

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

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

Delaware 38-3161171  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

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

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check one):

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](http://www.aam.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.  
 FORM 10-Q  
 FOR THE QUARTER ENDED SEPTEMBER 30, 2015  
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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), 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;
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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                   |         | Nine Months Ended |           |
|--|--------------------------------------|---------|-------------------|-----------|
|  | September 30,                        |         | 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<br>September 30, |         | Nine Months Ended<br>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 <sup>(a)</sup> | 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<br>(Unaudited)<br>(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<br>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.

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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 &amp; 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<br>(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<br>(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.

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## AMERICAN AXLE &amp; 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:

| Balance Sheet Classification   | September 30, 2015 |            | December 31, 2014 |            | Input   |
|--|--------------------|------------|-------------------|------------|---------|
|  | Carrying Amount    | Fair Value | Carrying Amount   | Fair Value |         |
|  | (in millions)      |            |                   |            |         |
| Cash equivalents   | \$50.3             | \$50.3     | \$35.3            | \$35.3     | Level 1 |
| Currency forward contracts - Prepaid expenses and other current assets |                    |            |                   |            |         |
| Undesignated cash flow hedges  | 0.1                | 0.1        | —                 | —          | Level 2 |
| Currency forward contracts - Other accrued expenses                    |                    |            |                   |            |         |
| Cash flow hedges   | 9.5                | 9.5        | 7.2               | 7.2        | Level 2 |
| Undesignated cash flow hedges  | 2.9                | 2.9        | 1.1               | 1.1        | Level 2 |
| Currency forward contracts - Other long-term liabilities               |                    |            |                   |            |         |
| Cash flow hedges   | 7.3                | 7.3        | 0.1               | 0.1        | Level 2 |

The carrying values of our cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturities of these instruments. The carrying values of our borrowings under the foreign credit facilities approximate their fair value due to the frequent resetting of the interest rates. We estimated the fair value of the amounts outstanding on our debt using available market information and other observable data, to be as follows:

|  | September 30, 2015 |            | December 31, 2014 |            | Input |
|--|--------------------|------------|-------------------|------------|-------|
|  | Carrying Amount    | Fair Value | Carrying Amount   | Fair Value |       |

(in millions)

|                           |       |       |       |       |         |
|---------------------------|-------|-------|-------|-------|---------|
| Revolving Credit Facility | \$—   | \$—   | \$—   | \$—   | Level 2 |
| Term Facility             | 135.9 | 134.6 | 142.5 | 141.1 | Level 2 |
| 7.75% Notes               | 200.0 | 219.0 | 200.0 | 224.0 | Level 2 |
| 6.625% Notes              | 550.0 | 551.4 | 550.0 | 583.0 | Level 2 |
| 6.25% Notes               | 400.0 | 398.0 | 400.0 | 419.0 | Level 2 |
| 5.125% Notes              | 200.0 | 199.5 | 200.0 | 202.6 | Level 2 |

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 5. 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, Euro, Pound Sterling, Thai Baht, Swedish Krona and Polish Zloty. As of September 30, 2015, we have currency forward contracts outstanding with a notional amount of \$200.4 million that hedge our exposure to changes in foreign currency exchange rates for our payroll expenses through June 2018 and certain direct and indirect inventory and other working capital items through January 2016.

The following table summarizes the reclassification of pre-tax derivative gains (losses) into net income from accumulated other comprehensive income (loss) for those derivative instruments designated as hedging instruments under ASC 815:

|                            | Location of Gain (Loss) Reclassified into Net Income | Gain (Loss) Reclassified During |         |                    |         | Loss Expected to be Reclassified During the Next 12 Months |   |
|----------------------------|--|---------------------------------|---------|--------------------|---------|--|---|
|                            |  | Three Months Ended              |         | Nine Months Ended  |         |  |   |
|                            |  | September 30, 2015              | 2014    | September 30, 2015 | 2014    |  |   |
| Currency forward contracts | Cost of Goods Sold                                   | \$(3.1                          | ) \$0.5 | \$(6.9             | ) \$0.7 | \$(9.5   | ) |

See Note 10 - Reclassifications Out of Accumulated Other Comprehensive Income (Loss) for amounts recognized in other comprehensive income (loss) during the three and nine months ended September 30, 2015 and September 30, 2014.

