

AMERICAN AXLE & MANUFACTURING HOLDINGS INC

Form 10-Q

October 28, 2011

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, 2011

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

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AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware 38-3161171  
(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)

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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 26, 2011, the latest practicable date, the number of shares of the registrant's Common Stock, par value \$0.01 per share, outstanding was 75,308,888 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 (SEC). The SEC 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.

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AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.  
 FORM 10-Q  
 FOR THE QUARTER ENDED SEPTEMBER 30, 2011  
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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 may 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 Company (GM), Chrysler Group LLC (Chrysler) or other customers;
- reduced demand for our customers’ products (particularly light trucks and sport utility vehicles (“SUVs”) produced by GM and Chrysler);
- availability of financing for working capital, capital expenditures, research and development (“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;
- 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;
- additional restructuring actions that may occur;
- 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;
- our ability to consummate and integrate acquisitions and joint ventures;
- 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);
- risks inherent in our international operations (including adverse changes in the political stability, taxes and other law changes, potential disruption of production and supply, and currency rate fluctuations);
- liabilities arising from warranty claims, product recall, 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;
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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,	
	2011	2010	2011	2010
	(in millions, except per share data)			
Net sales	\$647.6	\$618.2	\$1,979.4	\$1,699.7
Cost of goods sold	544.1	504.3	1,630.0	1,399.6
Gross profit	103.5	113.9	349.4	300.1
Selling, general and administrative expenses	59.0	53.2	174.5	147.0
Operating income	44.5	60.7	174.9	153.1
Interest expense	(19.7	) (22.1	) (61.5	) (67.4
Investment income	0.3	0.4	0.9	1.4
Other income (expense)				
Debt refinancing and redemption costs	—	—	(3.1	) —
Other, net	(0.2	) 0.5	0.1	(1.7
Income before income taxes	24.9	39.5	111.3	85.4
Income tax expense	2.3	0.8	4.2	5.2
Net income	22.6	38.7	107.1	80.2
Net loss attributable to the noncontrolling interests	2.2	0.1	4.6	0.3
Net income attributable to AAM	\$24.8	\$38.8	\$111.7	\$80.5
Basic earnings per share	\$0.33	\$0.54	\$1.49	\$1.13
Diluted earnings per share	\$0.33	\$0.52	\$1.48	\$1.08

See accompanying notes to condensed consolidated financial statements.



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

	September 30, 2011 (Unaudited) (in millions)	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 114.4	\$ 244.6
Accounts receivable, net	384.8	146.6
Inventories, net	157.7	130.3
Prepaid expenses and other current assets	83.1	80.6
Total current assets	740.0	602.1
Property, plant and equipment, net	942.6	936.3
Goodwill	156.0	155.8
GM postretirement cost sharing asset	240.6	244.4
Other assets and deferred charges	153.6	176.1
Total assets	\$ 2,232.8	\$ 2,114.7
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	\$ 363.6	\$ 283.6
Accrued compensation and benefits	118.2	115.1
Deferred revenue	45.6	79.9
Accrued expenses and other current liabilities	87.0	90.5
Total current liabilities	614.4	569.1
Long-term debt	1,050.6	1,010.0
Deferred revenue	92.8	116.0
Postretirement benefits and other long-term liabilities	848.3	887.7
Total liabilities	2,606.1	2,582.8
Stockholders' deficit		
Common stock, par value \$0.01 per share	0.8	0.8
Paid-in capital	596.6	588.1
Accumulated deficit	(674.6)	) (786.3)
Treasury stock at cost, 5.5 million shares as of September 30, 2011 and December 31, 2010	(176.2)	) (176.1)
Accumulated other comprehensive income (loss), net of tax		
Defined benefit plans	(148.2)	) (152.1)
Foreign currency translation adjustments	27.8	44.8
Unrecognized gain (loss) on derivatives	(6.6)	) 1.3
Total AAM stockholders' deficit	(380.4)	) (479.5)
Noncontrolling interests in subsidiaries	7.1	11.4
Total stockholders' deficit	(373.3)	) (468.1)
Total liabilities and stockholders' deficit	\$ 2,232.8	\$ 2,114.7

See accompanying notes to condensed consolidated financial statements.





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

	Nine Months Ended September 30,	
	2011	2010
	(in millions)	
Operating activities		
Net income	\$107.1	\$80.2
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	103.8	98.1
Asset impairments and related indirect inventory obsolescence	8.7	8.7
Deferred income taxes	22.6	0.3
Stock-based compensation	3.8	7.0
Pensions and other postretirement benefits, net of contributions	(12.2)	(13.4)
Loss (gain) on disposal of property, plant and equipment, net	(6.3)	2.2
Debt refinancing and redemption costs	1.8	—
Changes in operating assets and liabilities		
Accounts receivable	(240.1)	(57.6)
Inventories	(29.5)	(33.6)
Accounts payable and accrued expenses	60.6	122.3
Deferred revenue	(57.6)	(49.3)
Other assets and liabilities	(28.1)	28.6
Net cash provided by (used in) operating activities	(65.4)	193.5
Investing activities		
Purchases of property, plant and equipment	(111.0)	(61.7)
Proceeds from sale of property, plant and equipment	7.9	1.2
Purchase buyouts of leased equipment	—	(7.8)
Redemption of short-term investments	—	1.6
Net cash used in investing activities	(103.1)	(66.7)
Financing activities		
Net short-term borrowings (repayments) under revolving credit facilities	70.0	(60.0)
Payments of long-term debt and capital lease obligations	(53.7)	(6.7)
Proceeds from issuance of long-term debt	24.3	5.9
Debt issuance costs	(5.7)	(2.2)
Repurchase of treasury stock	(0.1)	(1.3)
Employee stock option exercises	4.6	—
Net cash provided by (used in) financing activities	39.4	(64.3)
Effect of exchange rate changes on cash	(1.1)	(0.4)
Net increase (decrease) in cash and cash equivalents	(130.2)	62.1
Cash and cash equivalents at beginning of period	244.6	178.1
Cash and cash equivalents at end of period	\$114.4	\$240.2

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Supplemental cash flow information

Interest paid	\$73.6	\$61.9
Income taxes paid (refunds received), net	\$3.0	\$(43.5 )

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, 2011  
 (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 also have offices or facilities in Brazil, China, Germany, India, Japan, Luxembourg, Mexico, Poland, Scotland, South Korea, Sweden 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, 2010 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, 2010.

## 2. RESTRUCTURING ACTIONS

A summary of the restructuring related activity for the nine months ended September 30, 2011 is shown below (in millions):

	One-time Termination Benefits	Asset Retirement Obligations	Contract Related Costs	Asset Impairment Charges	Indirect Inventory Obsolescence	Other Restructuring Actions	Total	
Accrual as of December 31, 2010	\$1.2	\$1.4	\$12.2	\$—	\$—	\$—	\$14.8	
Charges	—	0.1	—	8.1	0.6	1.5	10.3	
Cash utilization	(0.7	) (0.7	) (5.4	) —	—	(1.5	) (8.3	)
Non-cash utilization	—	—	—	(8.1	) (0.6	) —	(8.7	)

Accrual adjustments	(0.1	) 0.1	—	—	—	—	—
Accrual as of September 30, 2011	\$0.4	\$0.9	\$6.8	\$—	\$—	\$—	\$8.1

In the third quarter of 2011, we recorded asset impairment charges and indirect inventory obsolescence of \$8.7 million as a result of the announced closure of our Cheektowaga Manufacturing Facility (CKMF).

## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In the third quarter of 2011, we incurred charges related to the redeployment of assets and other related costs associated with the closure of our Detroit Manufacturing Complex and CKMF. We expensed and paid \$1.5 million in the third quarter of 2011, related to these actions.

We expect to make payments of approximately \$7 million during the remainder of 2011 and \$1 million in 2012 related to the remaining restructuring accrual.

## 3. 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, 2011 (in millions)	December 31, 2010
Raw materials and work-in-progress	\$ 163.1	\$ 137.7
Finished goods	24.1	20.3
Gross inventories	187.2	158.0
Inventory valuation reserves	(29.5	) (27.7
Inventories, net	\$ 157.7	\$ 130.3

## 4. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2011 (in millions)	December 31, 2010
Amended Revolving Credit Facility	\$ 70.0	\$—
9.25% Notes, net of discount	378.8	420.3
7.875% Notes	300.0	300.0
5.25% Notes, net of discount	249.9	249.9
2.00% Convertible Notes	—	0.4
Foreign credit facilities	45.6	32.6
Capital lease obligations	6.3	6.8
Long-term debt	\$ 1,050.6	\$ 1,010.0

In the second quarter of 2011, we voluntarily redeemed 10% of our 9.25% Notes outstanding at a redemption price of 103% of the principal amount. This resulted in a principal payment of \$42.5 million and a \$1.3 million payment for the redemption premium, as well as a payment related to accrued interest. Upon repayment, we expensed \$1.4 million for the write off of a proportional amount of unamortized debt discount and issuance costs related to this debt. We had been amortizing the debt issuance costs and debt discount over the expected life of the borrowing.

