AMERICAN AXLE & MANUFACTURING HOLDINGS INC
Form 10-K
February 22, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

Commission file number 1-14303

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	38-3161171 (I.R.S. Employer Identification No.)
ONE DAUCH DRIVE, DETROIT, MICHIGAN (Address of principal executive offices)	48211-1198 (Zip Code)

313-758-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
COMMON STOCK, PAR VALUE $0.01 PER SHARE	NEW YORK STOCK EXCHANGE
PREFERRED SHARE PURCHASE RIGHTS, PAR VALUE $0.01 PER SHARE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

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 þ No o

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 o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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).
Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(Do not check if small reporting company)

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

The closing price of the Common Stock on June 30, 2009 as reported on the New York Stock Exchange was $3.44 per share and the aggregate market value of the registrant’s Common Stock held by non-affiliates was approximately $160.4 million.

As of February 17, 2010, the number of shares of the registrant’s Common Stock, $0.01 par value, outstanding was 71,567,175 shares.

Documents Incorporated by Reference

Portions of the registrant's Annual Report to Stockholders for the year ended December 31, 2009 and Proxy Statement for use in connection with its Annual Meeting of Stockholders to be held on April 29, 2010, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after December 31, 2009, are incorporated by reference in Part I (Items 1, 1A, 1B, 2, 3 and 4), Part II (Items 5, 6, 7, 7A, 8, 9, 9A and 9B), Part III (Items 10, 11, 12, 13 and 14) and Part IV (Item 15) of this Report.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
TABLE OF CONTENTS - ANNUAL REPORT ON FORM 10-K

Year Ended December 31, 2009

Part I

Item 1. Business

As used in this report, except as otherwise indicated in information incorporated by reference, references to "our Company," "we," "our," "us" or "AAM" mean American Axle & Manufacturing Holdings, Inc. (Holdings) and its subsidiaries and predecessors, collectively.

(a) General Development of Business

Holdings, a Delaware corporation, is a successor to American Axle & Manufacturing of Michigan, Inc., a Michigan corporation, pursuant to a migratory merger between these entities in 1999.

In 2008, and continuing in 2009, the domestic automotive industry experienced a severe downturn. The collapse of the U.S. housing market, the global financial crisis, a lack of available consumer credit and financing options, rising unemployment, exceptionally low consumer confidence and wildly fluctuating fuel and commodity prices, among other factors, resulted in a sudden and major drop in industry production and sales volumes. These difficult market conditions exacerbated the financial pressure on the entire domestic automotive industry, and especially the domestic original equipment manufacturers (OEMs), resulting in the unprecedented bankruptcy filings by General Motors and Chrysler. The U.S. seasonally adjusted annual rate of sales (SAAR) declined from 16.1 million units in 2007 to 13.2 million in 2008 and 10.4 million in 2009 – the lowest U.S. domestic auto industry selling rate in over 25 years.

As part of the restructuring activities by our largest customers, GM implemented an extended summer production shutdown in the second and third quarters of 2009 for many of their facilities we support and Chrysler temporarily idled its manufacturing operations through its exit from bankruptcy.

On September 16, 2009, AAM and GM entered into a settlement and commercial agreement (2009 Settlement and Commercial Agreement). As part of the 2009 Settlement and Commercial Agreement we received $110.0 million from GM for cure costs associated with contracts assumed and/or terminated during GM's chapter 11 bankruptcy proceedings and resolved certain commercial and financial obligations then outstanding between AAM and GM, which resulted in, among other things, AAM retaining all but one program that had previously been sourced to us and an adjustment of our installed capacity levels reserved for existing and awarded GM programs to reflect new estimates of market demand. Also, as part of this agreement, we entered into a $100.0 million second lien term loan facility with GM, issued 4.1 million warrants to GM to purchase AAM common stock, and expedited the payment terms on our receivables from GM from approximately 45 days to approximately 10 days in exchange for a 1% early payment discount. See Item 8, "Financial Statements and Supplementary Data – Note 2 – 2009 Settlement and Commercial Agreement" for more detail.

In December 2009, we issued $425 million of senior secured notes due 2017 to refinance our senior secured term loan and a portion of our amended revolving credit facility and sold 16.1 million shares of AAM common stock for net proceeds of $109.7 million in order to further improve our liquidity. In addition, we entered into a Revolving Credit Amendment and Restatement Agreement which, among other things, extended the maturity date of $243.2 million of our amended revolving credit facility to June 30, 2013. See Item 8, "Financial Statements and Supplementary Data – Note 5 – Long-Term Debt and Lease Obligations" for more detail.

(b) Financial Information About Segments

See Item 8, “Financial Statements and Supplementary Data - Note 16 - Segment and Geographic Information” included in this report.

(c) Narrative Description of Business

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, driveheads, crankshafts, transmission parts and metal-formed products.

We are the principal supplier of driveline components to 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 78% of our total net sales in 2009, 74% in 2008 and 78% in 2007.