The following table summarizes the amount and location of losses recognized in the Condensed Consolidated Statement of Income for those derivative instruments not designated as hedging instruments under ASC 815:

|                            | Location of Loss Recognized in Net Income | Loss Recognized During |          |                    |          |
|----------------------------|---|------------------------|----------|--------------------|----------|
|                            |   | Three Months Ended     |          | Nine Months Ended  |          |
|                            |   | September 30, 2015     | 2014     | September 30, 2015 | 2014     |
| Currency forward contracts | Cost of Goods Sold                        | \$(2.1                 | ) \$(0.3 | ) \$(4.1           | ) \$(0.3 |
| Currency forward contracts | Other Income (Expense), Net               | (1.1                   | ) —      | (1.4               | ) —      |

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 6. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost (credit) are as follows:

|                                | Pension Benefits                    |          | Nine Months Ended |          |
|--------------------------------|-------------------------------------|----------|-------------------|----------|
|                                | Three Months Ended<br>September 30, |          | September 30,     |          |
|                                | 2015                                | 2014     | 2015              | 2014     |
|                                | (in millions)                       |          |                   |          |
| Service cost                   | \$0.8                               | \$0.9    | \$2.4             | \$2.7    |
| Interest cost                  | 7.2                                 | 9.0      | 21.6              | 27.0     |
| Expected asset return          | (10.6                               | ) (12.1  | ) (31.8           | ) (36.3  |
| Amortized loss                 | 1.5                                 | 1.3      | 4.5               | 3.9      |
| Net periodic benefit credit    | \$(1.1                              | ) \$(0.9 | ) \$(3.3          | ) \$(2.7 |
|                                |                                     |          |                   |          |
|                                | Other Postretirement Benefits       |          | Nine Months Ended |          |
|                                | Three Months Ended<br>September 30, |          | September 30,     |          |
|                                | 2015                                | 2014     | 2015              | 2014     |
|                                | (in millions)                       |          |                   |          |
| Service cost                   | \$0.1                               | \$0.1    | \$0.3             | \$0.3    |
| Interest cost                  | 3.8                                 | 3.8      | 11.4              | 11.4     |
| Amortized loss                 | 0.2                                 | 0.2      | 0.6               | 0.6      |
| Amortized prior service credit | (0.7                                | ) (0.7   | ) (2.1            | ) (2.1   |
| Net periodic benefit cost      | \$3.4                               | \$3.4    | \$10.2            | \$10.2   |

Due to the availability of our prefunding balances (previous contributions in excess of prior required pension contributions), we are not required to make any cash payments in 2015. We expect our cash payments for other postretirement benefit obligations in 2015, net of GM cost sharing, to be approximately \$16 million.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 7. PRODUCT WARRANTIES

We record a liability for estimated warranty obligations at the dates our products are sold. These estimates are established using sales volumes and internal and external warranty data where there is no payment history and historical information about the average cost of warranty claims for customers with prior claims. We estimate our costs based on the contractual arrangements with our customers, existing customer warranty terms and internal and external warranty data, which includes a determination of our warranty claims and actions taken to improve product quality and minimize warranty claims. We continuously evaluate these estimates and our customers' administration of their warranty programs. We closely monitor actual warranty claim data and adjust the liability, as necessary, on a quarterly basis.

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

|  | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|--|-------------------------------------|--------|------------------------------------|--------|
|  | 2015                                | 2014   | 2015                               | 2014   |
|  | (in millions)                       |        |                                    |        |
| Beginning balance                        | \$23.2                              | \$18.2 | \$12.4                             | \$14.3 |
| Accruals                                 | 4.8                                 | 0.9    | 13.8                               | 7.3    |
| Settlements                              | (4.6                                | ) (0.2 | ) (5.2                             | ) (1.2 |
| Adjustment to prior period accruals, net | (0.4                                | ) (2.2 | ) 2.3                              | ) (3.8 |
| Foreign currency translation             | (0.3                                | ) (0.2 | ) (0.6                             | ) (0.1 |
| Ending balance                           | \$22.7                              | \$16.5 | \$22.7                             | \$16.5 |

## 8. INCOME TAXES

We are required to adjust our effective tax rate each quarter to estimate our annual effective tax rate. We must also record the tax impact of certain discrete, unusual or infrequently occurring items, 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 \$14.4 million in the three months ended September 30, 2015 as compared to \$7.5 million in the three months ended September 30, 2014. Our effective income tax rate was 19.3% in the third quarter of 2015 as compared to 14.6% in the third quarter of 2014. Our effective tax rate for the three months ended September 30, 2015 is higher than our effective tax rate for the three months ended September 30, 2014 primarily as a result of an increase in the proportionate share of income attributable to higher tax rate jurisdictions. Our income tax expense and effective tax rate for the three months ended September 30, 2015 and September 30, 2014 primarily reflect favorable foreign tax rates, along with our inability to realize a tax benefit for current foreign losses.

