

AMERICAN AXLE & MANUFACTURING HOLDINGS INC
Form 10-Q
October 29, 2010

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, 2010

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: 1-14303

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware 36-3161171
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

One Dauch Drive, Detroit, Michigan 48211-1198
(Address of Principal Executive Offices) (Zip Code)
(313) 758-2000
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

(Do not check if a smaller reporting company)

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

As of October 27, 2010, the latest practicable date, the number of shares of the registrant's Common Stock, par value \$0.01 per share, outstanding was 71,382,344 shares.

Internet Website Access to Reports

The website for American Axle & Manufacturing Holdings, Inc. is www.aam.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
 FORM 10-Q
 FOR THE QUARTER ENDED SEPTEMBER 30, 2010
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FORWARD-LOOKING STATEMENTS

In this Quarterly Report on Form 10-Q (Quarterly Report), we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. Such statements are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995 and relate to trends and events that may affect our future financial position and operating results. The terms such as “will,” “may,” “could,” “would,” “plan,” “believe,” “expect,” “anticipate,” “intend,” “project,” and similar words of expressions, as well as statements in future tense, are intended to identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management’s good faith belief as of that time with respect to future events and are subject to risks and differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- global economic conditions;
- our ability to comply with the definitive terms and conditions of various commercial and financing arrangements with General Motors Company (GM);
- reduced purchases of our products by GM, Chrysler Group LLC (Chrysler) or other customers;
- reduced demand for our customers’ products (particularly light trucks and SUVs produced by GM and Chrysler);
- availability of financing for working capital, capital expenditures, R&D or other general corporate purposes, including our ability to comply with financial covenants;
- our customers’ and suppliers’ availability of financing for working capital, capital expenditures, R&D or other general corporate purposes;
- the impact on us and our customers of requirements imposed on, or actions taken by, our customers in response to the U.S. government’s ownership interest, the Troubled Asset Relief Program or similar programs;
- our ability to achieve cost reductions through ongoing restructuring actions;
- additional restructuring actions that may occur;
- our ability to achieve the level of cost reductions required to sustain global cost competitiveness;
- our ability to maintain satisfactory labor relations and avoid future work stoppages;
- our suppliers’, our customers’ and their suppliers’ ability to maintain satisfactory labor relations and avoid work stoppages;
- our ability to continue to implement improvements in our U.S. labor cost structure;
- supply shortages or price increases in raw materials, utilities or other operating supplies;
- currency rate fluctuations;
- our ability or our customers’ and suppliers’ ability to successfully launch new product programs on a timely basis;
- our ability to realize the expected revenues from our new and incremental business backlog;
- our ability to attract new customers and programs for new products;
- our ability to develop and produce new products that reflect market demand;
- lower-than-anticipated market acceptance of new or existing products;
- our ability to respond to changes in technology, increased competition or pricing pressures;
- price volatility in, or reduced availability of, fuel;
- adverse changes in laws, government regulations or market conditions affecting our products or our customers’ products (such as the Corporate Average Fuel Economy (“CAFE”) regulations);
- adverse changes in the political stability of our principal markets (particularly North America, Europe, South America and Asia);
-

liabilities arising from warranty claims, product liability and legal proceedings to which we are or may become a party;

- changes in liabilities arising from pension and other postretirement benefit obligations;
- risks of noncompliance with environmental regulations or risks of environmental issues that could result in unforeseen costs at our facilities;
- our ability to attract and retain key associates;
- other unanticipated events and conditions that may hinder our ability to compete.