We are the sole-source supplier to GM for certain axles and other driveline products for the life of each GM vehicle program which was previously covered by a Lifetime Program Contract (LPC). As part of the 2009 Settlement and Commercial Agreement, GM terminated the existing LPCs and entered into new LPCs. Substantially all of our sales to GM are made pursuant to the new LPCs. The new 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 Chrysler's 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 2009, 10% in 2008 and 12% in 2007.

In addition to GM and Chrysler, we supply driveline systems and other related components to PACCAR Inc., Volkswagen, Harley-Davidson, Deere & Company, Tata Motors, Mack Truck, Ford Motor Company and other OEMs and Tier I supplier companies such as Hino Motors Ltd. and Jatco Ltd. Our net sales to customers other than GM and Chrysler were approximately 14% of sales in 2009 as compared to 16% in 2008 and 10% in 2007.

Our principal served market of $34 billion, as estimated based on information available at the end of 2008, is the global driveline market, which consists of driveline, drivetrain and related components and chassis modules for light trucks, SUVs, passenger cars, crossover vehicles and commercial vehicles.

The following chart sets forth the percentage of total revenues attributable to our products for the periods indicated:

	Year ended December 31,					
	2009		2008		2007	
Axles and driveshafts	75.4	%	79.2	%	84.4	%
Chassis components, forged products and other	24.6	%	20.8	%	15.6	%
Total	100.0	%	100.0	%	100.0	%

Business Strategy

We are focused on increasing our net sales, profitability and cash flow, and strengthening our balance sheet by providing exceptional value to our customers, capitalizing on our competitive strengths and continuing to diversify our customer, product, and geographic sales mix. In 2006, we initiated a Restructuring, Resizing, and Profit Recovery plan in order for us to achieve a cost structure in line with current and projected levels of customer demand and market requirements. The comprehensive, multi-year plan has proven successful, yielding significant, permanent structural cost reductions and driving our operating breakeven level down to a U.S. SAAR equivalent of approximately 10 million vehicle units. These actions position us to significantly improve profitability and free cash flow performance as global economic conditions improve.

While continuing to emphasize our outstanding track record of operational excellence, we are now focused on accelerating progress on two critical business objectives: profitable growth and business diversification. These critical business objectives include the following actions:

Advancing the diversification and innovation of our product portfolio to increase our total global served market.

- We have invested more than $830 million in research and development since 1994, resulting in the development of products with industry leading technology for driveline and drivetrain systems and related components for light trucks, SUVs, passenger cars, crossover vehicles, and commercial vehicles.

•

We have accelerated the development and launch of products for passenger cars and crossover vehicles and the global light truck and commercial vehicle markets. As of February 5, 2010, we had approximately $1.0 billion of new and incremental business backlog launching from 2010 to 2014, of which approximately 45% relates to AWD and RWD applications for passenger cars and crossover vehicles and of which approximately 35% relates to driveline applications for the global non-U.S. light truck and commercial vehicle markets.

Growing new customer relationships to continue the diversification of our customer base and product portfolio.

- We have focused on generating profitable growth with new and existing global OEM customers, as well as commercial vehicle, off-road, and emerging market OEMs. As a result, new business launches in 2010 and 2011 include business with Volkswagen, Audi, Nissan, Mack Truck, Tata Motors, Brilliance China Automotive Co., Ltd., Chery Automobile Co., Ltd., and Mahindra Navistar Automotives Ltd.

- As of February 5, 2010, we are quoting on approximately $600 million in new business opportunities to continue the diversification and expansion of our customer base, product portfolio and global footprint.

Increasing our exposure to global growth markets to support our customers' global platforms and establish regional cost competitiveness.

- We have more than doubled our global installed capacity to support current and future opportunities. Specific actions include expanding facilities in Mexico, Brazil, and Poland, increasing our investment in our China joint venture, and constructing new facilities in India and Thailand.

- As of February 5, 2010, approximately 70% of our $1.0 billion of new and incremental business backlog launching from 2010 to 2014 is for end use markets outside of North America and approximately 80% has been sourced to our manufacturing facilities outside the U.S.

Sustaining our operational excellence and focus on cost management to deliver exceptional value to our customers and enhance profitability.

- Our focus on cost management has led to annual structural labor cost reductions in excess of $700 million due to our 2008 labor agreements at our original U.S. locations, reductions in our salaried workforce, and other labor, benefits, and selling, general and administrative spending cuts.

Competition and Strengths

We compete with a variety of independent suppliers and distributors, as well as with the in-house operations of certain OEMs. Our principal competitors include Dana Holding Corporation (Dana), Magna International Inc. (Magna), ZF Friedrichshafen AG (ZF Group) and the in-house operations of Chrysler and Ford. The sector is also attracting new competitors from Asia who are entering both of these product lines through acquisition of OEM non-core operations.

With a focus on engineering and manufacturing, we support our business strategy and differentiate ourselves through the following strengths:

- Outstanding long-term daily track records on quality, reliability, delivery, and launch performance - We reduced our discrepant parts per million ("PPM") performance, as measured by our largest customer, from 13,441 PPM in 1994 to 5 PPM as of December 2009. We also have a strong track record of successfully supporting new product, process and facility launches.