Income tax expense was \$36.5 million in the nine months ended September 30, 2015 as compared to \$25.8 million in the nine months ended September 30, 2014. Our effective income tax rate was 17.5% in the nine months ended September 30, 2015 as compared to 16.6% in the nine months ended September 30, 2014. Our income tax expense

and effective tax rate for the nine months ended September 30, 2015 and September 30, 2014 primarily reflect favorable foreign tax rates, along with our inability to realize a tax benefit for current foreign losses.

Based on the status of the audits outside the U.S., and the protocol of finalizing audits by the relevant tax authorities, it is not possible to estimate the impact of changes, if any, to previously recorded uncertain tax positions or predict the timing of the conclusion of all ongoing audits with certainty. As of September 30, 2015 and December 31, 2014, we have recorded a liability for unrecognized income tax benefits and related interest and penalties of \$62.9 million and \$59.5 million, respectively. We anticipate that the current 2007 through 2009 audits with the Mexican tax authorities will be completed before the end of 2015 and will result in a subsequent cash payment to the tax authorities.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Although it is difficult to estimate with certainty the amount of an audit settlement for the years currently under audit, we do not expect the settlement will be materially different from what we have recorded in unrecognized tax benefits. We will continue to monitor the progress and conclusions of all ongoing audits and will adjust our estimated liability as necessary.

## 9. EARNINGS PER SHARE (EPS)

We present earnings per share (EPS) using the two-class method. This method allocates undistributed earnings between common shares and non-vested share based payment awards that entitle the holder to nonforfeitable dividend rights. Our participating securities include non-vested restricted stock units.

The following table sets forth the computation of our basic and diluted EPS available to shareholders of common stock (excluding participating securities):

|  | Three Months Ended<br>September 30,  |        | Nine Months Ended<br>September 30, |         |
|--|--------------------------------------|--------|------------------------------------|---------|
|  | 2015                                 | 2014   | 2015                               | 2014    |
|  | (in millions, except per share data) |        |                                    |         |
| Numerator  |                                      |        |                                    |         |
| Net income   | \$60.9                               | \$44.0 | \$172.7                            | \$129.8 |
| Less: Net income attributable to participating securities                                | (1.4                                 | ) (0.9 | ) (4.0                             | ) (2.6  |
| Net income attributable to common shareholders - Basic                                   | \$59.5                               | \$43.1 | \$168.7                            | \$127.2 |
| Undistributed earnings reallocated to common shareholders under two step dilutive method | —                                    | —      | —                                  | —       |
| Net income attributable to common shareholders - Dilutive                                | \$59.5                               | \$43.1 | \$168.7                            | \$127.2 |
| Denominators   |                                      |        |                                    |         |
| Basic common shares outstanding -  |                                      |        |                                    |         |
| Weighted-average shares outstanding  | 77.8                                 | 77.4   | 77.7                               | 77.2    |
| Less: Participating securities   | (1.8                                 | ) (1.7 | ) (1.8                             | ) (1.5  |
| Weighted-average common shares outstanding   | 76.0                                 | 75.7   | 75.9                               | 75.7    |
| Effect of dilutive securities -  |                                      |        |                                    |         |
| Dilutive stock-based compensation  | 0.4                                  | 0.2    | 0.4                                | 0.2     |
| Diluted shares outstanding -   |                                      |        |                                    |         |
| Adjusted weighted-average shares after assumed conversions                               | 76.4                                 | 75.9   | 76.3                               | 75.9    |
| Basic EPS  | \$0.78                               | \$0.57 | \$2.22                             | \$1.68  |
| Diluted EPS  | \$0.78                               | \$0.57 | \$2.21                             | \$1.68  |

Certain exercisable stock options were excluded from 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 0.2 million at September 30, 2015 and 0.5 million at September 30, 2014. The exercise price related to the excluded exercisable stock options was \$26.02 at September 30, 2015 and a range of \$19.54 - \$26.65 at September 30, 2014.





