

AMERICAN AXLE & MANUFACTURING HOLDINGS INC  
Form 10-Q  
November 10, 2008

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, 2008

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  
(State or Other Jurisdiction of Incorporation or  
Organization)

36-3161171  
(I.R.S. Employer Identification No.)

One Dauch Drive, Detroit, Michigan  
(Address of Principal Executive Offices)

48211-1198  
(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 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):

Large accelerated filer  Accelerated filer  Non-accelerated filer  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 November 5, 2008, the latest practicable date, the number of shares of the registrant's Common Stock, par value \$0.01 per share, outstanding was 54,305,082 shares.

#### Internet Website Access to Reports

The website for American Axle & Manufacturing Holdings, Inc. is [www.aam.com](http://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. The Securities and Exchange Commission also maintains a website at [www.sec.gov](http://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, 2008  
TABLE OF CONTENTS

		Page Number
	<u>FORWARD-LOOKING STATEMENTS</u>	1
Part I	<u>FINANCIAL INFORMATION</u>	2
	Item 1	
	<u>Financial Statements</u>	2
	<u>Condensed Consolidated Statements of Operations</u>	2
	<u>Condensed Consolidated Balance Sheets</u>	3
	<u>Condensed Consolidated Statements of Cash Flows</u>	4
	<u>Notes to Condensed Consolidated Financial Statements</u>	5
	Item 2	
	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
	Item 3	
	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
	Item 4	
	<u>Controls and Procedures</u>	33
Part II	<u>OTHER INFORMATION</u>	34
	Item 1A	
	<u>Risk Factors</u>	34
	Item 2	
	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
	Item 6	
	<u>Exhibits</u>	34
	<u>Signatures</u>	35
	<u>Exhibit Index</u>	36
	<u>Ex. 31.1 Certification - CEO - Rule 13a-14(a)</u>	
	<u>Ex. 31.2 Certification - CFO - Rule 13a-14(a)</u>	
	<u>Ex. 32 Section 906 Certifications</u>	

## FORWARD-LOOKING STATEMENTS

In this Quarterly Report on Form 10-Q, 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;
- reduced purchases of our products by General Motors Corporation (GM), Chrysler 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;
- 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’ ability to maintain satisfactory labor relations and avoid work stoppages;
    - our customers’ and their suppliers’ ability to maintain satisfactory labor relations and avoid work stoppages;
      - our ability to improve our U.S. labor cost structure;
      - our ability to consummate and integrate acquisitions;
    - supply shortages or price increases in raw materials, utilities or other operating supplies;
- 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;
    - continued or increased high prices for 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 regulations);
- adverse changes in the economic conditions or 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.

1

---

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
(in millions, except per share data)				
Net sales	\$ 528.1	\$ 774.3	\$ 1,606.2	\$ 2,493.0
Cost of goods sold	906.5	693.1	2,499.8	2,212.8
Gross profit (loss)	(378.4)	81.2	(893.6)	280.2
Selling, general and administrative expenses	43.0	52.0	137.3	155.1
Operating income (loss)	(421.4)	29.2	(1,030.9)	125.1
Interest expense	(18.0)	(14.6)	(48.4)	(46.8)
Investment income (loss)	(3.7)	3.1	0.5	6.0
Other income (expense), net	(1.4)	(1.2)	0.2	(5.4)
Income (loss) before income taxes	(444.5)	16.5	(1,078.6)	78.9
Income tax expense (benefit)	(3.4)	3.0	33.8	15.1
Minority interest	0.2	-	0.2	-
Net income (loss)	\$ (440.9)	\$ 13.5	\$ (1,112.2)	\$ 63.8
Basic earnings (loss) per share	\$ (8.54)	\$ 0.27	\$ (21.55)	\$ 1.26
Diluted earnings (loss) per share	\$ (8.54)	\$ 0.25	\$ (21.55)	\$ 1.21
Dividends declared per share	\$ 0.02	\$ 0.15	\$ 0.32	\$ 0.45

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2008	December 31, 2007
	(Unaudited)	
	(in millions)	
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 454.2	\$ 343.6
Short-term investments	117.2	-
Accounts receivable, net	256.2	264.0
AAM - GM Agreement receivable	60.0	-
Inventories, net	183.8	242.8
Prepaid expenses and other	70.8	73.4
Deferred income taxes	5.3	19.5
Total current assets	1,147.5	943.3
Property, plant and equipment, net	1,093.0	1,696.2
Deferred income taxes	16.0	78.7
Goodwill	147.8	147.8
Other assets and deferred charges	51.5	57.4
Total assets	\$ 2,455.8	\$ 2,923.4
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 287.2	\$ 313.8
Accrued compensation and benefits	261.7	126.6
Deferred revenue	66.7	10.2
Other accrued expenses	45.9	61.0
Total current liabilities	661.5	511.6
Long-term debt	1,300.8	858.1
Deferred income taxes	5.4	6.6
Deferred revenue	195.8	66.0
Postretirement benefits and other long-term liabilities	429.6	581.7
Total liabilities	2,593.1	2,024.0
<b>Stockholders' equity (deficit)</b>		
Common stock, par value \$0.01 per share	0.6	0.6
Paid-in capital	428.0	416.3
Retained earnings (accumulated deficit)	(537.6)	591.9
Treasury stock at cost, 5.2 million shares as of 2008 and 2007	(173.9)	(173.8)
Accumulated other comprehensive income (loss), net of tax		
Defined benefit plans	120.8	33.5
Foreign currency translation adjustments	27.5	34.2
Unrecognized loss on derivatives	(2.7)	(3.3)
Total stockholders' equity (deficit)	(137.3)	899.4

