

AMERICAN AXLE & MANUFACTURING HOLDINGS INC  
Form 10-Q  
April 29, 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 March 31, 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 36-3161171  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

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

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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 April 27, 2011, the latest practicable date, the number of shares of the registrant's Common Stock, par value \$0.01 per share, outstanding was 75,359,168 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 MARCH 31, 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;
- our ability to comply with the definitive terms and conditions of various commercial and financing arrangements with General Motors Company (GM);
- reduced purchases of our products by GM, Chrysler Group LLC (Chrysler) or other customers;
- reduced demand for our customers’ products (particularly light trucks and SUVs produced by GM and Chrysler);
- availability of financing for working capital, capital expenditures, R&D or other general corporate purposes, including our ability to comply with financial covenants;
- our customers’ and suppliers’ availability of financing for working capital, capital expenditures, R&D or other general corporate purposes;
- 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, our suppliers’ ability and our customers’ ability to avoid supply shortages as a result of recent events in Japan or otherwise;
- 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;
- 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 March 31,	
	2011	2010
	(in millions, except per share data)	
Net sales	\$645.6	\$521.9
Cost of goods sold	530.2	434.6
Gross profit	115.4	87.3
Selling, general and administrative expenses	56.7	45.3
Operating income	58.7	42.0
Interest expense	(21.3	) (22.7
Investment income	0.3	0.4
Other income (expense), net	1.0	(1.5
Income before income taxes	38.7	18.2
Income tax expense	2.1	2.0
Net income	36.6	16.2
Net loss attributable to the noncontrolling interests	1.1	0.1
Net income attributable to AAM	\$37.7	\$16.3
Basic earnings per share	\$0.51	\$0.23
Diluted earnings per share	\$0.50	\$0.22

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 2011 (Unaudited) (in millions)	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$217.4	\$244.6
Accounts receivable, net	209.7	146.6
Inventories, net	133.6	130.3
Prepaid expenses and other current assets	82.9	80.6
Total current assets	643.6	602.1
Property, plant and equipment, net	946.9	936.3
Goodwill	156.4	155.8
GM postretirement cost sharing asset	243.9	244.4
Other assets and deferred charges	177.0	176.1
Total assets	\$2,167.8	\$2,114.7
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	\$321.8	\$283.6
Accrued compensation and benefits	110.4	115.1
Deferred revenue	74.7	79.9
Accrued expenses and other current liabilities	76.3	90.5
Total current liabilities	583.2	569.1
Long-term debt	1,007.4	1,010.0
Deferred revenue	101.9	116.0
Postretirement benefits and other long-term liabilities	890.7	887.7
Total liabilities	2,583.2	2,582.8
Stockholders' deficit		
Common stock, par value \$0.01 per share	0.8	0.8
Paid-in capital	594.8	588.1
Accumulated deficit	(748.6	) (786.3
Treasury stock at cost, 5.5 million shares as of March 31, 2011 and December 31, 2010	(176.2	) (176.1
Accumulated other comprehensive income (loss), net of tax		
Defined benefit plans	(149.0	) (152.1
Foreign currency translation adjustments	49.2	44.8
Unrecognized gain on derivatives	2.5	1.3
Total AAM stockholders' deficit	(426.5	) (479.5
Noncontrolling interest in subsidiaries	11.1	11.4
Total stockholders' deficit	(415.4	) (468.1
Total liabilities and stockholders' deficit	\$2,167.8	\$2,114.7

See accompanying notes to condensed consolidated financial statements.