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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 10. RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Reclassification adjustments and other activity impacting accumulated other comprehensive income (loss) during the three months ended September 30, 2015 and September 30, 2014 are as follows (in millions):

|   | Defined<br>Benefit Plans | Foreign Currency<br>Translation<br>Adjustments | Unrecognized<br>Loss on<br>Derivatives | Total      |
|---|--------------------------|--|--|------------|
| Balance at June 30, 2015  | \$(235.8 )               | \$(77.4 )                                      | \$(9.1 )                               | \$(322.3 ) |
| Other comprehensive loss before reclassifications                       | —                        | (35.9 )  | (10.8 )                                | (46.7 )    |
| Amounts reclassified from accumulated other comprehensive income        | 0.3 (a)(b)               | —  | 3.1 (c)                                | 3.4        |
| Net current period other comprehensive income (loss)                    | 0.3                      | (35.9 )  | (7.7 )                                 | (43.3 )    |
| Balance at September 30, 2015   | \$(235.5 )               | \$(113.3 )                                     | \$(16.8 )                              | \$(365.6 ) |
|   | Defined<br>Benefit Plans | Foreign Currency<br>Translation<br>Adjustments | Unrecognized<br>Loss on<br>Derivatives | Total      |
| Balance at June 30, 2014  | \$(192.2 )               | \$(7.2 )                                       | \$1.7                                  | \$(197.7 ) |
| Other comprehensive loss before reclassifications                       | —                        | (23.3 )  | (2.0 )                                 | (25.3 )    |
| Amounts reclassified from accumulated other comprehensive income (loss) | 0.6 (a)(b)               | —  | (0.5 ) (c)                             | 0.1        |
| Net current period other comprehensive income (loss)                    | 0.6                      | (23.3 )  | (2.5 )                                 | (25.2 )    |
| Balance at September 30, 2014   | \$(191.6 )               | \$(30.5 )                                      | \$(0.8 )                               | \$(222.9 ) |

(a) The amounts are net of tax of \$(0.2) for the three months ended September 30, 2015 and \$(0.3) for the three months ended September 30, 2014.

(b) The net amount reclassified from AOCI included \$0.5 million in cost of goods sold (COGS) and \$(0.2) million in selling, general & administrative expenses (SG&A) for the three months ended September 30, 2015 and \$0.8 million in COGS and \$(0.3) million in SG&A for the three months ended September 30, 2014.

(c) The amounts reclassified from AOCI are included in COGS.



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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reclassification adjustments and other activity impacting accumulated other comprehensive income (loss) during the nine months ended September 30, 2015 and September 30, 2014 are as follows (in millions):

|   | Defined<br>Benefit Plans |        | Foreign Currency<br>Translation<br>Adjustments |  | Unrecognized<br>Loss on<br>Derivatives |     | Total       |
|---|--------------------------|--------|--|--|--|-----|-------------|
| Balance at December 31, 2014  | \$ (240.6 )              |        | \$ (48.9 )                                     |  | \$ (7.4 )                              |     | \$ (296.9 ) |
| Other comprehensive income (loss) before reclassifications              | 3.1                      | (a)    | (64.4 )  |  | (16.3 )                                |     | (77.6 )     |
| Amounts reclassified from accumulated other comprehensive income        | 2.0                      | (a)(b) | —  |  | 6.9                                    | (c) | 8.9         |
| Net current period other comprehensive income (loss)                    | 5.1                      |        | (64.4 )  |  | (9.4 )                                 |     | (68.7 )     |
| Balance at September 30, 2015   | \$ (235.5 )              |        | \$ (113.3 )                                    |  | \$ (16.8 )                             |     | \$ (365.6 ) |
|   |                          |        |  |  |  |     |             |
|   | Defined<br>Benefit Plans |        | Foreign Currency<br>Translation<br>Adjustments |  | Unrecognized<br>Loss on<br>Derivatives |     | Total       |
| Balance at December 31, 2013  | \$ (197.9 )              |        | \$ (18.6 )                                     |  | \$ 0.3                                 |     | \$ (216.2 ) |
| Other comprehensive income (loss) before reclassifications              | 4.5                      | (a)    | (11.9 )  |  | (0.4 )                                 |     | (7.8 )      |
| Amounts reclassified from accumulated other comprehensive income (loss) | 1.8                      | (a)(b) | —  |  | (0.7 )                                 | (c) | 1.1         |
| Net current period other comprehensive income (loss)                    | 6.3                      |        | (11.9 )  |  | (1.1 )                                 |     | (6.7 )      |
| Balance at September 30, 2014   | \$ (191.6 )              |        | \$ (30.5 )                                     |  | \$ (0.8 )                              |     | \$ (222.9 ) |