In the second quarter of 2011, we amended and restated the Credit Agreement dated as of January 9, 2004 (as amended and restated, the “Amended and Restated Revolving Credit Agreement” and the facility thereunder, the “Amended Revolving Credit Facility”). As of September 30, 2011, the Amended Revolving Credit Facility provided up to \$53.1 million of revolving bank financing commitments through December 2011, \$86.9 million of such revolving bank financing commitments through June 2013 and \$235.0 million of such revolving bank financing commitments through June 30, 2016. At September 30, 2011, we had \$275.0 million available under the Amended Revolving Credit Facility. This availability reflects a reduction of \$30.0

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

million for standby letters of credit issued against the facility.

The Amended and Restated Revolving Credit Agreement, among other things, increased the aggregate commitments by approximately \$79.0 million and extended the maturity of \$235.0 million of the aggregate commitments to June 30, 2016. We paid debt issuance costs of \$5.7 million in the first nine months of 2011 associated with the amendments and restatements of our Amended Revolving Credit Facility.

Borrowings under the Amended Revolving Credit Facility bear interest at rates based on adjusted LIBOR or an alternate base rate, plus an applicable margin. The applicable margin for LIBOR based loans for lenders who extended their maturities will be between 3.00% and 4.50%, depending upon the corporate ratings of the Company. The applicable margin for lenders who did not extend their maturities remained unchanged.

Under the Amended Revolving Credit Facility, we are required to comply with financial covenants related to secured indebtedness leverage, total net leverage, and cash interest expense coverage. The Amended Revolving Credit Facility limits our ability to make certain investments, declare or pay dividends or distributions on capital stock, redeem or repurchase capital stock and certain debt obligations, incur liens, incur indebtedness, or merge, make acquisitions and sell assets.

The Amended Revolving Credit Facility is secured on a first priority basis by substantially all of the assets of Holdings, AAM Inc. and each guarantor party thereto, including a pledge of all capital stock of the U.S. subsidiaries of Holdings and each guarantor and a portion of the capital stock of AAM Inc. and each guarantor's first-tier foreign subsidiaries. In addition, obligations under the Amended Revolving Credit Facility are guaranteed by Holdings and AAM Inc.'s U.S. subsidiaries, all of which are directly owned by AAM Inc.

The Amended Revolving Credit Facility provides back-up liquidity for our foreign credit facilities. We intend to use the availability of long-term financing under the Amended 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.

As part of the 2009 Settlement and Commercial Agreement with GM, we entered into certain agreements which, among other things, provided us with expedited payment terms of "net 10 days" in exchange for a 1% early payment discount and a Second Lien Term Loan Agreement through December 31, 2013. Pursuant to the terms of such agreements, we elected to terminate the expedited payment terms as well as the Second Lien Term Loan Agreement, effective June 30, 2011. As a result of these terminations, our Access and Security Agreement with GM expired on September 28, 2011.

We utilize local currency credit facilities to finance the operations of certain foreign subsidiaries. At September 30, 2011, \$45.6 million was outstanding under these facilities and an additional \$10.2 million was available.

The weighted-average interest rate of our long-term debt outstanding at September 30, 2011 was 7.9% and 8.2% as of December 31, 2010.

## 5. 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.

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## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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, 2011, are as follows:

Balance Sheet Classification	September 30, 2011		December 31, 2010		Input
	Carrying Amount (in millions)	Fair Value	Carrying Amount (in millions)	Fair Value	
Cash equivalents	\$11.8	\$11.8	\$152.5	\$152.5	Level 1
Accrued expenses and other current liabilities					
Currency forward contracts	(5.3	) (5.3	) —	—	Level 2
Postretirement benefits and other long-term liabilities					
Currency forward contracts	(1.3	) (1.3	) —	—	Level 2
Prepaid expenses and other current assets					
Currency forward contracts	—	—	1.3	1.3	Level 2

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, 2011		December 31, 2010		Input
	Carrying Amount (in millions)	Fair Value	Carrying Amount (in millions)	Fair Value	
Amended Revolving Credit Facility	\$70.0	\$63.7	\$—	\$—	Level 2
9.25% Notes	378.8	388.2	420.3	473.9	Level 2
7.875% Notes	300.0	274.5	300.0	306.0	Level 2
5.25% Notes	249.9	233.8	249.9	245.0	Level 2

Long-lived assets In the third quarter of 2011, as part of our impairment analysis, we were required to measure the fair value of certain long-lived assets. In this analysis we considered the expected future use of the long-lived assets located at our Cheektowaga Manufacturing Facility. Assets that will not be redeployed to other AAM facilities were determined to be fully impaired. The following table summarizes impairments of long-lived assets measured at fair value on a nonrecurring basis subsequent to initial recognition (in millions):

Fair Value Measurement Using Level 3 Inputs	Asset Impairments Recorded in the Third Quarter of 2011
--	---

Balance Sheet Classification

Property, plant and equipment, net

\$—

\$8.1

Other assets and deferred charges

—

0.5

8

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## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Indefinite-lived Intangibles** In the third quarter of 2011, Saab Automobile AB (Saab), our partner in the e-AAM joint venture, entered a voluntary reorganization process. As a result, in the third quarter of 2011, we recorded a \$1.6 million impairment charge to selling, general and administrative expenses to write off the intangible asset associated with the long-term supply agreement with Saab acquired as part of our joint venture formation in 2010. The following table summarizes the impairment of indefinite-lived intangible assets measured at fair value on a nonrecurring basis subsequent to initial recognition (in millions):

Balance Sheet Classification	Fair Value Measurement Using Level 3 Inputs	Impairment Recorded in the Nine Months Ended September 30, 2011
Other assets and deferred charges	\$—	\$1.6

## 6. 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, 2011, we have forward contracts outstanding with a notional amount of \$66.2 million that hedge our exposure to changes in foreign currency exchange rates for our payroll expenses.

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

	Location of Gain (Loss) Reclassified into Net Income	Gain Reclassified				Loss Expected to be Reclassified During the Next 12 Months
		Three Months Ended September 30, 2011		Nine Months Ended September 30, 2010		
Currency forward contracts	Cost of Goods Sold	\$0.4	\$0.1	\$2.6	\$0.1	\$(5.3)

## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 7. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost are as follows:

	Pension Benefits			
	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	2010	2010	2010	2010
	(in millions)			
Service cost	\$1.2	\$1.2	\$3.4	\$3.7
Interest cost	9.2	9.3	27.6	27.8
Expected asset return	(7.9	) (8.0	) (23.7	) (24.0
Amortized loss	1.1	0.6	3.3	1.8
Net periodic benefit cost	\$3.6	\$3.1	\$10.6	\$9.3

	Other Postretirement Benefits			
	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	2010	2010	2010	2010
	(in millions)			
Service cost	\$0.2	\$0.2	\$0.6	\$0.7
Interest cost	4.3	4.1	12.9	12.1
Amortized loss (gain)	0.1	(0.3	) 0.3	(1.0
Amortized prior service credit	(0.8	) (0.8	) (2.4	) (2.3
Net periodic benefit cost	\$3.8	\$3.2	\$11.4	\$9.5

We contributed \$26.2 million to our pension trusts in the first nine months of 2011, which represents all of our 2011 pension funding requirements. We expect our cash outlay for other postretirement benefit obligations in 2011, net of GM cost sharing, to be approximately \$15 million.

## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 8. PRODUCT WARRANTIES

We record a liability for estimated warranty obligations at the date our products 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.