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

	Three Months Ended March 31,	
	2011	2010
	(in millions)	
Operating activities		
Net income	\$36.6	\$16.2
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	33.9	31.6
Deferred income taxes	(0.3	) (1.0
Stock-based compensation	2.1	2.3
Pensions and other postretirement benefits, net of contributions	5.2	(19.4
Loss (gain) on disposal of property, plant and equipment, net	(0.7	) 0.3
Changes in operating assets and liabilities		
Accounts receivable	(62.4	) (37.2
Inventories	(2.8	) (9.6
Accounts payable and accrued expenses	12.8	77.2
Deferred revenue	(19.3	) (19.3
Other assets and liabilities	(4.1	) 37.9
Net cash provided by operating activities	1.0	79.0
Investing activities		
Purchases of property, plant and equipment	(31.5	) (18.8
Proceeds from sale of property, plant and equipment	1.5	0.9
Purchase buyouts of leased equipment	—	(4.0
Redemption of short-term investments	—	1.4
Net cash used in investing activities	(30.0	) (20.5
Financing activities		
Net short-term borrowings (repayments) under revolving credit facilities	—	(60.0
Payments of long-term debt and capital lease obligations	(5.1	) (1.0
Proceeds from issuance of long-term debt	1.8	5.5
Debt issuance costs	—	(2.2
Repurchase of treasury stock	(0.1	) (1.2
Employee stock option exercises	4.6	—
Net cash provided by (used in) financing activities	1.2	(58.9
Effect of exchange rate changes on cash	0.6	(1.1
Net decrease in cash and cash equivalents	(27.2	) (1.5
Cash and cash equivalents at beginning of period	244.6	178.1
Cash and cash equivalents at end of period	\$217.4	\$176.6
Supplemental cash flow information		
Interest paid	\$37.6	\$19.5

Income taxes paid (refunds received), net	\$2.5	\$(46.7	)
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See accompanying notes to condensed consolidated financial statements.

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AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 March 31, 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 three months ended March 31, 2011 is shown below (in millions):

	One-time Termination Benefits	Asset Retirement Obligations	Contract Related Costs	Total
Accrual as of December 31, 2010	\$1.2	\$1.4	\$12.2	\$14.8
Cash utilization	(0.2)	(0.1)	(1.7)	(2.0)
Accrual adjustments	—	0.1	—	0.1
Accrual as of March 31, 2011	\$1.0	\$1.4	\$10.5	\$12.9

We expect to make payments of approximately \$8 million during the remainder of 2011 and \$5 million in 2012 related to the remaining restructuring accrual.



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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 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:

	March 31, 2011	December 31, 2010
	(in millions)	
Raw materials and work-in-progress	\$ 142.4	\$ 137.7
Finished goods	21.6	20.3
Gross inventories	164.0	158.0
Inventory valuation reserves	(30.4	) (27.7
Inventories, net	\$ 133.6	\$ 130.3

## 4. LONG-TERM DEBT

Long-term debt consists of the following:

	March 31, 2011	December 31, 2010
	(in millions)	
Revolving Credit Facility	\$—	\$—
9.25% Notes, net of discount	420.5	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	30.4	32.6
Capital lease obligations	6.6	6.8
Long-term debt	\$ 1,007.4	\$ 1,010.0

As of March 31, 2011, the Revolving Credit Facility provided up to \$296.3 million of revolving bank financing commitments through December 2011 and \$243.2 million of such revolving bank financing commitments through June 2013. At March 31, 2011, we had \$270.8 million available under the Revolving Credit Facility. This availability reflects a reduction of \$25.5 million for standby letters of credit issued against the facility.

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

We utilize local currency credit facilities to finance the operations of certain foreign subsidiaries. At March 31, 2011, \$30.4 million was outstanding under these facilities with no additional availability.

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



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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 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.

**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 March 31, 2011, are as follows:

Balance Sheet Classification	March 31, 2011		December 31, 2010		Input
	Carrying Amount (in millions)	Fair Value	Carrying Amount (in millions)	Fair Value	
Cash equivalents	\$117.7	\$117.7	\$152.5	\$152.5	Level 1
Prepaid expenses and other current assets					
Currency forward contracts	2.5	2.5	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:

	March 31, 2011		December 31, 2010		Input
	Carrying Amount (in millions)	Fair Value	Carrying Amount (in millions)	Fair Value	
Revolving Credit Facility	\$—	\$—	\$—	\$—	Level 2
9.25% Notes	420.5	470.7	420.3	473.9	Level 2
7.875% Notes	300.0	303.0	300.0	306.0	Level 2
5.25% Notes	249.9	248.8	249.9	245.0	Level 2

