

AMERICAN AXLE & MANUFACTURING HOLDINGS INC  
Form 10-Q  
August 01, 2014

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 June 30, 2014

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 (I.R.S. Employer Identification No.)  
Organization)

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):

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 July 30, 2014, the latest practicable date, the number of shares of the registrant's Common Stock, par value \$0.01 per share, outstanding was 75,757,139 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 JUNE 30, 2014  
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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,” “target,” and similar words or 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:

- 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);
- 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 develop and produce new products that reflect market demand;
- lower-than-anticipated market acceptance of new or existing products;
- our ability to attract new customers and programs for new products;
- our ability to respond to changes in technology, increased competition or pricing pressures;
- our ability to achieve the level of cost reductions required to sustain global cost competitiveness;
- supply shortages or price increases in raw materials, utilities or other operating supplies for us or our customers as a result of natural disasters or otherwise;
- global economic conditions, including the impact of the continued market weakness in the Euro-zone;
- risks inherent in our international operations (including adverse changes in political stability, taxes and other law changes, potential disruptions of production and supply, and currency rate fluctuations);
- liabilities arising from warranty claims, product recall or field actions, product liability and legal proceedings to which we are or may become a party, or the impact of product recall or field actions on our customers;
- price volatility in, or reduced availability of, fuel;
- our ability to successfully implement upgrades to our enterprise resource planning systems;
- our ability to maintain satisfactory labor relations and avoid work stoppages;
- our suppliers', our customers' and their suppliers' ability to maintain satisfactory labor relations and avoid work stoppages;
- our ability to attract and retain key associates;
- 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;
- changes in liabilities arising from pension and other postretirement benefit obligations;
- risks of noncompliance with environmental laws and regulations or risks of environmental issues that could result in unforeseen costs at our facilities;

- 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);
- our ability to consummate and integrate acquisitions and joint ventures;
- our ability or our customers' and suppliers' ability to comply with the Dodd-Frank Act and other regulatory requirements and the potential costs of such compliance; and
- 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 INCOME  
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	2013	June 30,	2013
	2014		2014	
	(in millions, except per share data)			
Net sales	\$946.9	\$799.6	\$1,805.7	\$1,555.2
Cost of goods sold	797.9	677.4	1,534.8	1,328.7
Gross profit	149.0	122.2	270.9	226.5
Selling, general and administrative expenses	61.5	60.5	118.6	120.1
Operating income	87.5	61.7	152.3	106.4
Interest expense	(25.1	) (28.8	) (50.1	) (57.9
Investment income	0.3	0.2	0.6	0.3
Other income (expense)				
Debt refinancing and redemption costs	—	0.1	—	(11.2
Other, net	0.8	(2.0	) 1.3	(1.5
Income before income taxes	63.5	31.2	104.1	36.1
Income tax expense	11.3	5.4	18.3	3.0
Net income	52.2	25.8	85.8	33.1
Basic earnings per share	\$0.67	\$0.34	\$1.11	\$0.43
Diluted earnings per share	\$0.67	\$0.34	\$1.11	\$0.43

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(in millions)			
Net income	\$52.2	\$25.8	\$85.8	\$33.1
Other comprehensive income (loss), net of tax				
Defined benefit plans, net of tax <sup>(a)</sup>	0.6	1.7	5.7	0.6
Foreign currency translation adjustments	3.6	(21.7	) 11.4	(16.8
Change in derivatives	0.5	(2.1	) 1.4	(1.6
Other comprehensive income (loss)	4.7	(22.1	) 18.5	(17.8
Comprehensive income	\$56.9	\$3.7	\$104.3	\$15.3

Amounts are net of tax of \$(0.2) million and \$(2.9) million for the three and six months ended June 30, 2014, (a) respectively, and \$(0.8) million and \$(0.1) million for the three and six months ended June 30, 2013, respectively.

See accompanying notes to condensed consolidated financial statements.