As part of the 2009 Settlement and Commercial Agreement, AAM agreed to expanded warranty cost sharing with GM starting on January 1, 2011.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
	(in millions)			
Beginning balance	\$8.1	\$2.0	\$2.3	\$2.1
Accruals	3.0	0.3	9.2	0.8
Settlements	(0.1	) (0.2	) (0.6	) (0.4
Adjustment to prior period accruals	—	—	—	(0.3
Foreign currency translation and other	(0.2	) 0.1	(0.1	) —
Ending balance	\$10.8	\$2.2	\$10.8	\$2.2

## 9. 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 \$2.3 million in the three months ended September 30, 2011 and \$4.2 million in the first nine months of 2011 as compared to \$0.8 million in the three months ended September 30, 2010 and \$5.2 million in the first nine months of 2010. Our effective income tax rate was 9.3% in the third quarter of 2011 and 3.8% in the first nine months of 2011 as compared to 2.0% in the third quarter of 2010 and 6.1% in the first nine months of 2010. Our income tax expense and effective tax rate for the three months ended September 30, 2011 reflects the effect of utilizing the net operating loss in the U.S. and recording a valuation allowance against income tax benefits in certain foreign jurisdictions. Our income tax expense for the nine months ended September 30, 2011 reflects net tax benefits of \$2.8 million relating to the favorable resolution of income tax audits and the reversal of state deferred tax liabilities due to newly enacted Michigan tax legislation. Our income tax expense and effective tax rate for the three and nine months ended September 30, 2010 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.

In the second quarter of 2011, we settled our 2004 through 2007 U.S. federal income tax audits. As a result of the settlement, in addition to a favorable tax benefit adjustment of \$1.3 million included above, our gross unrecognized tax benefits were reduced by \$28.7 million, our deferred tax assets were reduced by \$22.3 million and our income tax payable increased by \$5.1 million.

## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 10. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Net income	\$22.6	\$38.7	\$107.1	\$80.2
Defined benefit plans, net of tax	0.4	(1.7	) 3.9	0.3
Foreign currency translation adjustments, net of tax	(30.2	) 11.5	(16.7	) 3.6
Change in derivatives, net of tax	(9.0	) 0.8	(7.9	) 0.9
Comprehensive income (loss)	\$(16.2	) \$49.3	\$86.4	\$85.0
Net loss attributable to noncontrolling interests	2.2	0.1	4.6	0.3
Foreign currency translation adjustments related to noncontrolling interests	0.5	—	(0.3	) —
Comprehensive income (loss) attributable to AAM	\$(13.5	) \$49.4	\$90.7	\$85.3

## 11. EARNINGS 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,	
	2011	2010	2011	2010
	(in millions, except per share data)			
Numerator				
Net income attributable to AAM	\$24.8	\$38.8	\$111.7	\$80.5
Denominator				
Basic shares outstanding -				
Weighted-average shares outstanding	75.4	71.4	74.8	71.5
Effect of dilutive securities				
Dilutive stock-based compensation	—	0.1	0.1	0.1
Dilutive GM warrants	—	2.8	0.5	2.9
Diluted shares outstanding -				
Adjusted weighted-average shares after assumed conversions	75.4	74.3	75.4	74.5
Basic EPS	\$0.33	\$0.54	\$1.49	\$1.13
Diluted EPS	\$0.33	\$0.52	\$1.48	\$1.08

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 4.1 million at September 30, 2011 and 4.8 million at September 30, 2010. The ranges of exercise prices related to the excluded exercisable stock options were \$15.56 - \$40.83 at September 30, 2011 and \$10.08 - \$40.83 at September 30, 2010.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of the 2009 Settlement and Commercial Agreement, we issued to GM five year warrants, which entitled GM to purchase 4.1 million shares of AAM's common stock at an exercise price of \$2.76 per share. In the first quarter of 2011, GM exercised these warrants. In accordance with the cashless exercise option available in the agreement, we issued 3.3 million net shares of common stock to GM.

## 12. 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, which were redeemed in 2011, were senior unsecured obligations of Holdings and were 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.

## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## Condensed Consolidating Statements of Operations

Three Months Ended September 30,

(in millions)

	Holdings	AAM Inc.	All Others	Elims	Consolidated
2011					
Net sales					
External	\$—	\$186.8	\$460.8	\$—	\$647.6
Intercompany	—	7.0	51.9	(58.9)	) —
Total net sales	—	193.8	512.7	(58.9)	) 647.6
Cost of goods sold		182.4	420.6	(58.9)	) 544.1
Gross profit	—	11.4	92.1	—	103.5
Selling, general and administrative expenses	—	48.0	11.0	—	59.0
Operating income (loss)	—	(36.6)	) 81.1	—	44.5
Non-operating income (expense), net	—	(21.1)	) 1.5	—	(19.6)
Income (loss) before income taxes	—	(57.7)	) 82.6	—	24.9
Income tax expense (benefit)	—	(0.1)	) 2.4	—	2.3
Earnings from equity in subsidiaries	24.8	33.3	—	(58.1)	) —
Net income (loss) before royalties and dividends	24.8	(24.3)	) 80.2	(58.1)	) 22.6
Royalties and dividends	—	49.1	(49.1)	) —	—
Net income after royalties and dividends	24.8	24.8	31.1	(58.1)	) 22.6
Net loss attributable to noncontrolling interests	—	—	2.2	—	2.2
Net income attributable to AAM	\$24.8	\$24.8	\$33.3	\$(58.1)	) \$24.8
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 income (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

## AMERICAN AXLE &amp; 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
2011					
Net sales					
External	\$—	\$601.8	\$1,377.6	\$—	\$1,979.4
Intercompany	—	19.3	153.8	(173.1)	) —
Total net sales	—	621.1	1,531.4	(173.1)	) 1,979.4
Cost of goods sold	—	569.0	1,234.1	(173.1)	) 1,630.0
Gross profit	—	52.1	297.3	—	349.4
Selling, general and administrative expenses	—	144.0	30.5	—	174.5
Operating income (loss)	—	(91.9)	) 266.8	—	174.9
Non-operating income (expense), net	—	(68.1)	) 4.5	—	(63.6)
Income (loss) before income taxes	—	(160.0)	) 271.3	—	111.3
Income tax expense (benefit)	—	(2.1)	) 6.3	—	4.2
Earnings from equity in subsidiaries	111.7	121.2	—	(232.9)	) —
Net income (loss) before royalties and dividends	111.7	(36.7)	) 265.0	(232.9)	) 107.1
Royalties and dividends	—	148.4	(148.4)	) —	—
Net income after royalties and dividends	111.7	111.7	116.6	(232.9)	) 107.1
Net loss attributable to noncontrolling interests	—	—	4.6	—	4.6
Net income attributable to AAM	\$111.7	\$111.7	\$121.2	\$(232.9)	) \$111.7
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



## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidating Balance Sheets  
(in millions)

	Holdings	AAM Inc.	All Others	Elims	Consolidated
September 30, 2011					
Assets					
Current assets					
Cash and cash equivalents	\$—	\$40.9	\$73.5	\$—	\$114.4
Accounts receivable, net	—	110.5	274.3	—	384.8
Inventories, net	—	43.6	114.1	—	157.7
Prepaid expense and other current assets	—	28.0	55.1	—	83.1
Total current assets	—	223.0	517.0	—	740.0
Property, plant and equipment, net	—	238.7	703.9	—	942.6
Goodwill	—	—	156.0	—	156.0
Other assets and deferred charges	—	299.7	94.5	—	394.2
Investment in subsidiaries	—	985.7	—	(985.7)	—
Total assets	\$—	\$1,747.1	\$1,471.4	\$(985.7)	\$2,232.8
Liabilities and stockholders' equity (deficit)					
Current liabilities					
Accounts payable	\$—	\$105.3	\$258.3	\$—	\$363.6
Accrued expenses and other current liabilities	—	161.2	89.6	—	250.8
Total current liabilities	—	266.5	347.9	—	614.4
Intercompany payable (receivable)	320.7	(325.5)	4.8	—	—
Long-term debt	—	998.7	51.9	—	1,050.6
Investment in subsidiaries obligation	59.7	—	—	(59.7)	—
Other long-term liabilities	—	867.1	74.0	—	941.1
Total liabilities	380.4	1,806.8	478.6	(59.7)	2,606.1
Total AAM stockholders' equity (deficit)	(380.4)	(59.7)	985.7	(926.0)	(380.4)
Noncontrolling interest in subsidiaries	—	—	7.1	—	7.1
Total stockholders' equity (deficit)	(380.4)	(59.7)	992.8	(926.0)	(373.3)
Total liabilities and stockholders' equity (deficit)	\$—	\$1,747.1	\$1,471.4	\$(985.7)	\$2,232.8
December 31, 2010					
Assets					
Current assets					
Cash and cash equivalents	\$—	\$67.6	\$177.0	\$—	\$244.6
Accounts receivable, net	—	18.4	128.2	—	146.6
Inventories, net	—	34.8	95.5	—	130.3
Other current assets	—	35.6	45.0	—	80.6
Total current assets	—	156.4	445.7	—	602.1
Property, plant and equipment, net	—	259.6	676.7	—	936.3
Goodwill	—	—	155.8	—	155.8
Other assets and deferred charges	—	329.8	90.7	—	420.5
Investment in subsidiaries	—	887.7	—	(887.7)	—
Total assets	\$—	\$1,633.5	\$1,368.9	\$(887.7)	\$2,114.7
Liabilities and stockholders' equity (deficit)					
Current liabilities					
Accounts payable	\$—	\$76.4	\$207.2	\$—	\$283.6