## 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 March 31, 2011, we have forward contracts outstanding with a notional amount of \$40.0 million that hedge our exposure to changes in foreign currency exchange rates for our payroll expenses.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	Location of Gain Reclassified into Net Income	Gain Reclassified Three Months Ended March 31, 2011 (in millions)	2010	Gain Expected to be Reclassified During the Next 12 Months
Currency forward contracts	Cost of Goods Sold	\$0.7	\$—	\$2.5

## 7. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost are as follows:

	Pension Benefits Three Months Ended March 31, 2011 (in millions)		2010
Service cost	\$1.1		\$1.2
Interest cost	9.2		9.3
Expected asset return	(7.9	)	(8.0
Amortized loss	1.1		0.6
Net periodic benefit cost	\$3.5		\$3.1
	Other Postretirement Benefits Three Months Ended March 31, 2011 (in millions)		2010
Service cost	\$0.2		\$0.3
Interest cost	4.3		4.0
Amortized loss (gain)	0.1		(0.3
Amortized prior service credit	(0.8	)	(0.8
Net periodic benefit cost	\$3.8		\$3.2

Our regulatory pension funding requirements in 2011 are approximately \$25 million. 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 dates our product are sold. These estimates are established using sales volumes and internal and external warranty data where there is no payment history and historical information about the average cost of warranty claims for customers with prior claims. We adjust the liability as necessary.

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 March 31,	
	2011	2010
	(in millions)	
Beginning balance	\$2.3	\$2.1
Accruals	3.0	0.2
Settlements	(0.2	) (0.1
Adjustment to prior period accruals	0.1	(0.1
Foreign currency translation and other	0.1	(0.1
Ending balance	\$5.3	\$2.0

## 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 \$2.1 million in the first quarter of 2011 as compared to \$2.0 million in the first quarter of 2010. Our effective income tax rate was 5.4% in the first quarter of 2011 as compared to 11.0% in the first quarter of 2010. Our income tax expense and effective tax rate for the three months ended March 31, 2011 reflects the effect of recognizing a net operating loss (NOL) benefit against our taxable income in the U.S. Our income tax expense and effective tax rate for the three months ended March 31, 2010 reflected the effect of recording a valuation allowance against income tax benefits on U.S. losses.

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

## 10. COMPREHENSIVE INCOME

Comprehensive income consists of the following:

	Three Months Ended March 31,	
	2011	2010
	(in millions)	
Net income	\$36.6	\$16.2
Defined benefit plans, net of tax	3.1	2.3
Foreign currency translation adjustments, net of tax	5.2	(5.2)
Change in derivatives, net of tax	1.2	—
Comprehensive income	\$46.1	\$13.3
Net loss attributable to noncontrolling interests	1.1	0.1
Foreign currency translation adjustments related to noncontrolling interests	(0.8)	) 0.1
Comprehensive income attributable to AAM	\$46.4	\$13.5

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

## 11. EARNINGS PER SHARE (EPS)

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

	Three Months Ended March 31,	
	2011	2010
	(in millions, except per share data)	
Numerator		
Net income attributable to AAM	\$37.7	\$16.3
Denominator		
Basic shares outstanding -		
Weighted-average shares outstanding	73.7	71.6
Effect of dilutive securities		
Dilutive stock-based compensation	0.2	0.1
Dilutive GM warrants	1.4	2.9
Diluted shares outstanding -		
Adjusted weighted-average shares after assumed conversions	75.3	74.6
Basic EPS	\$0.51	\$0.23
Diluted EPS	\$0.50	\$0.22

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 March 31, 2011 and 5.0 million at March 31, 2010. The ranges of exercise prices related to the excluded exercisable stock options were \$15.56 - \$40.83 at March 31, 2011 and \$10.08 - \$40.83 at March 31, 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. SUBSEQUENT EVENTS

In April 2011, we sold equipment that had previously been written down to its estimated fair value as a result of asset impairments. As a result of the sale of this equipment, we expect to record a gain of approximately \$6.1 million in the second quarter of 2011.