Total liabilities and stockholders' equity (deficit)	\$ 2,455.8	\$ 2,923.4
--	------------	------------

See accompanying notes to condensed consolidated financial statements

3

---



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

	Nine months ended	
	September 30,	
	2008	2007
	(in millions)	
<b>Operating activities</b>		
Net income (loss)	\$ (1,112.2)	\$ 63.8
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	165.2	171.0
Asset impairments	541.3	-
Deferred income taxes	22.7	1.9
Stock-based compensation	9.4	16.6
Pensions and other postretirement benefits, net of contributions	25.6	42.1
Loss (gain) on retirement of property, plant and equipment	(1.1)	3.3
Debt refinancing and redemption costs	-	5.5
Changes in operating assets and liabilities		
Accounts receivable	7.5	8.4
Inventories	57.8	(49.6)
Accounts payable and accrued expenses	63.0	58.7
Deferred revenue: AAM - GM Agreement	115.0	-
Other assets and liabilities	8.5	9.9
Net cash provided by (used in) operating activities	(97.3)	331.6
<b>Investing activities</b>		
Purchases of property, plant and equipment	(102.8)	(132.9)
Reclassification of cash equivalents to short-term investments	(117.2)	-
Proceeds from sale of property, plant and equipment	2.3	-
Net cash used in investing activities	(217.7)	(132.9)
<b>Financing activities</b>		
Net borrowings (repayments) under revolving credit facilities	444.4	(132.8)
Payments of long-term debt and capital lease obligations	(10.4)	(0.5)
Proceeds from issuance of long-term debt	8.9	553.1
Debt issuance costs	-	(7.5)
Payment of Term Loan due 2010	-	(252.5)
Repurchase of treasury stock	(0.1)	(1.9)
Employee stock option exercises	0.7	12.5
Tax benefit on stock option exercises	0.2	2.7
Dividends paid	(17.3)	(23.8)
Net cash provided by financing activities	426.4	149.3
Effect of exchange rate changes on cash	(0.8)	0.6
Net increase in cash and cash equivalents	110.6	348.6
Cash and cash equivalents at beginning of period	343.6	13.5
Cash and cash equivalents at end of period	\$ 454.2	\$ 362.1

Supplemental cash flow information

Interest paid	\$	56.9	\$	51.4
Income taxes paid, net of refunds	\$	3.1	\$	17.4

See accompanying notes to condensed consolidated financial statements.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(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 trucks, sport utility vehicles (SUVs), passenger cars and crossover utility 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, driving heads, crankshafts, transmission parts and metal-formed products. In addition to locations in the United States (U.S.) (Michigan, New York, Ohio and Indiana), 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, 2007 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.

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

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, 2007.

**Short-term Investments** As of September 30, 2008, we were invested in the Reserve U.S. Government Fund (Government Fund), the Reserve International Liquidity Fund (International Liquidity Fund) and the Reserve Yield Plus Fund (Yield Plus Fund) (collectively the Reserve Funds). The Reserve Funds are a series of money-market and other similar fund investments, which we have previously classified as cash and cash equivalents on our Consolidated Balance Sheet because the funds were readily convertible into known amounts of cash.

In September of 2008, redemptions were temporarily suspended from the Reserve Funds so that an orderly liquidation may be effected for the protection of the Reserve Funds investors. While we expect to receive substantially all of our current holdings in the Reserve Funds, we cannot predict exactly when this will occur or the amount we will receive. Accordingly, we have reclassified the fair value of these funds of \$117.2 million from cash and cash equivalents to short-term investments on our Condensed Consolidated Balance Sheet as of September 30, 2008.

Based on the other-than-temporary decline in the net asset value of the International Liquidity and Yield Plus Funds as of September 30, 2008, we recorded a loss of \$5.4 million in investment income (loss) on our Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2008.