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Accrued expenses and other current liabilities	—	209.9	75.6	—	285.5	
Total current liabilities	—	286.3	282.8	—	569.1	
Intercompany payable (receivable)	320.1	(395.3	) 75.2	—	—	
Long-term debt	0.4	970.2	39.4	—	1,010.0	
Investment in subsidiaries obligation	159.0	—	—	(159.0	) —	
Other long-term liabilities	—	931.3	72.4	—	1,003.7	
Total liabilities	479.5	1,792.5	469.8	(159.0	) 2,582.8	
Total AAM stockholders' equity (deficit)	(479.5	) (159.0	) 887.7	(728.7	) (479.5	)
Noncontrolling interest in subsidiaries	—	—	11.4	—	11.4	
Total stockholders' equity (deficit)	(479.5	) (159.0	) 899.1	(728.7	) (468.1	)
Total liabilities and stockholders' equity (deficit)	\$—	\$1,633.5	\$1,368.9	\$(887.7	) \$2,114.7	

## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## Condensed Consolidating Statements of Cash Flows

Nine Months Ended September 30,

(in millions)

	Holdings	AAM Inc.	All Others	Elims	Consolidated
2011					
Operating activities					
Net cash provided by (used in) operating activities	\$—	\$(106.1)	) \$40.7	\$—	\$(65.4)
Investing activities					
Purchases of property, plant and equipment	—	(25.9)	) (85.1)	) —	(111.0)
Proceeds from sale of equipment	—	1.5	6.4	—	7.9
Net cash used in investing activities	—	(24.4)	) (78.7)	) —	(103.1)
Financing activities					
Net debt activity	(42.9)	) 70.0	13.5	—	40.6
Intercompany activity	43.0	34.9	(77.9)	) —	—
Debt issuance costs	—	(5.7)	) —	—	(5.7)
Employee stock option exercises	—	4.6	—	—	4.6
Purchase of treasury stock	(0.1)	) —	—	—	(0.1)
Net cash provided by (used in) financing activities	—	103.8	(64.4)	) —	39.4
Effect of exchange rate changes on cash	—	—	(1.1)	) —	(1.1)
Net decrease in cash and cash equivalents	—	(26.7)	) (103.5)	) —	(130.2)
Cash and cash equivalents at beginning of period	—	67.6	177.0	—	244.6
Cash and cash equivalents at end of period	\$—	\$40.9	\$73.5	\$—	\$114.4
2010					
Operating activities					
Net cash provided by (used in) operating activities	\$—	\$(84.8)	) \$278.3	\$—	\$193.5
Investing activities					
Purchases of property, plant and equipment	—	(20.7)	) (41.0)	) —	(61.7)
Proceeds from sale of equipment	—	1.1	0.1	—	1.2
Purchase buyouts of leased equipment	—	(7.8)	) —	—	(7.8)
Redemption of short-term investments	—	1.6	—	—	1.6
Net cash used in investing activities	—	(25.8)	) (40.9)	) —	(66.7)
Financing activities					
Net debt activity	—	(59.4)	) (1.4)	) —	(60.8)
Intercompany activity	1.3	162.4	(163.7)	) —	—
Debt issuance costs	—	(2.2)	) —	—	(2.2)
Purchase of treasury stock	(1.3)	) —	—	—	(1.3)
Net cash provided by (used in) financing activities	—	100.8	(165.1)	) —	(64.3)
Effect of exchange rate changes on cash	—	—	(0.4)	) —	(0.4)
Net increase (decrease) in cash and cash equivalents	—	(9.8)	) 71.9	—	62.1
	—	80.6	97.5	—	178.1



Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period	\$—	\$70.8	\$169.4	\$—	\$240.2
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## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 13. SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS – 9.25% NOTES

Holdings has no significant asset other than its 100% ownership in AAM, Inc. and no direct subsidiaries other than AAM, Inc. The 9.25% Notes are senior secured obligations of AAM, Inc. and are fully and unconditionally guaranteed by Holdings and all domestic subsidiaries of 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.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2011						
Net sales						
External	\$—	\$186.8	\$48.2	\$412.6	\$—	\$647.6
Intercompany	—	7.0	48.2	3.7	(58.9)	—
Total net sales	—	193.8	96.4	416.3	(58.9)	647.6
Cost of goods sold	—	182.4	84.2	336.4	(58.9)	544.1
Gross profit	—	11.4	12.2	79.9	—	103.5
Selling, general and administrative expenses	—	48.0	—	11.0	—	59.0
Operating income (loss)	—	(36.6)	) 12.2	68.9	—	44.5
Non-operating income (expense), net	—	(21.1)	) 0.4	1.1	—	(19.6)
Income (loss) before income taxes	—	(57.7)	) 12.6	70.0	—	24.9
Income tax expense (benefit)	—	(0.1)	) —	2.4	—	2.3
Earnings (loss) from equity in subsidiaries	24.8	33.3	(13.1)	) —	(45.0)	—
Net income (loss) before royalties and dividends	24.8	(24.3)	) (0.5)	) 67.6	(45.0)	22.6
Royalties and dividends	—	49.1	—	(49.1)	) —	—
Net income (loss) after royalties and dividends	24.8	24.8	(0.5)	) 18.5	(45.0)	22.6
Net loss attributable to noncontrolling interests	—	—	—	2.2	—	2.2
Net income (loss) attributable to AAM	\$24.8	\$24.8	\$(0.5)	) \$20.7	\$(45.0)	) \$24.8

## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2010						
Net sales						
External	\$—	\$191.5	\$49.1	\$377.6	\$—	\$618.2
Intercompany	—	6.4	44.0	4.2	(54.6 )	—
Total net sales	—	197.9	93.1	381.8	(54.6 )	618.2
Cost of goods sold	—	178.8	83.4	296.7	(54.6 )	504.3
Gross profit	—	19.1	9.7	85.1	—	113.9
Selling, general and administrative expenses	—	48.6	—	4.6	—	53.2
Operating income (loss)	—	(29.5 )	9.7	80.5	—	60.7
Non-operating income (expense), net	—	(22.0 )	—	0.8	—	(21.2 )
Income (loss) before income taxes	—	(51.5 )	9.7	81.3	—	39.5
Income tax expense (benefit)	—	(1.1 )	—	1.9	—	0.8
Earnings (loss) from equity in subsidiaries	38.8	70.0	(4.5 )	—	(104.3 )	—
Net income before royalties and dividends	38.8	19.6	5.2	79.4	(104.3 )	38.7
Royalties and dividends	—	19.2	—	(19.2 )	—	—
Net income after royalties and dividends	38.8	38.8	5.2	60.2	(104.3 )	38.7
Net loss attributable to noncontrolling interests	—	—	—	0.1	—	0.1
Net income attributable to AAM	\$38.8	\$38.8	\$5.2	\$60.3	\$(104.3 )	\$38.8

## AMERICAN AXLE &amp; 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.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2011						
Net sales						
External	\$—	\$601.8	\$148.3	\$1,229.3	\$—	\$1,979.4
Intercompany	—	19.3	145.1	8.7	(173.1)	) —
Total net sales	—	621.1	293.4	1,238.0	(173.1)	) 1,979.4
Cost of goods sold	—	569.0	253.5	980.6	(173.1)	) 1,630.0
Gross profit	—	52.1	39.9	257.4	—	349.4
Selling, general and administrative expenses	—	144.0	—	30.5	—	174.5
Operating income (loss)	—	(91.9)	) 39.9	226.9	—	174.9
Non-operating income (expense), net	—	(68.1)	) 0.8	3.7	—	(63.6)
Income (loss) before income taxes	—	(160.0)	) 40.7	230.6	—	111.3
Income tax expense (benefit)	—	(2.1)	) —	6.3	—	4.2
Earnings (loss) from equity in subsidiaries	111.7	121.2	(30.4)	) —	(202.5)	) —
Net income (loss) before royalties and dividends	111.7	(36.7)	) 10.3	224.3	(202.5)	) 107.1
Royalties and dividends	—	148.4	—	(148.4)	) —	—
Net income after royalties and dividends	111.7	111.7	10.3	75.9	(202.5)	) 107.1
Net loss attributable to noncontrolling interests	—	—	—	4.6	—	4.6
Net income attributable to AAM	\$111.7	\$111.7	\$10.3	\$80.5	\$(202.5)	) \$111.7

## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2010						
Net sales						
External	\$—	\$446.5	\$142.4	\$1,110.8	\$—	\$1,699.7
Intercompany	—	20.8	121.3	11.5	(153.6)	) —
Total net sales	—	467.3	263.7	1,122.3	(153.6)	) 1,699.7
Cost of goods sold	—	441.5	248.0	863.7	(153.6)	) 1,399.6
Gross profit	—	25.8	15.7	258.6	—	300.1
Selling, general and administrative expenses	—	135.0	—	12.0	—	147.0
Operating income (loss)	—	(109.2)	) 15.7	246.6	—	153.1
Non-operating income (expense), net	—	(66.5)	) 0.1	(1.3)	) —	(67.7)
Income (loss) before income taxes	—	(175.7)	) 15.8	245.3	—	85.4
Income tax expense (benefit)	—	(0.9)	) —	6.1	—	5.2
Earnings (loss) from equity in subsidiaries	80.5	197.6	(20.5)	) —	(257.6)	) —
Net income (loss) before royalties and dividends	80.5	22.8	(4.7)	) 239.2	(257.6)	) 80.2
Royalties and dividends	—	57.7	—	(57.7)	) —	—
Net income (loss) after royalties and dividends	80.5	80.5	(4.7)	) 181.5	(257.6)	) 80.2
Net loss attributable to noncontrolling interests	—	—	—	0.3	—	0.3
Net income (loss) attributable to AAM	\$80.5	\$80.5	\$(4.7)	) \$181.8	\$(257.6)	) \$80.5

## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## Condensed Consolidating Balance Sheets

(in millions)

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
September 30, 2011						
Assets						
Current assets						
Cash and cash equivalents	\$—	\$40.9	\$—	\$73.5	\$—	\$114.4
Accounts receivable, net	—	110.5	27.6	246.7	—	384.8
Inventories, net	—	43.6	28.1	86.0	—	157.7
Other current assets	—	28.0	0.5	54.6	—	83.1
Total current assets	—	223.0	56.2	460.8	—	740.0
Property, plant and equipment, net	—	238.7	85.9	618.0	—	942.6
Goodwill	—	—	147.9	8.1	—	156.0
Other assets and deferred charges	—	299.7	19.8	74.7	—	394.2
Investment in subsidiaries	—	985.7	39.4	—	(1,025.1 )	—
Total assets	\$—	\$1,747.1	\$349.2	\$1,161.6	\$(1,025.1)	\$2,232.8
Liabilities and stockholders' equity (deficit)						
Current liabilities						
Accounts payable	\$—	\$105.3	\$44.0	\$214.3	\$—	\$363.6
Other current liabilities	—	161.2	3.6	86.0	—	250.8
Total current liabilities	—	266.5	47.6	300.3	—	614.4
Intercompany payable (receivable)	320.7	(325.5 )	269.3	(264.5 )	—	—
Long-term debt	—	998.7	6.0	45.9	—	1,050.6
Investment in subsidiaries obligation	59.7	—	—	—	(59.7 )	—
Other long-term liabilities	—	867.1	1.2	72.8	—	941.1
Total liabilities	380.4	1,806.8	324.1	154.5	(59.7 )	2,606.1
Total AAM Stockholders' equity (deficit)	(380.4 )	(59.7 )	25.1	1,000.0	(965.4 )	(380.4 )
Noncontrolling interests in subsidiaries	—	—	—	7.1	—	7.1
Total stockholders' equity (deficit)	(380.4 )	(59.7 )	25.1	1,007.1	(965.4 )	(373.3 )
Total liabilities and stockholders' equity (deficit)	\$—	\$1,747.1	\$349.2	\$1,161.6	\$(1,025.1)	\$2,232.8

## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
December 31, 2010						
Assets						
Current assets						
Cash and cash equivalents	\$—	\$67.6	\$—	\$ 177.0	\$—	\$244.6
Accounts receivable, net	—	18.4	24.5	103.7	—	146.6
Inventories, net	—	34.8	27.0	68.5	—	130.3
Other current assets	—	35.6	0.2	44.8	—	80.6
Total current assets	—	156.4	51.7	394.0	—	602.1
Property, plant and equipment, net	—	259.6	91.0	585.7	—	936.3
Goodwill	—	—	147.8	8.0	—	155.8
Other assets and deferred charges	—	329.8	17.2	73.5	—	420.5
Investment in subsidiaries	—	887.7	41.0	—	(928.7 )	—
Total assets	\$—	\$1,633.5	\$348.7	\$ 1,061.2	\$(928.7 )	\$2,114.7
Liabilities and stockholders' equity (deficit)						
Current liabilities						
Accounts payable	\$—	\$76.4	\$35.7	\$ 171.5	\$—	\$283.6
Other current liabilities	—	209.9	4.1	71.5	—	285.5
Total current liabilities	—	286.3	39.8	243.0	—	569.1
Intercompany payable (receivable)	320.1	(395.3 )	272.5	(197.3 )	—	—
Long-term debt	0.4	970.2	6.1	33.3	—	1,010.0
Investment in subsidiaries obligation	159.0	—	—	—	(159.0 )	—
Other long-term liabilities	—	931.3	1.2	71.2	—	1,003.7
Total liabilities	479.5	1,792.5	319.6	150.2	(159.0 )	2,582.8
Total AAM Stockholders' equity (deficit)	(479.5 )	(159.0 )	29.1	899.6	(769.7 )	(479.5 )
Noncontrolling interests in subsidiaries	—	—	—	11.4	—	11.4
Total stockholders' equity (deficit)	(479.5 )	(159.0 )	29.1	911.0	(769.7 )	(468.1 )
Total liabilities and stockholders' equity (deficit)	\$—	\$1,633.5	\$348.7	\$ 1,061.2	\$(928.7 )	\$2,114.7

## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidating Statements of Cash Flows  
 Nine Months Ended September  
 30,  
 (in millions)

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2011						
Net cash provided by (used in) operating activities	\$—	\$(106.1 )	\$35.5	\$ 5.2	\$—	\$(65.4 )
Investing activities						
Purchases of property, plant and equipment	—	(25.9 )	(3.5 )	(81.6 )	—	(111.0 )
Proceeds from sale of equipment	—	1.5	0.1	6.3	—	7.9
Net cash used in investing activities	—	(24.4 )	(3.4 )	(75.3 )	—	(103.1 )
Financing activities						
Net debt activity	(42.9 )	70.0	(0.2 )	13.7	—	40.6
Intercompany activity	43.0	34.9	(31.9 )	(46.0 )	—	—
Debt issuance costs	—	(5.7 )	—	—	—	(5.7 )
Employee stock option exercises	—	4.6	—	—	—	4.6
Purchase of treasury stock	(0.1 )	—	—	—	—	(0.1 )
Net cash provided by (used in) financing activities	—	103.8	(32.1 )	(32.3 )	—	39.4
Effect of exchange rate changes on cash	—	—	—	(1.1 )	—	(1.1 )
Net decrease in cash and cash equivalents	—	(26.7 )	—	(103.5 )	—	(130.2 )
Cash and cash equivalents at beginning of period	—	67.6	—	177.0	—	244.6
Cash and cash equivalents at end of period	\$—	\$40.9	\$—	\$ 73.5	\$—	\$114.4



## AMERICAN AXLE &amp; MANUFACTURING HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2010						
Net cash provided by (used in) operating activities	\$—	\$(84.8)	) \$32.3	\$ 246.0	\$—	\$ 193.5
Investing activities						
Purchases of property, plant and equipment	—	(20.7)	) (3.3)	(37.7)	) —	(61.7)
Redemption of short-term investments	—	1.6	—	—	—	1.6
Purchase buyouts of leased equipment	—	(7.8)	) —	—	—	(7.8)
Proceeds from sale of equipment	—	1.1	—	0.1	—	1.2
Net cash used in investing activities	—	(25.8)	) (3.3)	(37.6)	) —	(66.7)
Financing activities						
Net debt activity	—	(59.4)	) (0.1)	(1.3)	) —	(60.8)
Intercompany activity	1.3	162.4	(30.8)	(132.9)	) —	—
Debt issuance costs	—	(2.2)	) —	—	—	(2.2)
Purchase of treasury stock	(1.3)	) —	—	—	—	(1.3)
Net cash provided by (used in) financing activities	—	100.8	(30.9)	(134.2)	) —	(64.3)
Effect of exchange rate changes on cash	—	—	—	(0.4)	) —	(0.4)
Net increase (decrease) in cash and cash equivalents	—	(9.8)	) (1.9)	73.8	—	62.1
Cash and cash equivalents at beginning of period	—	80.6	1.9	95.6	—	178.1
Cash and cash equivalents at end of period	\$—	\$70.8	\$—	\$ 169.4	\$—	\$240.2

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis (MD&A) should be read in conjunction with the unaudited condensed consolidated financial statements and notes appearing elsewhere in this Quarterly Report and our Annual Report on Form 10-K for the year ended December 31, 2010.

