

AMERICAN AXLE & MANUFACTURING HOLDINGS INC
Form 10-Q
October 30, 2015

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, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 1-14303

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware 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)

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 October 28, 2015, the latest practicable date, the number of shares of the registrant's Common Stock, par value \$0.01 per share, outstanding was 76,046,761 shares.

Internet Website Access to Reports

The website for American Axle & Manufacturing Holdings, Inc. is 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 that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
 FORM 10-Q
 FOR THE QUARTER ENDED SEPTEMBER 30, 2015
 TABLE OF CONTENTS

	Page Number
<u>FORWARD-LOOKING STATEMENTS</u>	<u>1</u>
<u>Part I</u>	
<u>FINANCIAL INFORMATION</u>	<u>2</u>
<u>Item 1</u>	
<u>Financial Statements</u>	<u>2</u>
<u>Condensed Consolidated Statements of Income</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
<u>Item 3</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>28</u>
<u>Item 4</u>	
<u>Controls and Procedures</u>	<u>28</u>
<u>Part II</u>	
<u>OTHER INFORMATION</u>	<u>29</u>
<u>Item 1A</u>	
<u>Risk Factors</u>	<u>29</u>
<u>Item 2</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>29</u>
<u>Item 6</u>	
<u>Exhibits</u>	<u>29</u>
<u>Signatures</u>	<u>30</u>
<u>Exhibit Index</u>	<u>31</u>
<u>Ex. 31.1 Certification - CEO - Rule 13a-14(a)</u>	
<u>Ex. 31.2 Certification - CFO - Rule 13a-14(a)</u>	
<u>Ex. 32 Section 906 Certifications</u>	
<u>Ex. 101 Instance Document</u>	
<u>Ex. 101 Schema Document</u>	
<u>Ex. 101 Calculation Linkbase Document</u>	
<u>Ex. 101 Label Linkbase Document</u>	
<u>Ex. 101 Presentation Linkbase Document</u>	
<u>Ex. 101 Definition Linkbase Document</u>	

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), FCA US LLC (FCA), formerly known as Chrysler Group LLC, or other customers;
- reduced demand for our customers' products (particularly light trucks and sport utility vehicles (SUVs) produced by GM and FCA);
- 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;
- our ability to successfully implement upgrades to our enterprise resource planning systems;
- 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;
- 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;
- global economic conditions;
- 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);
- 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;
- negative or unexpected tax consequences;
- price volatility in, or reduced availability of, fuel;
- our ability to consummate and integrate acquisitions and joint ventures;
- our ability to attract and retain key associates;
- our ability to protect our intellectual property and successfully defend against assertions made against us;
- availability of financing for working capital, capital expenditures, research and development (R&D) or other general corporate purposes including acquisitions, as well as 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 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions, except per share data)			
Net sales	\$971.6	\$950.8	\$2,944.7	\$2,756.5
Cost of goods sold	813.3	810.1	2,469.1	2,344.9
Gross profit	158.3	140.7	475.6	411.6
Selling, general and administrative expenses	65.5	64.0	204.6	182.6
Operating income	92.8	76.7	271.0	229.0
Interest expense	(24.8	) (25.1	) (74.7	) (75.2
Investment income	0.6	0.7	2.0	1.3
Other income (expense), net	6.7	(0.8	) 10.9	0.5
Income before income taxes	75.3	51.5	209.2	155.6
Income tax expense	14.4	7.5	36.5	25.8
Net income	\$60.9	\$44.0	\$172.7	\$129.8
Basic earnings per share	\$0.78	\$0.57	\$2.22	\$1.68
Diluted earnings per share	\$0.78	\$0.57	\$2.21	\$1.68

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Net income	\$60.9	\$44.0	\$172.7	\$129.8
Other comprehensive income (loss)				
Defined benefit plans, net of tax ^(a)	0.3	0.6	5.1	6.3
Foreign currency translation adjustments	(35.9	) (23.3	) (64.4	) (11.9
Change in derivatives	(7.7	) (2.5	) (9.4	) (1.1
Other comprehensive loss	(43.3	) (25.2	) (68.7	) (6.7
Comprehensive income	\$17.6	\$18.8	\$104.0	\$123.1

Amounts are net of tax of \$(0.2) million and \$(2.6) million for the three and nine months ended September 30, (a) 2015, respectively, and \$(0.3) million and \$(3.2) million for the three and nine months ended September 30, 2014, respectively.