(a) The amounts are net of tax of \$(1.6) million and \$(1.0) million for other comprehensive income before reclassifications and the amounts reclassified from AOCI, respectively, for the nine months ended September 30, 2015, and \$(2.4) million and \$(0.8) million, respectively, for the nine months ended September 30, 2014.

(b) The net amount reclassified from AOCI included \$2.4 million in cost of goods sold (COGS) and \$(0.4) million in selling, general & administrative expenses (SG&A) for the nine months ended September 30, 2015 and \$2.5 million in COGS and \$(0.8) million in SG&A for the nine months ended September 30, 2014.

(c) The amounts reclassified from AOCI are included in COGS.



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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 11. 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. The 7.75% Notes, 6.625% Notes, 6.25% Notes and 5.125% Notes are senior unsecured obligations of AAM Inc.; all of which are fully and unconditionally guaranteed, on a joint and several basis, by Holdings and substantially all domestic subsidiaries of AAM, Inc, which are 100% indirectly owned by Holdings.

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 Income

Three Months Ended September

30,

(in millions)

|   | Holdings | AAM Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Elims     | Consolidated |
|---|----------|----------|---------------------------|-------------------------------|-----------|--------------|
| 2015  |          |          |                           |                               |           |              |
| Net sales                                       |          |          |                           |                               |           |              |
| External  | \$—      | \$292.4  | \$51.1                    | \$ 628.1                      | \$—       | \$971.6      |
| Intercompany                                    | —        | 2.1      | 66.0                      | 4.4                           | (72.5 )   | —            |
| Total net sales                                 | —        | 294.5    | 117.1                     | 632.5                         | (72.5 )   | 971.6        |
| Cost of goods sold                              | —        | 283.3    | 95.0                      | 507.5                         | (72.5 )   | 813.3        |
| Gross profit                                    | —        | 11.2     | 22.1                      | 125.0                         | —         | 158.3        |
| Selling, general and administrative<br>expenses | —        | 60.3     | —                         | 5.2                           | —         | 65.5         |
| Operating income (loss)                         | —        | (49.1 )  | 22.1                      | 119.8                         | —         | 92.8         |
| Non-operating income (expense),<br>net          | —        | (22.4 )  | 2.3                       | 2.6                           | —         | (17.5 )      |
| Income (loss) before income taxes               | —        | (71.5 )  | 24.4                      | 122.4                         | —         | 75.3         |
| Income tax expense                              | —        | 6.1      | 0.1                       | 8.2                           | —         | 14.4         |
| Earnings (loss) from equity in<br>subsidiaries  | 60.9     | 79.9     | (3.5 )                    | —                             | (137.3 )  | —            |
| Net income before royalties and<br>dividends    | 60.9     | 2.3      | 20.8                      | 114.2                         | (137.3 )  | 60.9         |
| Royalties and dividends                         | —        | 58.6     | —                         | (58.6 )                       | —         | —            |
| Net income after royalties and<br>dividends     | 60.9     | 60.9     | 20.8                      | 55.6                          | (137.3 )  | 60.9         |
| Other comprehensive loss                        | (43.3 )  | (43.3 )  | (33.8 )                   | (40.7 )                       | 117.8     | (43.3 )      |
| Comprehensive income (loss)                     | \$17.6   | \$17.6   | \$(13.0 )                 | \$ 14.9                       | \$(19.5 ) | \$17.6       |