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

	June 30, 2014 (Unaudited) (in millions)	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$128.9	\$154.0
Accounts receivable, net	648.2	458.5
Inventories, net	255.7	261.8
Prepaid expenses and other current assets	114.0	123.5
Total current assets	1,146.8	997.8
Property, plant and equipment, net	1,077.0	1,058.5
Deferred income taxes	333.0	341.8
Goodwill	156.2	156.4
GM postretirement cost sharing asset	234.9	242.0
Other assets and deferred charges	253.5	232.5
Total assets	\$3,201.4	\$3,029.0
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$509.7	\$445.8
Accrued compensation and benefits	92.3	110.1
Deferred revenue	22.5	17.0
Accrued expenses and other current liabilities	97.0	94.2
Total current liabilities	721.5	667.1
Long-term debt	1,545.7	1,559.1
Deferred revenue	106.4	76.4
Postretirement benefits and other long-term liabilities	684.4	692.8
Total liabilities	3,058.0	2,995.4
Stockholders' equity		
Common stock, par value \$0.01 per share	0.8	0.8
Paid-in capital	618.6	612.8
Accumulated deficit	(95.5)	(181.3)
Treasury stock at cost, 6.1 million shares as of June 30, 2014 and 6.0 million shares as of December 31, 2013	(182.8)	(182.5)
Accumulated other comprehensive income (loss), net of tax		
Defined benefit plans	(192.2)	(197.9)
Foreign currency translation adjustments	(7.2)	(18.6)
Unrecognized gain on derivatives	1.7	0.3
Total stockholders' equity	143.4	33.6
Total liabilities and stockholders' equity	\$3,201.4	\$3,029.0

See accompanying notes to condensed consolidated financial statements.



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

	Six Months Ended June 30,	
	2014	2013
	(in millions)	
Operating activities		
Net income	\$85.8	\$33.1
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	95.0	83.7
Deferred income taxes	4.9	(1.5)
Stock-based compensation	4.6	3.2
Pensions and other postretirement benefits, net of contributions	1.4	5.9
Gain on disposal of property, plant and equipment, net	(4.0)	(3.5)
Debt refinancing and redemption costs	—	2.5
Changes in operating assets and liabilities		
Accounts receivable	(187.3)	(99.1)
Inventories	8.4	(12.3)
Accounts payable and accrued expenses	53.1	51.1
Deferred revenue	35.6	(3.8)
Other assets and liabilities	(15.1)	(26.1)
Net cash provided by operating activities	82.4	33.2
Investing activities		
Purchases of property, plant and equipment	(103.7)	(121.5)
Proceeds from sale of property, plant and equipment	8.3	4.9
Proceeds from sale-leaseback of equipment	—	16.0
Net cash used in investing activities	(95.4)	(100.6)
Financing activities		
Net short-term repayments under credit facilities	(2.0)	(12.0)
Payments of long-term debt and capital lease obligations	(14.2)	(307.3)
Proceeds from issuance of long-term debt	2.8	410.0
Debt issuance costs	(0.3)	(6.6)
Purchase of treasury stock	(0.3)	(0.1)
Employee stock option exercises	1.2	0.8
Net cash provided by (used in) financing activities	(12.8)	84.8
Effect of exchange rate changes on cash	0.7	(0.9)
Net increase (decrease) in cash and cash equivalents	(25.1)	16.5
Cash and cash equivalents at beginning of period	154.0	62.4
Cash and cash equivalents at end of period	\$128.9	\$78.9
Supplemental cash flow information		
Interest paid	\$41.9	\$55.9

Income taxes paid, net of refunds	\$5.7	\$8.2
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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  
June 30, 2014  
(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, transmission parts and metal-formed products. In addition to locations in the United States (U.S.) (Michigan, 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, 2013 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, 2013.