**Change in Accounting Principle** On January 1, 2008, we changed the method for costing our U.S. inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. As of December 31, 2007, the U.S. inventories for which the LIFO method of costing inventory was applied represented approximately 25% of total gross inventories. This change enhances the matching of inventory costs with revenues and better reflects the current cost of inventory on our Condensed Consolidated Balance Sheet. Additionally, this change conforms all of our worldwide inventories to a consistent inventory costing method and provides better comparability to our industry peers, most of which use the FIFO method of costing for inventory. In accordance with Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections," the change in accounting principle has been retrospectively applied to all prior periods presented herein.

We have presented the effects of the change in accounting for inventory costing to the Condensed Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007, the Condensed Consolidated Statement of Operations for the three months and nine months ended September 30, 2008 and September 30, 2007, and the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2008 and September 30, 2007. We have condensed the comparative financial statements for financial statement line items that were not affected by the change in accounting principle.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidated Statement of Operations  
Three months ended September 30, 2007  
(in millions)

	As originally reported	Adjustments to change from LIFO to FIFO	As adjusted and reported under FIFO
Net sales	\$ 774.3	\$ -	\$ 774.3
Cost of goods sold	693.6	(0.5)	693.1
Gross profit	80.7	0.5	81.2
Selling general and administrative expenses	52.0	-	52.0
Operating income	28.7	0.5	29.2
Other expense, net	(12.7)	-	(12.7)
Income before income taxes	16.0	0.5	16.5
Income tax expense	2.9	0.1	3.0
Net income	13.1	0.4	13.5
Basic earnings per share	\$ 0.26	\$ 0.01	\$ 0.27
Diluted earnings per share	\$ 0.25	\$ 0.00	\$ 0.25

Condensed Consolidated Statement of Operations  
Nine months ended September 30, 2007  
(in millions)

	As originally reported	Adjustments to change from LIFO to FIFO	As adjusted and reported under FIFO
Net sales	\$ 2,493.0	\$ -	\$ 2,493.0
Cost of goods sold	2,214.4	(1.6)	2,212.8
Gross profit	278.6	1.6	280.2
Selling general and administrative expenses	155.1	-	155.1
Operating income	123.5	1.6	125.1
Other expense, net	(46.2)	-	(46.2)
Income before income taxes	77.3	1.6	78.9
Income tax expense	14.8	0.3	15.1
Net income	62.5	1.3	63.8
Basic earnings per share	\$ 1.23	\$ 0.03	\$ 1.26
Diluted earnings per share	\$ 1.19	\$ 0.02	\$ 1.21

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidated Balance Sheet  
December 31, 2007  
(in millions)

	As originally reported	Adjustments to change from LIFO to FIFO	As adjusted and reported under FIFO
<b>Assets</b>			
<b>Current assets</b>			
Inventories	\$ 229.0	\$ 13.8	\$ 242.8
Deferred income taxes	24.6	(5.1)	19.5
Other current assets	681.0	-	681.0
<b>Total current assets</b>	<b>934.6</b>	<b>8.7</b>	<b>943.3</b>
Other assets	1,980.1	-	1,980.1
<b>Total assets</b>	<b>\$ 2,914.7</b>	<b>\$ 8.7</b>	<b>\$ 2,923.4</b>
<b>Liabilities and Stockholders' Equity</b>			
<b>Total liabilities</b>	<b>\$ 2,024.0</b>	<b>\$ -</b>	<b>\$ 2,024.0</b>
<b>Stockholders' equity</b>			
Retained earnings	583.2	8.7	591.9
Other stockholders' equity	307.5	-	307.5
<b>Total stockholders' equity</b>	<b>890.7</b>	<b>8.7</b>	<b>899.4</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,914.7</b>	<b>\$ 8.7</b>	<b>\$ 2,923.4</b>

Condensed Consolidated Statement of Cash Flows  
Nine months ended September 30, 2007  
(in millions)

	As originally reported	Adjustments to change from LIFO to FIFO	As adjusted and reported under FIFO
<b>Operating Activities</b>			
Net income	\$ 62.5	\$ 1.3	\$ 63.8
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
Deferred income taxes	1.6	0.3	1.9
<b>Changes in operating assets and liabilities</b>			
Inventories	(48.0)	(1.6)	(49.6)
Other changes in operating assets and liabilities	77.0	-	77.0
Other adjustments	238.5	-	238.5
<b>Net cash provided by operating activities</b>	<b>331.6</b>	<b>-</b>	<b>331.6</b>
<b>Investing Activities</b>			
Net cash used in investing activities	(132.9)	-	(132.9)

Financing Activities

Net cash provided by financing activities	149.3	-	149.3
Effect of exchange rate changes on cash	0.6	-	0.6
Net increase in cash and cash equivalents	\$ 348.6	\$ -	\$ 348.6

7

---

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidated Statement of Operations  
 Three months ended September 30, 2008  
 (in millions)

	As calculated using LIFO for U.S. inventories	Difference between LIFO and FIFO	As reported using FIFO
Net sales	\$ 528.1	\$ -	\$ 528.1
Cost of goods sold	904.3	2.2	906.5
Gross loss			