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

|   | Holdings | AAM Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Elims     | Consolidated |
|---|----------|----------|---------------------------|-------------------------------|-----------|--------------|
| 2014  |          |          |                           |                               |           |              |
| Net sales   |          |          |                           |                               |           |              |
| External  | \$—      | \$300.9  | \$56.9                    | \$593.0                       | \$—       | \$950.8      |
| Intercompany  | —        | 2.7      | 64.1                      | 5.3                           | (72.1 )   | —            |
| Total net sales                                     | —        | 303.6    | 121.0                     | 598.3                         | (72.1 )   | 950.8        |
| Cost of goods sold                                  | —        | 291.9    | 100.5                     | 489.8                         | (72.1 )   | 810.1        |
| Gross profit  | —        | 11.7     | 20.5                      | 108.5                         | —         | 140.7        |
| Selling, general and<br>administrative expenses     | —        | 55.0     | —                         | 9.0                           | —         | 64.0         |
| Operating income (loss)                             | —        | (43.3 )  | 20.5                      | 99.5                          | —         | 76.7         |
| Non-operating income (expense),<br>net              | —        | (25.8 )  | 2.0                       | (1.4 )                        | —         | (25.2 )      |
| Income (loss) before income<br>taxes                | —        | (69.1 )  | 22.5                      | 98.1                          | —         | 51.5         |
| Income tax expense                                  | —        | 6.6      | 0.1                       | 0.8                           | —         | 7.5          |
| Earnings (loss) from equity in<br>subsidiaries      | 44.0     | 63.9     | (9.1 )                    | —                             | (98.8 )   | —            |
| Net income (loss) before<br>royalties and dividends | 44.0     | (11.8 )  | 13.3                      | 97.3                          | (98.8 )   | 44.0         |
| Royalties and dividends                             | —        | 55.8     | —                         | (55.8 )                       | —         | —            |
| Net income after royalties and<br>dividends         | 44.0     | 44.0     | 13.3                      | 41.5                          | (98.8 )   | 44.0         |
| Other comprehensive loss                            | (25.2 )  | (25.2 )  | (19.0 )                   | (22.2 )                       | 66.4      | (25.2 )      |
| Comprehensive income (loss)                         | \$18.8   | \$18.8   | \$(5.7 )                  | \$19.3                        | \$(32.4 ) | \$18.8       |

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

|   | Holdings | AAM Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Elims      | Consolidated |
|---|----------|----------|---------------------------|-------------------------------|------------|--------------|
| 2015  |          |          |                           |                               |            |              |
| Net sales   |          |          |                           |                               |            |              |
| External  | \$—      | \$866.0  | \$165.0                   | \$1,913.7                     | \$—        | \$2,944.7    |
| Intercompany  | —        | 7.6      | 196.3                     | 14.3                          | (218.2 )   | —            |
| Total net sales                                     | —        | 873.6    | 361.3                     | 1,928.0                       | (218.2 )   | 2,944.7      |
| Cost of goods sold                                  | —        | 846.9    | 295.3                     | 1,545.1                       | (218.2 )   | 2,469.1      |
| Gross profit  | —        | 26.7     | 66.0                      | 382.9                         | —          | 475.6        |
| Selling, general and administrative<br>expenses     | —        | 179.9    | —                         | 24.7                          | —          | 204.6        |
| Operating income (loss)                             | —        | (153.2 ) | 66.0                      | 358.2                         | —          | 271.0        |
| Non-operating income (expense),<br>net              | —        | (73.1 )  | 7.4                       | 3.9                           | —          | (61.8 )      |
| Income (loss) before income taxes                   | —        | (226.3 ) | 73.4                      | 362.1                         | —          | 209.2        |
| Income tax expense (benefit)                        | —        | 18.1     | (0.2 )                    | 18.6                          | —          | 36.5         |
| Earnings (loss) from equity in<br>subsidiaries      | 172.7    | 236.4    | (12.9 )                   | —                             | (396.2 )   | —            |
| Net income (loss) before royalties<br>and dividends | 172.7    | (8.0 )   | 60.7                      | 343.5                         | (396.2 )   | 172.7        |
| Royalties and dividends                             | —        | 180.7    | —                         | (180.7 )                      | —          | —            |
| Net income after royalties and<br>dividends         | 172.7    | 172.7    | 60.7                      | 162.8                         | (396.2 )   | 172.7        |
| Other comprehensive loss                            | (68.7 )  | (68.7 )  | (61.0 )                   | (69.7 )                       | 199.4      | (68.7 )      |
| Comprehensive income                                | \$104.0  | \$104.0  | \$(0.3 )                  | \$93.1                        | \$(196.8 ) | \$104.0      |