Unless the context otherwise requires, references to "we," "our," "us" or "AAM" shall mean collectively (i) American Axle & Manufacturing Holdings, Inc. (Holdings), a Delaware corporation, and (ii) American Axle & Manufacturing, Inc. (AAM, Inc.), a Delaware corporation, and its direct and indirect subsidiaries. Holdings has no subsidiaries other than AAM, Inc.

### COMPANY OVERVIEW

We are 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, driving heads, crankshafts, transmission parts and metal-formed products.

We are the principal supplier of driveline components to General Motors Company (GM) for its rear-wheel drive (RWD) light trucks and SUVs manufactured in North America, supplying substantially all of GM's rear axle and front four-wheel drive and all-wheel drive (4WD/AWD) axle requirements for these vehicle platforms. Sales to GM were approximately 73% of our total net sales in the first nine months of 2011 as compared to 76% for the first nine months of 2010 and 75% for the full-year 2010.

We are the sole-source supplier to GM for certain axles and other driveline products for the life of each GM vehicle program covered by a Lifetime Program Contract (LPC). Substantially all of our sales to GM are made pursuant to the LPCs. The LPCs have terms equal to the lives of the relevant vehicle programs or their respective derivatives, which typically run 6 to 10 years, and require us to remain competitive with respect to technology, design and quality.

We are also the principal supplier of driveline system products for the Chrysler Group LLC's (Chrysler) heavy-duty Dodge Ram full-size pickup trucks (Dodge Ram program) and its derivatives. Sales to Chrysler were approximately 8% of our total net sales in the first nine months of 2011 as compared to 9% for the first nine months of 2010 and for the full-year 2010. In addition to GM and Chrysler, we supply driveline systems and other related components to Volkswagen AG, Audi AG, Scania AB, Mack Trucks Inc., PACCAR Inc., Nissan Motor Co., Ltd., Harley-Davidson Inc., Tata Motors, Ford Motor Company, Deere & Company and other original equipment manufacturers (OEMs) and Tier I supplier companies. Our net sales to customers other than GM increased to \$535.0 million in the first nine months of 2011 as compared to \$406.4 million in the first nine months of 2010.

### RECENT DEVELOPMENTS

In the third quarter of 2011, we notified the International UAW of our decision to close the Cheektowaga Manufacturing Facility (CKMF) on or after February 26, 2012, the expiration of our current collective bargaining agreement with the International UAW. We had previously notified the International UAW of our decision to close the Detroit Manufacturing Complex (DMC) on or after February 26, 2012 in the second quarter of 2011.

In the third quarter of 2011, we recorded asset impairment charges and indirect inventory obsolescence of \$8.7 million as a result of the announced closure of CKMF. We also incurred asset redeployment and other non-recurring operating costs associated with the closure of DMC and CKMF of \$1.6 million in the third quarter of 2011. We expect to incur

approximately \$20 million of additional asset redeployment and other plant closure related costs and approximately \$30 million of capital expenditures associated with the completion of these plant closures.

RESULTS OF OPERATIONS — THREE MONTHS ENDED SEPTEMBER 30, 2011 AS COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2010

**Net Sales** Net sales increased to \$647.6 million in the third quarter of 2011 as compared to \$618.2 million in the third quarter of 2010. These increases reflect the improvement in both general economic conditions and market conditions in the automotive industry.

Our content-per-vehicle (as measured by the dollar value of our products supporting our customers' North American light truck and SUV programs) increased to \$1,466 in the third quarter of 2011 as compared to \$1,458 in the third quarter of 2010. Our 4WD/AWD penetration rate on these vehicle programs was 60.7% in the third quarter of 2011 as compared to 62.3% in the third quarter of 2010.

**Gross Profit** Gross profit was \$103.5 million in the third quarter of 2011 as compared to \$113.9 million in the third quarter of 2010. Gross margin was 16.0% in the third quarter of 2011 as compared to 18.4% in the third quarter of 2010. Gross profit in the third quarter of 2011 includes special charges and other non-recurring operating costs of \$10.3 million, which includes asset impairment charges and indirect inventory obsolescence as a result of the announced closure of CKMF and other plant closure related costs. The decrease in gross profit and gross margin in the third quarter of 2011, as compared to the third quarter of 2010, also reflects the adverse impact of the implementation of certain provisions of the 2009 Settlement and Commercial Agreement with GM, partially offset by the positive impact of an increase in sales and productivity gains. These provisions were effective January 1, 2011 and, among other things, include expanded warranty cost sharing and product price-downs.

**Selling, General and Administrative Expenses (SG&A)** SG&A (including research and development (R&D)) was \$59.0 million or 9.1% of net sales in the third quarter of 2011 as compared to \$53.2 million or 8.6% of net sales in the third quarter of 2010. R&D increased by \$10.6 million to \$31.8 million in the third quarter of 2011 as compared to \$21.2 million in the third quarter of 2010. The increase in SG&A in the third quarter of 2011 primarily reflects increased R&D spending, including costs related to e-AAM Driveline Systems AB (e-AAM), a joint venture we formed in the fourth quarter of 2010 to develop and commercialize electric AWD hybrid driveline systems for passenger cars and crossover vehicles, which is partially offset by lower profit sharing accruals and other incentive compensation expense.

In the third quarter of 2011, Saab Automobile AB (Saab), our partner in the e-AAM joint venture, entered a voluntary reorganization process. As a result, in the third quarter of 2011, we recorded a \$1.6 million impairment charge to SG&A to write off the intangible asset associated with the long-term supply agreement with Saab acquired as part of our joint venture formation in 2010.

SG&A in the third quarter of 2010 included a \$3.0 million write down of administrative and engineering facilities located in Detroit, Michigan.

**Operating Income** Operating income was \$44.5 million in the third quarter of 2011 as compared to \$60.7 million in the third quarter of 2010. Operating margin was 6.9% in the third quarter of 2011 as compared to 9.8% in the third quarter of 2010. The changes in operating income and operating margin were due to factors discussed in Gross Profit and SG&A above.

**Interest Expense and Investment Income** Interest expense was \$19.7 million in the third quarter of 2011 as compared to \$22.1 million in the third quarter of 2010. The decrease in interest expense in the third quarter of 2011, as compared to the third quarter of 2010, relates primarily to higher capitalized interest as a result of increased capital expenditures to support our significant global program launches. Investment income was \$0.3 million in the third quarter of 2011 as compared to \$0.4 million in the third quarter of 2010.

The weighted-average interest rate of our long-term debt outstanding was 7.9% in the third quarter of 2011 as compared to 8.0% in the third quarter of 2010.

Other Income (Expense), net Other income (expense), which includes the net effect of our proportionate share of earnings from equity in unconsolidated subsidiaries and foreign exchange gains and losses, was expense of \$0.2 million in the third quarter of 2011 and income of \$0.5 million in the third quarter of 2010.

Income Tax Expense Income tax expense was \$2.3 million in the third quarter of 2011 as compared to \$0.8 million in the third quarter of 2010. Our effective income tax rate was 9.3% in the third quarter of 2011 as compared to 2.0% in the third quarter of 2010. Our income tax expense and effective tax rate for the third quarter of 2011 reflects the effect of utilizing the net operating loss in the U.S. and recording a valuation allowance against income tax benefits in certain foreign jurisdictions.

Our income tax expense and effective tax rate in the third quarter of 2010 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 third quarter of 2010 attributable to the monetization of alternative minimum tax and research and development credits.

**Net Loss Attributable to Noncontrolling interests** Net loss attributable to noncontrolling interest was \$2.2 million in the third quarter of 2011 and \$0.1 million in the third quarter of 2010. The increase primarily reflects the portion of the net expenses of e-AAM that relates to noncontrolling interests, which included an impairment charge of \$0.5 million in the third quarter of 2011 related to the write off of the Saab intangible asset.

**Net Income Attributable to AAM and Earnings Per Share (EPS)** Net income attributable to AAM was \$24.8 million in the third quarter of 2011 as compared to \$38.8 million in the third quarter of 2010. Diluted EPS was \$0.33 in the third quarter of 2011 as compared to \$0.52 in the third quarter of 2010. Net income attributable to AAM and EPS for the third quarters of 2011 and 2010 were primarily impacted by the factors discussed in Net Sales, Gross Profit and SG&A above.