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2015 (Unaudited) (in millions)	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$365.6	\$249.2
Accounts receivable, net	641.3	532.7
Inventories, net	233.0	248.8
Prepaid expenses and other current assets	114.7	108.8
Total current assets	1,354.6	1,139.5
Property, plant and equipment, net	1,024.4	1,061.1
Deferred income taxes	348.3	368.8
Goodwill	154.5	155.0
GM postretirement cost sharing asset	261.9	274.5
Other assets and deferred charges	254.8	260.3
Total assets	\$3,398.5	\$3,259.2
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$19.2	\$13.0
Accounts payable	479.8	444.3
Accrued compensation and benefits	125.8	109.1
Deferred revenue	27.2	22.1
Accrued expenses and other current liabilities	109.6	98.7
Total current liabilities	761.6	687.2
Long-term debt	1,508.1	1,523.4
Deferred revenue	68.8	94.2
Postretirement benefits and other long-term liabilities	833.2	841.0
Total liabilities	3,171.7	3,145.8
Stockholders' equity		
Common stock, par value \$0.01 per share	0.8	0.8
Paid-in capital	636.0	623.7
Retained earnings (Accumulated deficit)	141.3	(31.4)
Treasury stock at cost, 6.2 million shares as of September 30, 2015 and 6.1 million shares as of December 31, 2014	(185.7)	(182.8)
Accumulated other comprehensive loss, net of tax		
Defined benefit plans	(235.5)	(240.6)
Foreign currency translation adjustments	(113.3)	(48.9)
Unrecognized loss on derivatives	(16.8)	(7.4)
Total stockholders' equity	226.8	113.4
Total liabilities and stockholders' equity	\$3,398.5	\$3,259.2

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,	
	2015	2014
	(in millions)	
Operating activities		
Net income	\$172.7	\$129.8
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	149.7	146.1
Deferred income taxes	16.0	6.8
Stock-based compensation	11.8	7.1
Pensions and other postretirement benefits, net of contributions	(1.4	) 0.6
Loss (gain) on disposal of property, plant and equipment, net	3.8	(4.0
Changes in operating assets and liabilities)
Accounts receivable	(119.5	) (142.5
Inventories	9.2	12.3
Accounts payable and accrued expenses	68.5	68.4
Deferred revenue	(19.4	) 31.1
Other assets and liabilities	(23.3	) (24.1
Net cash provided by operating activities	268.1	231.6
Investing activities		
Purchases of property, plant and equipment	(132.1	) (156.2
Proceeds from sale of property, plant and equipment	0.2	8.5
Net cash used in investing activities	(131.9	) (147.7
Financing activities		
Net short-term borrowings under credit facilities	—	(3.1
Payments of long-term debt and capital lease obligations	(19.1	) (16.4
Proceeds from issuance of long-term debt	13.4	2.8
Debt issuance costs	—	(0.3
Purchase of treasury stock	(2.9	) (0.3
Employee stock option exercises	0.5	1.2
Net cash used in financing activities	(8.1	) (16.1
Effect of exchange rate changes on cash	(11.7	) (2.8
Net increase in cash and cash equivalents	116.4	65.0
Cash and cash equivalents at beginning of period	249.2	154.0
Cash and cash equivalents at end of period	\$365.6	\$219.0
Supplemental cash flow information		
Interest paid	\$66.1	\$63.7
Income taxes paid, net of refunds	\$9.6	\$9.0

See accompanying notes to condensed consolidated financial statements.

5

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015
(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, electric drive systems 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, 2014 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, 2014.

Effect of New Accounting Standards On April 7, 2015, the Financial Accounting Standards Board (FASB) issued an accounting standards update (ASU) which changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity would present such costs in the balance sheet as a direct deduction of the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This ASU becomes effective for AAM at the beginning of our 2016 fiscal year and early adoption is permitted. Based on the amounts currently outstanding as of September 30, 2015, we estimate the effect of implementing and early adopting this ASU on our consolidated financial statements would reduce both our other assets and deferred charges and long-term debt by approximately \$15.5 million at December 31, 2015 and \$18.8 million at December 31, 2014.

In 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. On August 12, 2015, the FASB issued an ASU to formally defer the initial standard's effective date by one-year, making this guidance effective for AAM at the beginning of our 2018 fiscal year. We are currently assessing the impact that this standard will have on our consolidated financial statements.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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:

	September 30, 2015 (in millions)	December 31, 2014
Raw materials and work-in-progress	\$232.9	\$243.8
Finished goods	31.7	32.9
Gross inventories	264.6	276.7
Inventory valuation reserves	(31.6)	(27.9)
Inventories, net	\$233.0	\$248.8

3. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2015 (in millions)	December 31, 2014
Revolving Credit Facility	\$—	\$—
Term Facility	135.9	142.5
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	36.8	38.9
Capital lease obligations	4.6	5.0
Debt	1,527.3	1,536.4
Less: Current portion of long-term debt	19.2	13.0
Long-term debt	\$1,508.1	\$1,523.4

Revolving Credit Facility and Term Facility As of September 30, 2015, the revolving credit facility provided up to \$523.5 million of revolving bank financing commitments through September 13, 2018. At September 30, 2015, we had \$513.1 million available under the revolving credit facility. This availability reflects a reduction of \$10.4 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, except where otherwise reclassified to current portion of long-term debt on our Condensed Consolidated Balance Sheet.

In the first nine months of 2015 and 2014, we made principal payments on our term facility of \$6.6 million and \$5.6 million, respectively.

On October 9, 2015, we elected to prepay all quarterly principal payments that were due on our term facility through the end of 2016. This resulted in a cash payment of \$15.9 million.

7

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We utilize local currency credit facilities to finance the operations of certain foreign subsidiaries. At September 30, 2015, \$36.8 million was outstanding under these facilities and an additional \$45.4 million was available.

The weighted-average interest rate of our long-term debt outstanding was 6.4% at both September 30, 2015 and December 31, 2014.

4. 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, are as follows:

September 30, 2015