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

|   | Holdings | AAM Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Elims      | Consolidated |
|---|----------|----------|---------------------------|-------------------------------|------------|--------------|
| 2014  |          |          |                           |                               |            |              |
| Net sales   |          |          |                           |                               |            |              |
| External  | \$—      | \$826.8  | \$174.0                   | \$1,755.7                     | \$—        | \$2,756.5    |
| Intercompany  | —        | 8.5      | 184.7                     | 17.3                          | (210.5 )   | —            |
| Total net sales                                     | —        | 835.3    | 358.7                     | 1,773.0                       | (210.5 )   | 2,756.5      |
| Cost of goods sold                                  | —        | 812.3    | 303.0                     | 1,440.1                       | (210.5 )   | 2,344.9      |
| Gross profit  | —        | 23.0     | 55.7                      | 332.9                         | —          | 411.6        |
| Selling, general and<br>administrative expenses     | —        | 155.6    | 0.1                       | 26.9                          | —          | 182.6        |
| Operating income (loss)                             | —        | (132.6 ) | 55.6                      | 306.0                         | —          | 229.0        |
| Non-operating income<br>(expense), net              | —        | (77.5 )  | 7.2                       | (3.1 )                        | —          | (73.4 )      |
| Income (loss) before income<br>taxes                | —        | (210.1 ) | 62.8                      | 302.9                         | —          | 155.6        |
| Income tax expense                                  | —        | 13.4     | 0.3                       | 12.1                          | —          | 25.8         |
| Earnings (loss) from equity in<br>subsidiaries      | 129.8    | 186.7    | (25.1 )                   | —                             | (291.4 )   | —            |
| Net income (loss) before<br>royalties and dividends | 129.8    | (36.8 )  | 37.4                      | 290.8                         | (291.4 )   | 129.8        |
| Royalties and dividends                             | —        | 166.6    | —                         | (166.6 )                      | —          | —            |
| Net income after royalties and<br>dividends         | 129.8    | 129.8    | 37.4                      | 124.2                         | (291.4 )   | 129.8        |
| Other comprehensive loss                            | (6.7 )   | (6.7 )   | (7.9 )                    | (10.7 )                       | 25.3       | (6.7 )       |
| Comprehensive income                                | \$123.1  | \$123.1  | \$29.5                    | \$113.5                       | \$(266.1 ) | \$123.1      |



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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidating Balance Sheets  
(in millions)

|   | Holdings | AAM Inc.  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Elims       | Consolidated |
|---|----------|-----------|---------------------------|-------------------------------|-------------|--------------|
| September 30, 2015                            |          |           |                           |                               |             |              |
| Assets  |          |           |                           |                               |             |              |
| Current assets                                |          |           |                           |                               |             |              |
| Cash and cash equivalents                     | \$—      | \$205.8   | \$—                       | \$ 159.8                      | \$—         | \$365.6      |
| Accounts receivable, net                      | —        | 155.6     | 25.6                      | 460.1                         | —           | 641.3        |
| Intercompany receivables                      | —        | 229.1     | 235.6                     | 9.1                           | (473.8 )    | —            |
| Inventories, net                              | —        | 63.2      | 28.9                      | 140.9                         | —           | 233.0        |
| Other current assets                          | —        | 50.4      | 2.6                       | 61.7                          | —           | 114.7        |
| Total current assets                          | —        | 704.1     | 292.7                     | 831.6                         | (473.8 )    | 1,354.6      |
| Property, plant and equipment,<br>net         | —        | 218.1     | 85.4                      | 720.9                         | —           | 1,024.4      |
| Goodwill                                      | —        | —         | 147.8                     | 6.7                           | —           | 154.5        |
| Intercompany notes and<br>accounts receivable | —        | 413.5     | 242.4                     | —                             | (655.9 )    | —            |
| Other assets and deferred<br>charges          | —        | 703.0     | 46.6                      | 115.4                         | —           | 865.0        |
| Investment in subsidiaries                    | 550.9    | 1,275.1   | —                         | —                             | (1,826.0 )  | —            |
| Total assets                                  | \$550.9  | \$3,313.8 | \$814.9                   | \$ 1,674.6                    | \$(2,955.7) | \$3,398.5    |
| Liabilities and Stockholders' Equity          |          |           |                           |                               |             |              |
| Current liabilities                           |          |           |                           |                               |             |              |
| Current portion of long-term<br>debt          | \$—      | \$ 15.9   | \$—                       | \$ 3.3                        | \$—         | \$ 19.2      |
| Accounts payable                              | —        | 142.6     | 39.9                      | 297.3                         | —           | 479.8        |
| Intercompany payables                         | —        | 215.0     | 146.6                     | 112.2                         | (473.8 )    | —            |
| Other current liabilities                     | —        | 136.2     | 4.5                       | 121.9                         | —           | 262.6        |
| Total current liabilities                     | —        | 509.7     | 191.0                     | 534.7                         | (473.8 )    | 761.6        |
| Intercompany notes and<br>accounts payable    | 324.1    | 6.9       | —                         | 324.9                         | (655.9 )    | —            |
| Long-term debt                                | —        | 1,470.0   | 4.6                       | 33.5                          | —           | 1,508.1      |
| Investment in subsidiaries<br>obligation      | —        | —         | 116.0                     | —                             | (116.0 )    | —            |
| Other long-term liabilities                   | —        | 776.3     | 0.6                       | 125.1                         | —           | 902.0        |
| Total liabilities                             | 324.1    | 2,762.9   | 312.2                     | 1,018.2                       | (1,245.7 )  | 3,171.7      |
| Total stockholders' equity                    | 226.8    | 550.9     | 502.7                     | 656.4                         | (1,710.0 )  | 226.8        |
| Total liabilities and<br>stockholders' equity | \$550.9  | \$3,313.8 | \$814.9                   | \$ 1,674.6                    | \$(2,955.7) | \$3,398.5    |