It is not possible to foresee or identify all such factors and we make no commitment to update any forward-looking statement or to disclose any facts, events or circumstances after the date hereof that may affect the accuracy of any forward-looking statement.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions, except per share data)			
Net sales	\$618.2	\$409.6	\$1,699.7	\$1,057.6
Cost of goods sold	504.3	321.1	1,399.6	1,157.1
Gross profit (loss)	113.9	88.5	300.1	(99.5)
Selling, general and administrative expenses	53.2	44.0	147.0	133.3
Operating income (loss)	60.7	44.5	153.1	(232.8)
Interest expense	(22.1)	(20.3)	(67.4)	(60.4)
Investment income	0.4	0.8	1.4	2.8
Other income (expense), net	0.5	0.1	(1.7)	(3.6)
Income (loss) before income taxes	39.5	25.1	85.4	(294.0)
Income tax expense	0.8	5.5	5.2	7.8
Net income (loss)	38.7	19.6	80.2	(301.8)
Net loss attributable to the noncontrolling interests	0.1	—	0.3	0.1
Net income (loss) attributable to AAM	\$38.8	\$19.6	\$80.5	\$(301.7)
Basic earnings (loss) per share	\$0.54	\$0.35	\$1.13	\$(5.83)
Diluted earnings (loss) per share	\$0.52	\$0.35	\$1.08	\$(5.83)

See accompanying notes to condensed consolidated financial statements.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (Unaudited) (in millions)	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$240.2	\$178.1
Short-term investments	2.8	4.2
Accounts receivable, net	188.9	129.7
Inventories, net	124.9	90.6
Prepaid expenses and other current assets	77.2	114.0
Total current assets	634.0	516.6
Property, plant and equipment, net	922.6	946.7
Goodwill	147.8	147.8
GM postretirement cost sharing asset	214.4	219.9
Other assets and deferred charges	152.6	155.8
Total assets	\$2,071.4	\$1,986.8
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	\$311.6	\$200.9
Accrued compensation and benefits	112.9	98.9
Deferred revenue	80.3	76.1
Accrued expenses and other current liabilities	67.3	69.6
Total current liabilities	572.1	445.5
Long-term debt	1,011.0	1,071.4
Deferred revenue	136.4	189.7
Postretirement benefits and other long-term liabilities	821.0	840.1
Total liabilities	2,540.5	2,546.7
Stockholders' deficit		
Common stock, par value \$0.01 per share	0.8	0.8
Paid-in capital	587.0	579.9
Accumulated deficit	(821.2	) (901.7
Treasury stock at cost, 5.5 million shares as of September 30, 2010 and 5.4 million shares as of December 31, 2009	(176.1	) (174.8
Accumulated other comprehensive income (loss), net of tax	(101.5	) (101.8
Defined benefit plans	41.0	37.4
Foreign currency translation adjustments	0.9	—
Unrecognized gain on derivatives	(469.1	) (560.2
Total AAM stockholders' deficit	—	0.3
Noncontrolling interest in subsidiaries	(469.1	) (559.9
Total stockholders' deficit	\$2,071.4	\$1,986.8
Total liabilities and stockholders' deficit		

See accompanying notes to condensed consolidated financial statements.

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AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	Nine Months Ended September 30, 2010 2009 (in millions)	
Operating activities		
Net income (loss)	\$80.2	\$(301.8)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	98.1	102.8
Asset impairments and related indirect inventory obsolescence	8.7	151.6
Deferred income taxes	0.3	(2.9)
Stock-based compensation	7.0	10.9
Pensions and other postretirement benefits, net of contributions	(13.4)	(65.2)
Loss on retirement of equipment and held-for-sale assets, net	2.2	1.1
Changes in operating assets and liabilities		
Accounts receivable	(57.6)	) 97.4
Inventories	(33.6)	) 22.0
Accounts payable and accrued expenses	122.3	(71.4)
Deferred revenue	(49.3)	) 40.1
Other assets and liabilities	28.6	(4.3)
Net cash provided by (used in) operating activities	193.5	(19.7)
Investing activities		
Purchases of property, plant and equipment	(61.7)	) (115.5)
Purchase buyouts of leased equipment	(7.8)) —
Investment in joint venture	—	(10.2)
Proceeds from sale of equipment	1.2	0.5
Redemption of short-term investments	1.6	68.0
Net cash used in investing activities	(66.7)	) (57.2)
Financing activities		
Net short-term borrowings (repayments) under revolving credit facilities	(60.0)	) 38.5
Payments of long-term debt and capital lease obligations	(6.7)	) (10.3)
Proceeds from issuance of long-term debt	5.9	4.6
Debt issuance costs	(2.2)	) (18.2)
Proceeds from issuance of GM warrants	—	30.3
Repurchase of treasury stock	(1.3)	) (0.3)
Employee stock option exercises	—	1.0
Net cash provided by (used in) financing activities	(64.3)	) 45.6
Effect of exchange rate changes on cash	(0.4)	) 5.6
Net increase (decrease) in cash and cash equivalents	62.1	(25.7)
Cash and cash equivalents at beginning of period	178.1	198.8