#### RESULTS OF OPERATIONS — NINE MONTHS ENDED SEPTEMBER 30, 2011 AS COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2010

**Net Sales** Net sales increased to \$1,979.4 million in the first nine months of 2011 as compared to \$1,699.7 million in the first nine months of 2010. As compared to the first nine months of 2010, our sales in the first nine months of 2011 reflect an increase of approximately 9.2% in production volumes for the major North American light truck and SUV programs we currently support. These increases reflect the improvement in both general economic conditions and market conditions in the automotive industry.

Our content-per-vehicle (as measured by the dollar value of our products supporting our customers' North American light truck and SUV programs) increased to \$1,483 million in the first nine months of 2011 as compared to \$1,420 million in the first nine months of 2010. The increase is primarily due to mix shifts favoring the next generation of heavy-duty trucks for GM and higher metal market pass throughs. Our 4WD/AWD penetration rate was 62.7% in the first nine months of 2011 as compared to 63.1% in the first nine months of 2010.

**Gross Profit** Gross profit increased to \$349.4 million in the first nine months of 2011 as compared to \$300.1 million in the first nine months of 2010. Gross margin was 17.7% in the first nine months of 2011 and 2010. The increase in gross profit in the first nine months of 2011 as compared to the first nine months of 2010 primarily reflects the positive impact of an increase in sales and productivity gains, partially offset by the impact of the implementation of certain provisions of the 2009 Settlement and Commercial Agreement with GM. These provisions were effective January 1, 2011 and, among other things, include expanded warranty cost sharing and product price-downs. Gross profit in the first nine months of 2011 also includes special charges and other non-recurring operating costs of \$10.3 million, which includes asset impairment charges and indirect inventory obsolescence as a result of the announced closure of CKMF and other plant closure related costs. Gross profit in the first nine months of 2011 also includes a \$6.1 million gain related to the sale of equipment that we had previously written down to its estimated fair value as a result of asset impairments.

Gross profit in the first nine months of 2010 includes the adverse impact of an arbitration ruling related to the transfer of certain production from the DMC to another AAM facility for which we recorded a charge of \$5.3 million for wages and benefits owed to certain UAW represented associates at the DMC. Gross profit in the first nine months of 2010 also includes net special charges of \$1.7 million related to \$8.7 million of asset impairment and related charges

at our Salem Manufacturing Facility, net of \$7.0 million of adjustments to previously recorded estimates for SUB and idled leased asset accruals.

Selling, General and Administrative Expenses (SG&A) SG&A (including research and development (R&D)) was \$174.5 million or 8.8% of net sales in the first nine months of 2011 as compared to \$147.0 million or 8.6% of net sales in the first nine months of 2010. R&D increased by \$26.5 million to \$85.4 million in the first nine months of 2011 as compared to \$58.9 million in the first nine months of 2010. The increase in SG&A in the first nine months of 2011 primarily reflects increased R&D spending, including costs related to e-AAM, a joint venture we formed in the fourth quarter of 2010 to develop and commercialize electric AWD hybrid driveline systems for passenger cars and crossover vehicles.

In the third quarter of 2011, Saab Automobile AB (Saab), our partner in the e-AAM joint venture, entered a voluntary reorganization process. As a result, in the third quarter of 2011, we recorded a \$1.6 million impairment charge to SG&A to write off the intangible asset associated with the long-term supply agreement with Saab acquired as part of our joint venture

formation in 2010.

SG&A in the first nine months of 2010 included a \$3.0 million write down of administrative and engineering facilities located in Detroit, Michigan.

**Operating Income** Operating income increased to \$174.9 million in the first nine months of 2011 as compared to \$153.1 million in the first nine months of 2010. Operating margin was 8.8% in the first nine months of 2011 as compared to 9.0% in the first nine months of 2010. The changes in operating income and operating margin were due to factors discussed in Gross Profit and SG&A above.

**Interest Expense and Investment Income** Interest expense was \$61.5 million in the first nine months of 2011 as compared to \$67.4 million in the first nine months of 2010. The decrease in interest expense in the first nine months of 2011, as compared to the first nine months of 2010, relates primarily to higher capitalized interest as a result of increased capital expenditures to support our significant global program launches. Investment income was \$0.9 million in the first nine months of 2011 as compared to \$1.4 million in the first nine months of 2010.

The weighted-average interest rate of our long-term debt outstanding was 8.1% in the first nine months of 2011 as compared to 8.2% in the first nine months of 2010.

**Other Income (Expense)** Following are the components of Other Income (Expense) for the first nine months of 2011 and 2010:

**Debt refinancing and redemption costs** In the first nine months of 2011, we expensed \$3.1 million of unamortized debt issuance costs, discount and prepayment premiums related to the voluntary prepayment of \$42.5 million of our 9.25% Notes and the termination of our Second Lien Term Loan with GM.

**Other, net** Other, which includes the net effect of our proportionate share of earnings from equity in unconsolidated subsidiaries and foreign exchange gains and losses, was income of \$0.1 million in the first nine months of 2011 as compared to expense of \$1.7 million in the first nine months of 2010.

**Income Tax Expense** Income tax expense was \$4.2 million in the first nine months of 2011 as compared to \$5.2 million in the first nine months of 2010. Our effective income tax rate was 3.8% in the first nine months of 2011 as compared to 6.1% in the first nine months of 2010. Our income tax expense and effective tax rate in the first nine months ended September 30, 2011 reflects the effect of recognizing a net operating loss benefit against our taxable income in the U.S. Our income tax expense for the nine months ended September 30, 2011 also reflects net tax benefits of \$2.8 million relating to the favorable resolution of income tax audits and the reversal of state deferred tax liabilities due to newly enacted Michigan tax legislation. Our income tax expense and effective tax rate in the first nine months of 2010 reflects 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.

**Net Loss Attributable to Noncontrolling Interests** Net loss attributable to noncontrolling interests was \$4.6 million in the first nine months of 2011 and \$0.3 million in the first nine months of 2010. The increase primarily reflects the portion of the net expenses of e-AAM that relates to noncontrolling interests, which included an impairment charge of \$0.5 million in the first nine months of 2011 related to the write off of the Saab intangible asset.

**Net Income Attributable to AAM and Earnings Per Share (EPS)** Net income attributable to AAM increased to \$111.7 million in the first nine months of 2011 as compared to \$80.5 million in the first nine months of 2010. Diluted earnings per share increased to \$1.48 in the first nine months of 2011 as compared to \$1.08 in the first nine months of



2010. Net income attributable to AAM and EPS for the first nine months of 2011 and 2010 were primarily impacted by the factors discussed in Net Sales, Gross Profit and SG&A.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund capital expenditures, debt service obligations, pension plan obligations and our working capital investments. We believe that operating cash flow, available cash and cash equivalent balances and available committed borrowing capacity under our Amended Revolving Credit Facility will be sufficient to meet these needs.

**Operating Activities** In the first nine months of 2011, net cash used in operating activities was \$65.4 million as compared to net cash provided by operating activities of \$193.5 million in the first nine months of 2010. The following factors impacted cash provided by (used in) operating activities in the first nine months of 2011 as compared to the first nine months of 2010:

**Sales and production volumes** Cash provided by operating activities was favorably impacted by higher profits related to an increase in sales and production activity in the first nine months of 2011 as compared to the first nine months of 2010.

**2009 Settlement and Commercial Agreement** As part of the 2009 Settlement and Commercial Agreement, we agreed to expedited payment terms of “net 10 days” from GM (as compared to previously existing terms of approximately 45 days) in exchange for a 1% early payment discount. On June 30, 2011, we elected to terminate the expedited payment terms and transition to GM payment terms of approximately 50 days. As a result of the termination of these expedited payment terms in 2011, our change in payment terms negatively impacted our operating cash flow during the third quarter of 2011 by approximately \$190 million.

**Incentive compensation payments** We paid approximately \$27.0 million in the first nine months of 2011 and approximately \$5.0 million in the first nine months of 2010 related to incentive compensation as a result of our increased profitability and statutory requirements in certain jurisdictions.

**Interest paid** Interest paid in the first nine months of 2011 was \$73.6 million as compared to \$61.9 million in the first nine months of 2010. The increase primarily relates to the timing of interest payments on our 9.25% Notes, which were issued in December 2009.

**Cash paid for special charges** In the first nine months of 2011, we made cash payments of \$10.4 million for special charges primarily related to leased assets that are permanently idled and other costs associated with our announced plant closures. In the first nine months of 2010, we made cash payments of \$42.6 million which primarily related to hourly and salaried workforce reductions initiated prior to 2010. We expect to make payments of approximately \$7 million during the remainder of 2011 and \$1 million in 2012 related to the remaining restructuring accrual.

