooled group of trust accounts. Common trust funds combine the assets of various institutional investors to create a larger, well-diversified portfolio. Each investor owns a participating interest that is calculated in units and represents a portion of the holdings of the fund.

The investments in common trust funds can generally be redeemed without restriction; however, in certain cases, redemption or purchase may be limited to prevent excess and/or short-term trading. There are no unfunded commitments related to the common trust funds.

4. Investments

The following investments represent 5% or more of the Plan’s net assets.

	December 31, 2014	2013
Mutual funds:		
T. Rowe Price Retirement 2020 Fund	$6,485,277	$6,472,605
T. Rowe Price Retirement 2025 Fund	6,337,318	5,636,286
T. Rowe Price Retirement 2030 Fund	4,606,146	4,474,599
T. Rowe Price Retirement 2015 Fund	3,436,140	4,421,900
T. Rowe Price Growth Stock Fund	2,788,012	2,697,919
Common trust funds:		
T. Rowe Price U.S. Treasury Money Market Trust	3,580,348	2,984,560

During 2014, the Plan’s investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows:

Mutual funds	$459,277
Common trust funds	113,463
Con-way common stock	339,448
	$912,188

5. Income Tax Status

The Internal Revenue Service ("IRS") has determined and informed Con-way by a letter dated October 3, 2001, that the Plan and related trust are designed in accordance with applicable sections of the Code. The Plan has been amended since receiving the determination letter. However, Con-way believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Code. Therefore, Con-way believes that the Plan was qualified and the related trust was tax exempt as of the financial statement date. In 2009, the Plan applied for a new determination letter in accordance with the IRS requirements. During 2014, the IRS performed a field exam of the Plan and met with the Plan’s management and its outside legal counsel to discuss the Plan’s application process and status of the determination letter. Currently management is waiting to receive further instructions from the IRS.

6. Related-Party Transactions

Certain Plan investments are mutual funds and common trust funds managed by T. Rowe Price, the Plan trustee, as defined. Therefore, these investments and investment transactions qualify as party-in-interest transactions. The Plan offers Con-way common stock as an investment option for participants. Con-way Inc. is the Plan sponsor as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions.

CON-WAY 401(k) PLAN
EIN 94-1444798
Plan No. 012
Schedule H, Line 4i – Schedule of Assets (Held at End of Year)
December 31, 2014

	Identity of issue, borrower, lessor or similar party	Description of investment including maturity date, rate of interest, collateral, par or maturity value
		Mutual Funds:
*	T. Rowe Price	Growth Stock Fund
*	T. Rowe Price	Equity Income Fund
*	T. Rowe Price	Science and Technology Fund
*	T. Rowe Price	Small-Cap Stock Fund
*	T. Rowe Price	Retirement 2005 Fund
*	T. Rowe Price	Retirement 2010 Fund
*	T. Rowe Price	Retirement 2015 Fund
*	T. Rowe Price	Retirement 2020 Fund
*	T. Rowe Price	Retirement 2025 Fund
*	T. Rowe Price	Retirement 2030 Fund
*	T. Rowe Price	Retirement 2035 Fund
*	T. Rowe Price	Retirement 2040 Fund
*	T. Rowe Price	Retirement 2045 Fund
*	T. Rowe Price	Retirement 2050 Fund
*	T. Rowe Price	

*	T. Rowe Price	Retirement 2055 Fund Retirement Balanced Fund
	PIMCO	Total Return Institutional Fund
	DNew Roman;font-size:10pt;font-weight:normal;font-style:normal;text-transform:none;font-variant: normal;">	
Loss on settlement of pension plan	—	
Interest expense, net	1,958	
Other non-operating expense/(income), net	644	
Loss on extinguishment of convertible debt	—	
	2,602	
Income before income taxes	18,135	
Provision for income taxes	5,822	
Net income	$12,313	
Weighted average shares, basic	29,010	
Weighted average shares, diluted	29,049	
Net income per share:		
Basic net income	$0.42	
Diluted net income	$0.42	
Cash dividend declared	$0.17	

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.

5

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

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

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

7

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

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

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

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.

ALTRA INDUSTRIAL MOTION CORP.

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.

ALTRA INDUSTRIAL MOTION CORP.

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 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

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

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	