On April 29, 2011, we notified the Trustee of our 9.25% Notes that, pursuant to the terms of such Notes, we intend to redeem 10% of the notes outstanding in the second quarter of 2011 at a redemption price of 103% of the principal amount. This will result 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. In addition to recording expense in the second quarter of 2011 for the redemption premium, we will also record approximately \$1.4 million of expense for the write off of a proportional amount of unamortized debt discount and unamortized debt issuance costs related to this debt.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 13. SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

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

## Condensed Consolidating Statements of Operations

Three Months Ended March 31,

(in millions)

	Holdings	AAM Inc.	All Others	Elims	Consolidated
2011					
Net sales					
External	\$—	\$195.7	\$449.9	\$—	\$645.6
Intercompany	—	5.9	47.7	(53.6)	—
Total net sales	—	201.6	497.6	(53.6)	645.6
Cost of goods sold	—	182.8	401.0	(53.6)	530.2
Gross profit	—	18.8	96.6	—	115.4
Selling, general and administrative expenses	—	47.7	9.0	—	56.7
Operating income (loss)	—	(28.9)	87.6	—	58.7
Non-operating income (expense), net	—	(22.1)	2.1	—	(20.0)
Income (loss) before income taxes	—	(51.0)	89.7	—	38.7
Income tax expense	—	0.3	1.8	—	2.1
Earnings from equity in subsidiaries	37.7	40.0	—	(77.7)	—
Net income (loss) before royalties and dividends	37.7	(11.3)	87.9	(77.7)	36.6
Royalties and dividends	—	49.0	(49.0)	—	—
Net income after royalties and dividends	37.7	37.7	38.9	(77.7)	36.6
Net loss attributable to noncontrolling interests	—	—	1.1	—	1.1
Net income attributable to AAM	\$37.7	\$37.7	\$40.0	\$(77.7)	\$37.7
2010					
Net sales					
External	\$—	\$118.3	\$403.6	\$—	\$521.9
Intercompany	—	7.0	39.4	(46.4)	—
Total net sales	—	125.3	443.0	(46.4)	521.9
Cost of goods sold	—	128.7	352.3	(46.4)	434.6
Gross profit (loss)	—	(3.4)	90.7	—	87.3
Selling, general and administrative expenses	—	41.8	3.5	—	45.3
Operating income (loss)	—	(45.2)	87.2	—	42.0
Non-operating expense, net	—	(22.5)	(1.3)	—	(23.8)
Income (loss) before income taxes	—	(67.7)	85.9	—	18.2

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Income tax expense (benefit)	—	(0.3	) 2.3	—	2.0
Earnings from equity in subsidiaries	16.3	65.0	—	(81.3	) —
Net income (loss) before royalties and dividends	16.3	(2.4	) 83.6	(81.3	) 16.2
Royalties and dividends	—	18.7	(18.7	) —	—
Net income after royalties and dividends	16.3	16.3	64.9	(81.3	) 16.2
Net loss attributable to noncontrolling interests	—	—	0.1	—	0.1
Net income attributable to AAM	\$ 16.3	\$ 16.3	\$ 65.0	\$ (81.3	) \$ 16.3