**Revenue Recognition** In the first quarter of 2014, we reached an agreement with General Motors Company (GM) to increase installed capacity and adjust product mix for our largest vehicle program. As a result of this agreement, we received \$20.6 million in the first six months of 2014 and recorded a receivable for the remaining \$13.7 million that we expect to receive in two equal installments over the next two quarters of 2014. We initially recorded deferred revenue of \$34.4 million related to this agreement. We will recognize this deferred revenue into sales over the life of the program on a straight line basis over approximately 5 years, which is the period we expect GM to benefit from this capacity and mix change. In the first six months of 2014, we recognized revenue of \$2.1 million related to this agreement. As of June 30, 2014, we have \$7.2 million of deferred revenue that is classified as a current liability and \$25.1 million of deferred revenue that is recorded as a noncurrent liability on our Condensed Consolidated Balance Sheet.

Also in the first quarter of 2014, we reached an agreement with GM to recover certain costs related to the delay of another major product program. We received \$9.3 million in the first six months of 2014 related to this agreement. As of June 30, 2014, we recorded deferred revenue of \$9.3 million, \$1.1 million of which is classified as a current liability and \$8.2 million is recorded as a noncurrent liability on our Condensed Consolidated Balance Sheet. We will

recognize this deferred revenue into sales over the life of the program on a straight-line basis over approximately 8 years, which is the period we expect GM to benefit from this agreement. We will begin recognizing this deferred revenue as revenue in the third quarter of 2014 when this program is launched in certain markets.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Effect of New Accounting Standards On January 1, 2014, new accounting guidance became effective regarding financial statement presentation of an unrecognized tax benefit when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. The new guidance requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for an NOL carryforward, a similar tax loss, or a tax credit carryforward, except when one is not available as of the reporting date or the entity does not intend to use the deferred tax asset for this purpose. This guidance does not affect the tabular reconciliation of the total amounts of unrecognized tax benefits, as the tabular reconciliation presents the gross amount of unrecognized tax benefits. The adoption of this new guidance has had no impact on our condensed consolidated financial statements.

In May 2014, new accounting guidance was issued that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. This guidance becomes effective for AAM at the beginning of our 2017 fiscal year and early adoption is not permitted. We are currently assessing the impact that this standard will have on our consolidated financial statements.

## 2. INVENTORIES

We state our inventories at the lower of cost or market. The cost of our 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:

	June 30, 2014	December 31, 2013
	(in millions)	
Raw materials and work-in-progress	\$252.0	\$263.4
Finished goods	31.5	25.7
Gross inventories	283.5	289.1
Inventory valuation reserves	(27.8	) (27.3
Inventories, net	\$255.7	\$261.8

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2014 (in millions)	December 31, 2013
Revolving Credit Facility	\$—	\$—
Term Facility	146.3	150.0
7.75% Notes	200.0	200.0
6.625% Notes	550.0	550.0
6.25% Notes	400.0	400.0
5.125% Notes	200.0	200.0
Foreign credit facilities	44.3	53.8
Capital lease obligations	5.1	5.3
Long-term debt	\$1,545.7	\$1,559.1

Revolving Credit Facility and Term Facility As of June 30, 2014, the revolving credit facility provided up to \$523.5 million of revolving bank financing commitments through September 13, 2018. At June 30, 2014, we had \$501.7 million available under the revolving credit facility. This availability reflects a reduction of \$21.8 million for standby letters of credit issued against the facility. We paid remaining debt issuance costs of \$0.1 million in the first six months of 2014 related to the revolving credit facility and term 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.

In the first six months of 2014, we made principal payments of \$3.7 million on our term facility.

In the first quarter of 2013, we terminated our class C loan facility of \$72.8 million, which would have matured on June 30, 2013. Upon termination, we expensed \$0.5 million of unamortized debt issuance costs related to the class C facility. We had been amortizing the debt issuance costs over the expected life of the borrowing.

6.25% Notes In the first quarter of 2013, we issued \$400.0 million of 6.25% senior unsecured notes due 2021 (6.25% Notes). Net proceeds from the 6.25% Notes were used to purchase and redeem the entire \$300.0 million outstanding of our 7.875% senior unsecured notes due 2017 (7.875% Notes) and for other general corporate purposes. We paid debt issuance costs of \$6.6 million in the first six months of 2013 related to the 6.25% Notes.

7.875% Notes In the first quarter of 2013, we expensed \$8.5 million related to tender and redemption premiums,