In the third quarter of 2011 we notified the International UAW of our decision to close the CKMF on or after February 26, 2012, the expiration of our current collective bargaining agreement with the International UAW. We had previously notified the International UAW of our decision to close DMC on or after February 26, 2012 in the second quarter of 2011. We incurred asset redeployment and other non-recurring operating costs associated with the announced closure of DMC and CKMF of \$1.6 million in the third quarter of 2011. We expect to incur approximately \$20 million of additional asset redeployment and other plant closure related costs and approximately \$30 million of capital expenditures associated with the completion of these plant closures.

**Pension and Other Postretirement Benefits (OPEB)** We contributed \$26.2 million to our pension trusts in the first nine months of 2011, which represents all of our 2011 pension funding requirements. We expect our cash outlay for other postretirement benefit obligations in 2011, net of GM cost sharing, to be approximately \$15 million.

2010 income tax refund In the fourth quarter of 2009, the U.S. Congress passed the Worker, Homeownership and Business Act of 2009 which, among other things, extended the net operating loss (NOL) carryback period for most taxpayers from two years to up to five years for either 2008 or 2009 NOLs. This law enabled us to carryback our 2008 NOL to 2003. In the first quarter of 2010, we received a \$48.8 million refund as a result of this carryback election.

Investing Activities Capital expenditures were \$111.0 million in the first nine months of 2011 as compared to \$61.7 million in the first nine months of 2010. We expect our capital spending in 2011 to be in the range of 6.0% to 6.5% of sales, which includes support for our significant global program launches in 2011 and 2012 within our new business backlog.

In the first nine months of 2011, we received \$7.9 million of proceeds related to the sale of property, plant and equipment.

In the first nine months of 2010, we bought out \$7.8 million of previously leased machinery and equipment.

**Financing Activities** In the first nine months of 2011, net cash provided by financing activities was \$39.4 million as compared to net cash used in financing activities of \$64.3 million in the first nine months of 2010. Total long-term debt outstanding increased \$40.6 million in the first nine months of 2011 to \$1,050.6 million as compared to \$1,010.0 million at year-end 2010, primarily as a result of borrowing on our Amended Revolving Credit Facility in the third quarter of 2011, which was partially offset by using cash flow from operations to redeem 10% of our 9.25% Notes outstanding during the second quarter of 2011.

In the second quarter of 2011, we voluntarily redeemed 10% of our 9.25% Notes outstanding at a redemption price of 103% of the principal amount. This resulted in a principal payment of \$42.5 million and a \$1.3 million payment for the redemption premium, as well as a payment related to accrued interest. Upon repayment, we expensed \$1.4 million for the write off of a proportional amount of unamortized debt discount and issuance costs related to this debt. We had been amortizing the debt issuance costs and debt discount over the expected life of the borrowing.

In the second quarter of 2011, we amended and restated the Credit Agreement dated as of January 9, 2004 (as amended and restated, the "Amended and Restated Revolving Credit Agreement" and the facility thereunder, the "Amended Revolving Credit Facility"). As of September 30, 2011, the Amended Revolving Credit Facility provided up to \$53.1 million of revolving bank financing commitments through December 2011, \$86.9 million of such revolving bank financing commitments through June 2013 and \$235.0 million of such revolving bank financing commitments through June 30, 2016.

The Amended and Restated Revolving Credit Agreement, among other things, increased the aggregate commitments by approximately \$79.0 million and extended the maturity of \$235.0 million of the aggregate commitments to June 30, 2016. Borrowings under the Amended Revolving Credit Facility bear interest at rates based on adjusted LIBOR or an alternate base rate, plus an applicable margin. The applicable margin for LIBOR based loans for lenders who extended their maturities will be between 3.00% and 4.50%, depending upon the corporate ratings of the Company. The applicable margin for lenders who did not extend their maturities remained unchanged.

Under the Amended Revolving Credit Facility, we are required to comply with financial covenants related to secured indebtedness leverage, total net leverage, and cash interest expense coverage. The Amended Revolving Credit Facility limits our ability to make certain investments, declare or pay dividends or distributions on capital stock, redeem or repurchase capital stock and certain debt obligations, incur liens, incur indebtedness, or merge, make acquisitions and sell assets.

At September 30, 2011, we had \$275.0 million available under the Amended Revolving Credit Facility. This availability reflects a reduction of \$30.0 million for standby letters of credit issued against the facility. We also utilize foreign credit facilities and uncommitted lines of credit to finance working capital needs. At September 30, 2011, \$45.6 million was outstanding under these facilities and an additional \$10.2 million was available.

We paid debt issuance costs of \$5.7 million and \$2.2 million in the first nine months of 2011 and 2010, respectively, related to the amendments and restatements of our Amended Revolving Credit Facility in 2011 and our debt agreements in 2009.

As part of the 2009 Settlement and Commercial Agreement with GM, we entered into certain agreements which, among other things, provided us with expedited payment terms of "net 10 days" in exchange for a 1% early payment discount and a Second Lien Term Loan Agreement through December 31, 2013. Pursuant to the terms of such agreements, we elected to terminate the expedited payment terms as well as the Second Lien Term Loan Agreement, effective June 30, 2011. As a result of these terminations, our Access and Security Agreement with GM expired on September 28, 2011.

We received \$4.6 million in the first nine months of 2011 related to the exercise of employee stock options.

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## CYCLICALITY AND SEASONALITY

Our operations are cyclical because they are directly related to worldwide automotive production, which is itself cyclical and dependent on general economic conditions and other factors. Our business is also moderately seasonal as our major OEM customers historically have an extended shutdown of operations (typically 1-2 weeks) in conjunction with their model year changeover and an approximate one-week shutdown in December. Accordingly, our quarterly results may reflect these trends.

## LITIGATION AND ENVIRONMENTAL MATTERS

We are involved in various legal proceedings incidental to our business. Although the outcome of these matters cannot be predicted with certainty, we do not believe that any of these matters, individually or in the aggregate, will have a material effect on our financial condition, results of operations or cash flows.

We are subject to various federal, state, local and foreign environmental and occupational safety and health laws, regulations and ordinances, including those regulating air emissions, water discharge, waste management and environmental cleanup. We will continue to closely monitor our environmental conditions to ensure that we are in compliance with all laws, regulations and ordinances. We have made, and will continue to make, capital and other expenditures (including recurring administrative costs) to comply with environmental requirements. Such expenditures were not significant in the first nine months of 2011, and we do not expect such expenditures to be significant for the remainder of 2011.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### MARKET RISK

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 Exchange Risk** 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. At September 30, 2011, we had currency forward contracts with a notional amount of \$66.2 million outstanding. The potential decrease in fair value of foreign exchange contracts, assuming a 10% adverse change in the foreign currency exchange rates, would be approximately \$6.0 million at September 30, 2011.

Future business operations and opportunities, including the expansion of our business outside North America, may further increase the risk that cash flows resulting from these activities may be adversely affected by changes in currency exchange rates. If and when appropriate, we intend to manage these risks by utilizing local currency funding of these expansions and various types of foreign exchange contracts.

**Interest Rate Risk** 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, 2011, there are no interest rate hedges in place. The pre-tax earnings and cash flow impact of a one-percentage-point increase in interest rates (approximately 13% of our weighted-average interest rate at September 30, 2011) on our long-term debt outstanding at September 30, 2011 would be approximately \$1.1 million on an annualized basis.

### Item 4. Controls and Procedures

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures and internal control over financial reporting and concluded that (1) our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) were effective as of September 30, 2011, and (2) no change in internal control over financial reporting occurred during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in our December 31, 2010 Form 10-K and as updated in Item 1A of Part 1 in our Form 10-Q for the quarterly period ended June 30, 2011.

### Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index.





SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.  
(Registrant)

/s/ Michael K. Simonte  
Michael K. Simonte  
Executive Vice President - Finance & Chief Financial Officer  
(also in the capacity of Chief Accounting Officer)  
October 28, 2011

EXHIBIT INDEX

Number	Description of Exhibit
*31.1	Certification of Richard E. Dauch, Co-Founder, Chairman of the Board & Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act
*31.2	Certification of Michael K. Simonte, Executive Vice President – Finance & Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act
*32	Certifications of Richard E. Dauch, Co-Founder, Chairman of the Board & Chief Executive Officer and Michael K. Simonte, Executive Vice President – Finance & Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**101.INS	XBRL Instance Document
**101.SCH	XBRL Taxonomy Extension Schema Document
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

\* Filed herewith

\*\* Submitted electronically with this Report.