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## 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
March 31, 2011					
Assets					
Current assets					
Cash and cash equivalents	\$—	\$80.9	\$136.5	\$—	\$217.4
Accounts receivable, net	—	39.1	170.6	—	209.7
Inventories, net	—	35.3	98.3	—	133.6
Other current assets	—	36.8	46.1	—	82.9
Total current assets	—	192.1	451.5	—	643.6
Property, plant and equipment, net	—	257.4	689.5	—	946.9
Goodwill	—	—	156.4	—	156.4
Other assets and deferred charges	—	327.0	93.9	—	420.9
Investment in subsidiaries	—	932.8	—	(932.8)	—
Total assets	\$—	\$1,709.3	\$1,391.3	\$(932.8)	\$2,167.8
Liabilities and stockholders' equity (deficit)					
Current liabilities					
Accounts payable	\$—	\$96.1	\$225.7	\$—	\$321.8
Other current liabilities	—	178.3	83.1	—	261.4
Total current liabilities	—	274.4	308.8	—	583.2
Intercompany payable (receivable)	320.7	(347.2)	26.5	—	—
Long-term debt	—	970.4	37.0	—	1,007.4
Investment in subsidiaries obligation	105.8	—	—	(105.8)	—
Other long-term liabilities	—	917.5	75.1	—	992.6
Total liabilities	426.5	1,815.1	447.4	(105.8)	2,583.2
Total AAM stockholders' equity (deficit)	(426.5)	(105.8)	932.8	(827.0)	(426.5)
Noncontrolling interest in subsidiaries	—	—	11.1	—	11.1
Total stockholders' equity (deficit)	(426.5)	(105.8)	943.9	(827.0)	(415.4)
Total liabilities and stockholders' equity (deficit)	\$—	\$1,709.3	\$1,391.3	\$(932.8)	\$2,167.8
December 31, 2010					
Assets					
Current assets					
Cash and cash equivalents	\$—	\$67.6	\$177	\$—	\$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	—	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					



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Accounts payable	\$—	\$76.4	\$207.2	\$—	\$283.6	
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	

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## Condensed Consolidating Statements of Cash Flows

Three Months Ended March 31,

(in millions)

	Holdings	AAM Inc.	All Others	Elims	Consolidated
2011					
Operating activities					
Net cash provided by (used in) operating activities	\$—	\$(33.8)	) \$34.8	\$—	\$1.0
Investing activities					
Purchases of property, plant and equipment	—	(9.7)	) (21.8)	) —	(31.5)
Proceeds from sale of equipment	—	0.9	0.6	—	1.5
Net cash used in investing activities	—	(8.8)	) (21.2)	) —	(30.0)
Financing activities					
Net debt activity	(0.4)	) —	(2.9)	) —	(3.3)
Intercompany activity	0.5	51.3	(51.8)	) —	—
Employee stock option exercises	—	4.6	—	—	4.6
Purchase of treasury stock	(0.1)	) —	—	—	(0.1)
Net cash provided by (used in) financing activities	—	55.9	(54.7)	) —	1.2
Effect of exchange rate changes on cash	—	—	0.6	—	0.6
Net increase (decrease) in cash and cash equivalents	—	13.3	(40.5)	) —	(27.2)
Cash and cash equivalents at beginning of period	—	67.6	177.0	—	244.6
Cash and cash equivalents at end of period	\$—	\$80.9	\$136.5	\$—	\$217.4
2010					
Operating activities					
Net cash provided by (used in) operating activities	\$—	\$(26.9)	) \$105.9	\$—	\$79.0
Investing activities					
Purchases of property, plant and equipment	—	(5.4)	) (13.4)	) —	(18.8)
Proceeds from sale of equipment	—	0.9	—	—	0.9
Purchase buyouts of leased equipment	—	(4.0)	) —	—	(4.0)
Redemption of short-term investments	—	1.4	—	—	1.4
Net cash used in investing activities	—	(7.1)	) (13.4)	) —	(20.5)
Financing activities					
Net debt activity	—	(59.7)	) 4.2	—	(55.5)
Intercompany activity	1.2	41.3	(42.5)	) —	—
Debt issuance costs	—	(2.2)	) —	—	(2.2)
Purchase of treasury stock	(1.2)	) —	—	—	(1.2)
Net cash used in financing activities	—	(20.6)	) (38.3)	) —	(58.9)
Effect of exchange rate changes on cash	—	—	(1.1)	) —	(1.1)
Net increase (decrease) in cash and cash equivalents	—	(54.6)	) 53.1	—	(1.5)
Cash and cash equivalents at beginning of period	—	80.6	97.5	—	178.1

Cash and cash equivalents at end of period	\$—	\$26.0	\$150.6	\$—	\$176.6
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AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. 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 March 31,

(in millions)

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2011						
Net sales						
External						