- Demonstrated ability to achieve cost savings - We reduced fixed operating costs by more than 50% through our multi-year Restructuring, Resizing and Profit Recovery plan. In total, annual cost cuts (fixed and variable) exceeded $700 million. This has reduced our operating breakeven to a U.S. SAAR equivalent of approximately 10 million vehicle units.

  As a result of our 2008 labor agreements at our original U.S. locations, we converted the former fixed legacy labor cost structure to a highly flexible, competitive and variable cost structure.

  We continuously evaluate the need to rationalize excess capacity through consolidation, divesture, idling or closing facilities to maximize productivity and capacity utilization, and further minimize operating and overhead costs.

- Cost competitive, operationally flexible global manufacturing, engineering and sourcing footprint - We have re-aligned our global installed capacity to increase exposure to global growth markets, support global product development initiatives and establish regional cost competitiveness. This includes having manufacturing facilities in the U.S., Mexico, Brazil, China, India, Thailand and Poland.

All of our global facilities utilize the AAM Manufacturing System, a business philosophy focused on lean manufacturing designed to facilitate cost reductions, improve quality, reduce inventory and improve our operating flexibility.

- A long-term commitment to develop highly engineered, innovative product, process and systems technology - We have global engineering capabilities with state of the art product and systems development and analysis tools. Our advanced product technology reduces the noise, vibration and harshness characteristics of our products while providing enhancements to our customers' packaging, performance and handling, fuel efficiency and mass reduction initiatives.

Industry Trends

See Item 7, "Management's Discussion and Analysis – Industry Trends."

Productive Materials

We believe that we have adequate sources of supply of productive materials and components for our manufacturing needs. Most raw materials (such as steel) and semi-processed or finished items (such as castings) are available within the geographical regions of our operating facilities from qualified sources in quantities sufficient for our needs. As we expand our global manufacturing footprint, we will need to rely on suppliers in local markets that have not yet proven their ability to meet our requirements. We currently have contracts with our steel suppliers that ensure continuity of supply. We also have validations and testing capabilities that enable us to strategically utilize steel sources on a global basis.

Research and Development (R&D)

Since March 1, 1994, we have spent approximately $830 million in R&D focusing on new product, process and system technology development. We plan to continue to invest in the development of new products, processes and systems to improve efficiency and flexibility in our operations and continue to deliver innovative new products, chassis modules and integrated driveline systems to our customers.

In 2009, R&D spending was $67.0 million as compared to $85.0 million in 2008 and $80.4 million in 2007. The focus of this investment continues to be developing innovative driveline and drivetrain systems and related components for light trucks, passenger cars, SUVs, crossover vehicles and commercial vehicles in the global marketplace. Product development in this area includes power transfer units, transfer cases, driveline and transmission differentials, multi-piece driveshafts, constant velocity joints, torque transfer devices, chassis modules and front and rear drive axles. We continue to focus on electronic integration in our existing and future products to advance their performance. We also continue to support the development of hybrid and electric vehicle systems. Special focus is also placed on the development of products and systems that provide our customers with efficiency and fuel economy advancements. Our efforts in these areas have resulted in the development of prototypes and various configurations of these driveline systems for several OEMs throughout the world.

Backlog

We typically enter into agreements with our customers to provide axles or other driveline or drivetrain products for the life of our customers' vehicle programs. Our new and incremental business backlog includes formally awarded programs and incremental content and volume including customer requested engineering changes. Our backlog may be impacted by various assumptions, many of which are provided by our customers based on their long range production plans. These assumptions include future production volume estimates, changes in program launch timing and fluctuation in foreign currency exchange rates.

Our new and incremental business backlog was approximately $1.0 billion at February 5, 2010. We expect to launch approximately $700 million of our new and incremental business backlog in the 2010, 2011 and 2012 calendar years. The balance of the backlog is planned to launch in 2013 and 2014. Approximately 45% of our new business backlog relates to RWD and AWD applications for passenger cars and crossover vehicles. Approximately 70% of our new business backlog will be for end use markets outside of North America and approximately 80% of our new business backlog has been sourced to our non-U.S. facilities. The portion of our backlog associated with GM is approximately $700 million.

Patents and Trademarks

We maintain and have pending various U.S. and foreign patents, trademarks and other rights to intellectual property relating to our business, which we believe are appropriate to protect our interest in existing products, new inventions, manufacturing processes and product developments. We do not believe that any single patent or trademark is material to our business nor would expiration or invalidity of any patent or trademark have a material adverse effect on our business or our ability to compete.

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 a two-week shutdown of operations in July and an approximate one-week shutdown in December. In addition, our OEM customers have historically incurred lower production rates in the third quarter as model changes enter production. Accordingly, our third quarter and fourth quarter results may reflect these trends.

The automotive industry's cyclicality was exacerbated in 2009 by GM's extended summer production shutdown and Chrysler's temporary idling of its manufacturing operations during its bankruptcy.

Environmental Matters

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 closely monitor our environmental conditions to ensure that we are in compliance with applicable laws, regulations and ordinances. We have made, and will continue to make, capital and other expenditures to comply with environmental requirements, including recurring administrative costs. Such expenditures were not significant in 2009, 2008 and 2007.

Associates

We employ approximately 6,500 associate