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Cash and cash equivalents at end of period	\$240.2	\$173.1
Supplemental cash flow information		
Interest paid	\$61.9	\$67.0
Income taxes paid (refunds received)	\$(43.5	) \$3.0

See accompanying notes to condensed consolidated financial statements.

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AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2010
 (Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization American Axle & Manufacturing Holdings, Inc. (Holdings) and its subsidiaries (collectively, we, our, us or AAM) is a Tier I supplier to the automotive industry. We manufacture, engineer, design and validate driveline and drivetrain systems and related components and chassis modules for light trucks, sport utility vehicles (SUVs), passenger cars, crossover vehicles and commercial vehicles. Driveline and drivetrain systems include components that transfer power from the transmission and deliver it to the drive wheels. Our driveline, drivetrain and related products include axles, chassis modules, driveshafts, power transfer units, transfer cases, chassis and steering components, driveheads, crankshafts, transmission parts and metal-formed products. In addition to locations in the United States (U.S.) (Michigan, New York, Ohio, Indiana and Pennsylvania), we have offices or facilities in Brazil, China, England, Germany, India, Japan, Luxembourg, Mexico, Poland, Scotland, South Korea and Thailand.

Basis of Presentation We have prepared the accompanying interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q under the Securities Exchange Act of 1934. These condensed consolidated financial statements are unaudited but include all normal recurring adjustments, which we consider necessary for a fair presentation of the information set forth herein. Results of operations for the periods presented are not necessarily indicative of the results for the full fiscal year.

The balance sheet at December 31, 2009 presented herein has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete consolidated financial statements.

In order to prepare the accompanying interim condensed consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts and disclosures in our interim condensed consolidated financial statements. Actual results could differ from those estimates.

For further information, refer to the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2009.

2. RESTRUCTURING ACTIONS

A summary of the restructuring related activity for the nine months ended September 30, 2010 is shown below (in millions):

	One-time Termination Benefits	Asset Impairments	Indirect Inventory Obsolescence	Asset Retirement Obligations	Contract Related Costs	Total	
Accrual as of December 31, 2009	\$8.0	\$—	\$—	\$1.3	\$21.3	\$30.6	
Charges	—	8.4	0.3	0.1	—	8.8	
Cash utilization	(3.7) —	—	—	(5.3) (9.0)
Non-cash utilization	—	(8.4) (0.3) —	—	(8.7)
Accrual adjustments	(0.4) —	—	—	(2.1) (2.5)
Accrual as of September 30, 2010	\$3.9	\$—	\$—	\$1.4	\$13.9	\$19.2	

In the second quarter of 2010, we recorded asset impairment charges and indirect inventory obsolescence of \$8.7 million as a result of the announced closure of our Salem Manufacturing Facility.

In 2010, we adjusted our operating plans and revised certain sourcing arrangements. As a result, we elected to buy out and utilize certain leased assets that were previously determined to be permanently idled. In the second quarter of 2010, we paid \$3.4 million to purchase these leased assets and recorded a reduction of cost of goods sold of \$2.0 million to adjust the accrual that was originally recorded when these assets were idled.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We expect to make payments of approximately \$4 million in the fourth quarter of 2010, \$10 million in 2011 and \$5 million in 2012 related to the remaining restructuring accrual.

3. SUPPLEMENTAL UNEMPLOYMENT BENEFITS

In conjunction with the 2008 labor agreements with the International United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), we accrued \$18.0 million in 2008 related to supplemental unemployment benefits (SUB) to be paid to permanently idled associates during the contract period that expires in February 2012.

In 2010, we reached resolution with the UAW on an arbitration ruling related to the transfer of certain production from the Detroit Manufacturing Complex to another AAM facility. As a result, we concluded that we no longer expect any of our remaining UAW represented associates related to the 2008 labor agreements to be permanently idled for the remainder of the contract period. Therefore, we revised our previous estimate of our SUB liability. In the second quarter of 2010, we recorded a reduction of cost of goods sold of \$5.0 million to adjust the remaining SUB accrual based on these revised estimates.

4. INVENTORIES

We state our inventories at the lower of cost or market. The cost of worldwide inventories is determined using the FIFO method. When we determine that our gross inventories exceed usage requirements, or if inventories become obsolete or otherwise not saleable, we record a provision for such loss as a component of our inventory accounts.

Inventories consist of the following:

	September 30, 2010 (in millions)	December 31, 2009
Raw materials and work-in-progress	\$ 134.6	\$ 101.3
Finished goods	20.3	23.0
Gross inventories	154.9	124.3
Inventory valuation reserves	(30.0	) (33.7
Inventories, net	\$ 124.9	\$ 90.6

5. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2010 (in millions)	December 31, 2009
Revolving Credit Facility	\$—	\$60.0
9.25% Notes, net of discount	420.1	419.6
7.875% Notes	300.0	300.0
5.25% Notes, net of discount	249.9	249.9
2.00% Convertible Notes	0.4	0.4
Foreign credit facilities	33.7	34.1
Capital lease obligations	6.9	7.4

Long-term debt	\$1,011.0	\$1,071.4
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As of September 30, 2010, the Revolving Credit Facility provided up to \$296.3 million of revolving bank financing commitments through December 2011 and \$243.2 million of such revolving bank financing commitments through June 2013. At September 30, 2010, we had \$267.8 million available under the Revolving Credit Facility. This availability reflects a reduction of \$28.5 million for standby letters of credit issued against the facility.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Revolving Credit Facility provides back-up liquidity for our foreign credit facilities. We intend to use the availability of long-term financing under the Revolving Credit Facility to refinance any current maturities related to such debt agreements that are not otherwise refinanced on a long-term basis in their local markets.

We utilize local currency credit facilities to finance the operations of certain foreign subsidiaries. At September 30, 2010, \$33.7 million was outstanding under these facilities and an additional \$0.5 million was available.

The weighted-average interest rate of our long-term debt outstanding at September 30, 2010 was 8.2% and 8.3% as of December 31, 2009.

6. FAIR VALUE

The fair value accounting guidance defines fair value as “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.” The definition is based on an exit price rather than an entry price, regardless of whether the entity plans to hold or sell the asset. This guidance also establishes a fair value hierarchy to prioritize inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets;
- Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Financial instruments The estimated fair value of our financial assets and liabilities that are recognized at fair value on a recurring basis, using available market information and other observable data, as of September 30, 2010, are as follows:

Balance Sheet Classification	September 30, 2010		December 31, 2009		Input
	Carrying Amount (in millions)	Fair Value	Carrying Amount (in millions)	Fair Value	
Cash equivalents	\$ 121.1	\$ 121.1	\$ 77.0	\$ 77.0	Level 1
Short-term investments	2.8	2.8	4.2	4.2	Level 2
Prepaid expenses and other current assets					
Currency forward contracts	0.9	0.9	—	—	Level 2

In 2008, redemptions were temporarily suspended for certain money-market and other similar funds in which we invest. We received \$1.6 million in redemptions from these funds in the nine months ended September 30, 2010. As of September 30, 2010, we have classified the fair value of the remaining investments of \$2.8 million as short-term investments on our Condensed Consolidated Balance Sheet. We expect to receive the remaining balance of our current holdings in these funds within the next 12 months.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The carrying value of our cash, accounts receivable, accounts payable and accrued liabilities approximates their fair values due to the short-term maturities of these instruments. The carrying value of our borrowings under the foreign credit facilities approximates their fair value due to the frequent resetting of the interest rates. We estimated the fair value of the amounts outstanding on our debt using available market information and other observable data, to be as follows:

	September 30, 2010		December 31, 2009		Input
	Carrying Amount (in millions)	Fair Value	Carrying Amount (in millions)	Fair Value	
Revolving Credit Facility	\$—	\$—	\$60.0	\$57.0	Level 2
9.25% Notes	420.1	459.0	419.6	433.5	Level 2
7.875% Notes	300.0	291.0	300.0	258.0	Level 2
5.25% Notes	249.9	232.5	249.9	212.5	Level 2

Long-lived assets In the second quarter of 2010, as part of our impairment analysis, we were required to measure the fair value of certain long-lived assets. In this analysis we utilized the income approach, which determines fair value through a discounted cash flow analysis based on the assumptions a market participant would use in pricing these assets. Significant inputs used by management when determining the fair value of long-lived assets for impairment include general economic conditions, future expected production volumes, product pricing and cost estimates, working capital and capital investment requirements, discount rates and estimated liquidation values. The following table summarizes impairments of long-lived assets measured at fair value on a nonrecurring basis subsequent to initial recognition (in millions):

Balance Sheet Classification	Fair Value Measurements using Level 3 Inputs	Asset Impairment Recorded in the Second Quarter of 2010
Property, plant and equipment, net	\$—	\$7.6
Other assets and deferred charges	—	0.8

In the third quarter of 2010, we classified certain administrative and engineering facilities located in Detroit, Michigan as held-for-sale and wrote these assets down to their estimated fair value using available market data. As a result, we recorded a loss of \$4.8 million in the third quarter of 2010, of which \$3.0 million was recorded to selling, general and administrative expenses and \$1.8 million was recorded to cost of goods sold. We reclassified \$0.6 million from property, plant and equipment, net to other assets and deferred charges on our Condensed Consolidated Balance Sheet as of September 30, 2010. The following table summarizes the loss on remeasurement of long-lived assets held-for-sale measured at fair value on a nonrecurring basis subsequent to initial recognition (in millions):

Balance Sheet Classification	Fair Value Measurements using Level 3 Inputs	Loss on Remeasurement Recorded in the Third Quarter of 2010
Other assets and deferred charges	\$0.6	\$4.8

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. DERIVATIVES

Our business and financial results are affected by fluctuations in world financial markets, including interest rates and currency exchange rates. Our hedging policy has been developed to manage these risks to an acceptable level based on management's judgment of the appropriate trade-off between risk, opportunity and cost. We do not hold financial instruments for trading or speculative purposes.

Currency forward contracts From time to time, we use foreign currency forward contracts to reduce the effects of fluctuations in exchange rates, primarily relating to the Mexican Peso. As of September 30, 2010, we have forward contracts outstanding with a notional amount of \$23.9 million that hedge our exposure to changes in foreign currency exchange rates for our payroll expenses. There were no currency forward contracts in place as of December 31, 2009.

Interest rate hedges We are exposed to variable interest rates on certain credit facilities. From time to time, we use interest rate hedging to reduce the effects of fluctuations in market interest rates. As of September 30, 2010 and December 31, 2009, no interest rate hedges were in place.

The following table summarizes the reclassification of pre-tax derivative gains (losses) into net income (loss) from accumulated other comprehensive income (loss):

	Location of Gain (Loss) Reclassified into Net Income (Loss)	Gain (Loss) Reclassified				Gain Expected to be Reclassified During the Next 12 Months
		Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010		
Currency forward contracts	Cost of Goods Sold	\$0.1	\$(1.6)	\$0.1	\$(6.2)	\$0.9
Interest rate hedges	Interest Expense	—	(1.0)	—	(3.0)	—

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost are as follows:

	Pension Benefits							
	Three Months Ended September 30, 2010		2009		Nine Months Ended September 30, 2010		2009	
	(in millions)							
Service cost	\$1.2		\$1.1		\$3.7		\$3.8	
Interest cost	9.3		8.8		27.8		26.6	
Expected asset return	(8.0	)	(7.3	)	(24.0	)	(22.7)
Amortized loss	0.6		0.2		1.8		0.8	
Curtailement	—		0.6		—		(1.2)
Special and contractual termination benefits	—		—		—		2.5	
Net periodic benefit cost	\$3.1		\$3.4		\$9.3		\$9.8	
	Other Postretirement Benefits							
	Three Months Ended September 30, 2010		2009		Nine Months Ended September 30, 2010		2009	
	(in millions)							
Service cost	\$0.2		\$0.5		\$0.7		\$1.9	
Interest cost	4.1		4.5		12.1		13.7	
Amortized gain	(0.3	)	(0.5	)	(1.0	)	(1.7)
Amortized prior service credit	(0.8	)	(1.3	)	(2.3	)	(4.6)
Curtailement	—		(42.9	)	—		(63.4)
Special and contractual termination benefits	—		—		—		(0.7)
Net periodic benefit cost (credit)	\$3.2		\$(39.7	)	\$9.5		\$(54.8)

We contributed \$25.5 million to our pension trusts in the nine months ended September 30, 2010, which represents substantially all of our 2010 pension funding requirements. We expect our net cash outlay for other postretirement benefit obligations in 2010, net of GM cost sharing, to be approximately \$15 million.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. PRODUCT WARRANTIES

We record a liability for estimated warranty obligations at the dates our product are sold. These estimates are established using sales volumes and internal and external warranty data where there is no payment history and historical information about the average cost of warranty claims for customers with prior claims. We adjust the liability as necessary.

The following table provides a reconciliation of changes in the product warranty liability:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	(in millions)			
Beginning balance	\$2.0	\$2.4	\$2.1	\$2.6
Accruals	0.3	0.1	0.8	0.2
Settlements	(0.2	) (0.2	) (0.4	) (0.3
Adjustment to prior period accruals	—	—	(0.3	) (0.4
Foreign currency translation and other	0.1	(0.1	) —	0.1
Ending balance	\$2.2	\$2.2	\$2.2	\$2.2

10. INCOME TAXES

We are required to adjust our effective tax rate each quarter to consistently estimate our annual effective tax rate. We must also record the tax impact of certain discrete items, unusual or infrequently occurring, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur. In addition, jurisdictions with a projected loss for the year or a year-to-date loss where no tax benefit can be recognized are excluded from the estimated annual effective tax rate. The impact of such an exclusion could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings versus annual projections.

Income tax expense was \$0.8 million in the three months ended September 30, 2010 and \$5.2 million in the first nine months of 2010 as compared to \$5.5 million in the three months ended September 30, 2009 and \$7.8 million in the first nine months of 2009. Our effective income tax rate was 2.0% in the third quarter of 2010 and 6.1% in the first nine months of 2010 as compared to 22.0% in the third quarter of 2009 and negative 2.7% in the first nine months of 2009. Our income tax expense and effective tax rate for the three and nine months ended September 30, 2010 and 2009 reflected the effect of recording a valuation allowance against income tax benefits on U.S. losses. In conjunction with the filing of our 2009 federal tax return, under provisions contained in the American Recovery and Reinvestment Act of 2009, we recorded a tax benefit of \$1.4 million in the three and nine months ended September 30, 2010 attributable to the monetization of alternative minimum tax and research and development credits. We will receive this tax refund during the fourth quarter of 2010. Our income tax expense and effective tax rate in the third quarter of 2009 reflects the effect of increasing our contingent tax liabilities by \$4.8 million as a result of our quarterly analysis of uncertain tax positions.

In the first quarter of 2010, we received a \$48.8 million refund as a result of the Worker, Homeownership and Business Act of 2009 which extended our 2008 net operating loss carryback period to 2003.

As a result of the Patient Protection and Affordable Care Act of 2010, our deferred tax asset decreased by approximately \$11 million. As we have previously recorded a valuation allowance against our U.S. deferred tax assets, there was no net impact to income tax expense or our net deferred tax assets.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Net income (loss)	\$38.7	\$19.6	\$80.2	\$(301.8)
Defined benefit plans, net of tax	(1.7)	(70.7)	0.3	(86.1)
Foreign currency translation adjustments, net of tax	11.5	11.8	3.6	34.3
Change in derivatives, net of tax	0.8	1.9	0.9	8.7
Comprehensive income (loss)	\$49.3	\$(37.4)	\$85.0	\$(344.9)
Net loss attributable to noncontrolling interests	0.1	—	0.3	0.1
Foreign currency translation adjustments related to noncontrolling interests	—	—	—	(0.3)
Comprehensive income (loss) attributable to AAM	\$49.4	\$(37.4)	\$85.3	\$(345.1)

12. EARNINGS (LOSS) PER SHARE (EPS)

The following table sets forth the computation of our basic and diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions, except per share data)			
Numerator				
Net income (loss) attributable to AAM	\$38.8	\$19.6	\$80.5	\$(301.7)
Denominator				
Basic shares outstanding -				
Weighted-average shares outstanding	71.4	55.4	71.5	51.8
Effect of dilutive securities				
Dilutive stock-based compensation	0.1	—	0.1	—
Dilutive GM warrants	2.8	0.4	2.9	—
Diluted shares outstanding -				
Adjusted weighted-average shares after assumed conversions	74.3	55.8	74.5	51.8
Basic EPS	\$0.54	\$0.35	\$1.13	\$(5.83)
Diluted EPS	\$0.52	\$0.35	\$1.08	\$(5.83)

Basic and diluted loss per share are the same for the nine months ended September 30, 2009 because the effect of 0.1 million potentially dilutive GM warrants would have been antidilutive.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Certain exercisable stock options were excluded in the computations of diluted EPS because the exercise price of these options was greater than the average period market prices. The number of stock options outstanding, which were not included in the calculation of diluted EPS, was 4.8 million at September 30, 2010 and 5.8 million at September 30, 2009. The ranges of exercise prices related to the excluded exercisable stock options were \$10.08 - \$40.83 at September 30, 2010 and \$2.81 - \$40.83 at September 30, 2009.

13. SUBSEQUENT EVENT

On October 1, 2010, we formed a joint venture with Saab Automobile AB (Saab). The new company, e-AAM Driveline Systems AB (e-AAM), will engineer, develop and commercialize electric all-wheel-drive and hybrid driveline systems for passenger cars and crossover vehicles. e-AAM systems will be designed to improve fuel efficiency, reduce CO2 emissions and provide all-wheel-drive capability utilizing torque vectoring for vehicle stability. AAM is the majority owner, owning 67% of the shares in this joint venture while Saab owns the remaining 33%.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Holdings has no significant assets other than its 100% ownership in AAM, Inc. and no direct subsidiaries other than AAM, Inc. Holdings fully and unconditionally guarantees the 5.25% Notes and 7.875% Notes, which are senior unsecured obligations of AAM, Inc. The 2.00% Convertible Notes are senior unsecured obligations of Holdings and are fully and unconditionally guaranteed by AAM, Inc.

The following Condensed Consolidating Financial Statements are included in lieu of providing separate financial statements for Holdings and AAM, Inc. These Condensed Consolidating Financial Statements are prepared under the equity method of accounting whereby the investments in subsidiaries are recorded at cost and adjusted for the parent's share of the subsidiaries' cumulative results of operations, capital contributions and distributions, and other equity changes.

Condensed Consolidating Statements of Operations

Three months ended, September 30,

(in millions)

	Holdings	AAM Inc.	All Others	Elims	Consolidated
2010					
Net sales					
External	\$—	\$191.5	\$426.7	\$—	\$618.2
Intercompany	—	6.4	48.2	(54.6)	—
Total net sales	—	197.9	474.9	(54.6)	618.2
Cost of goods sold	—	178.8	380.1	(54.6)	504.3
Gross profit	—	19.1	94.8	—	113.9
Selling, general and administrative expenses	—	48.6	4.6	—	53.2
Operating income (loss)	—	(29.5)	90.2	—	60.7
Non-operating expense, net	—	(22.0)	0.8	—	(21.2)
Income (loss) before income taxes	—	(51.5)	91.0	—	39.5
Income tax expense (benefit)	—	(1.1)	1.9	—	0.8
Earnings from equity in subsidiaries	38.8	70.0	—	(108.8)	—
Net income before royalties and dividends	38.8	19.6	89.1	(108.8)	38.7
Royalties and dividends	—	19.2	(19.2)	—	—
Net income after royalties and dividends	38.8	38.8	69.9	(108.8)	38.7
Net loss attributable to noncontrolling interests	—	—	0.1	—	0.1
Net income attributable to AAM	\$38.8	\$38.8	\$70.0	\$(108.8)	\$38.8
2009					
Net sales					
External	\$—	\$116.3	\$293.3	\$—	\$409.6
Intercompany	—	5.6	29.7	(35.3)	—
Total net sales	—	121.9	323.0	(35.3)	409.6
Cost of goods sold	—	85.4	271.0	(35.3)	321.1
Gross income	—	36.5	52.0	—	88.5
Selling, general and administrative expenses	—	41.2	2.8	—	44.0
Operating income (loss)	—	(4.7)	49.2	—	44.5
Non-operating income (expense), net	—	(21.0)	1.6	—	(19.4)
Income (loss) before income taxes	—	(25.7)	50.8	—	25.1
Income tax expense (benefit)	—	(0.3)	5.8	—	5.5

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Earnings from equity in subsidiaries	19.6	31.4	—	(51.0) —
Net income before royalties and dividends	19.6	6.0	45.0	(51.0) 19.6
Royalties and dividends	—	13.6	(13.6) —	—
Net income after royalties and dividends	19.6	19.6	31.4	(51.0	) 19.6
Net loss attributable to noncontrolling interests	—	—	—	—	—
Net income attributable to AAM	\$19.6	\$19.6	\$31.4	\$(51.0) \$19.6

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AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidating Statements of Operations

Nine months ended, September 30,

(in millions)

	Holdings	AAM Inc.	All Others	Elims	Consolidated
2010					
Net sales					
External	\$—	\$446.5	\$1,253.2	\$—	\$1,699.7
Intercompany	—	20.8	132.8	(153.6)	—
Total net sales	—	467.3	1,386.0	(153.6)	1,699.7
Cost of goods sold	—	441.5	1,111.7	(153.6)	1,399.6
Gross profit	—	25.8	274.3	—	300.1
Selling, general and administrative expenses	—	135.0	12.0	—	147.0
Operating income (loss)	—	(109.2)	) 262.3	—	153.1
Non-operating expense, net	—	(66.5)	) (1.2)	—	(67.7)
Income (loss) before income taxes	—	(175.7)	) 261.1	—	85.4
Income tax expense (benefit)	—	(0.9)	) 6.1	—	5.2
Earnings from equity in subsidiaries	80.5	197.6	—	(278.1)	—
Net income before royalties and dividends	80.5	22.8	255.0	(278.1)	80.2
Royalties and dividends	—	57.7	(57.7)	—	—
Net income after royalties and dividends	80.5	80.5	197.3	(278.1)	80.2
Net loss attributable to noncontrolling interests	—	—	0.3	—	0.3
Net income attributable to AAM	\$80.5	\$80.5	\$197.6	\$(278.1)	\$80.5
2009					
Net sales					
External	\$—	\$409.5	\$648.1	\$—	\$1,057.6
Intercompany	—	18.5	73.0	(91.5)	—
Total net sales	—	428.0	721.1	(91.5)	1,057.6
Cost of goods sold	—	543.1	705.5	(91.5)	1,157.1
Gross profit (loss)	—	(115.1)	) 15.6	—	(99.5)
Selling, general and administrative expenses	—	125.8	7.5	—	—