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

|   | Holdings | AAM Inc.  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Elims        | Consolidated |
|---|----------|-----------|---------------------------|-------------------------------|--------------|--------------|
| December 31, 2014                             |          |           |                           |                               |              |              |
| Assets  |          |           |                           |                               |              |              |
| Current assets                                |          |           |                           |                               |              |              |
| Cash and cash equivalents                     | \$—      | \$69.7    | \$—                       | \$ 179.5                      | \$—          | \$249.2      |
| Accounts receivable, net                      | —        | 137.5     | 23.9                      | 371.3                         | —            | 532.7        |
| Intercompany receivables                      | —        | 231.0     | 174.1                     | 10.0                          | (415.1 )     | —            |
| Inventories, net                              | —        | 64.9      | 32.3                      | 151.6                         | —            | 248.8        |
| Other current assets                          | —        | 53.6      | 2.6                       | 52.6                          | —            | 108.8        |
| Total current assets                          | —        | 556.7     | 232.9                     | 765.0                         | (415.1 )     | 1,139.5      |
| Property, plant and equipment,<br>net         | —        | 230.0     | 87.9                      | 743.2                         | —            | 1,061.1      |
| Goodwill                                      | —        | —         | 147.9                     | 7.1                           | —            | 155.0        |
| Intercompany notes and<br>accounts receivable | —        | 509.4     | 219.1                     | —                             | (728.5 )     | —            |
| Other assets and deferred<br>charges          | —        | 736.6     | 45.7                      | 121.3                         | —            | 903.6        |
| Investment in subsidiaries                    | 433.8    | 1,134.6   | —                         | —                             | (1,568.4 )   | —            |
| Total assets                                  | \$433.8  | \$3,167.3 | \$733.5                   | \$ 1,636.6                    | \$(2,712.0 ) | \$3,259.2    |
| Liabilities and Stockholders' Equity          |          |           |                           |                               |              |              |
| Current liabilities                           |          |           |                           |                               |              |              |
| Current portion of long-term<br>debt          | \$—      | \$9.4     | \$—                       | \$ 3.6                        | \$—          | \$13.0       |
| Accounts payable                              | —        | 127.3     | 38.9                      | 278.1                         | —            | 444.3        |
| Intercompany payables                         | —        | 177.0     | 105.3                     | 132.8                         | (415.1 )     | —            |
| Other current liabilities                     | —        | 121.0     | 4.4                       | 104.5                         | —            | 229.9        |
| Total current liabilities                     | —        | 434.7     | 148.6                     | 519.0                         | (415.1 )     | 687.2        |
| Intercompany notes and<br>accounts payable    | 320.4    | 6.9       | —                         | 401.2                         | (728.5 )     | —            |
| Long-term debt                                | —        | 1,483.1   | 4.9                       | 35.4                          | —            | 1,523.4      |
| Investment in subsidiaries<br>obligation      | —        | —         | 53.8                      | —                             | (53.8 )      | —            |
| Other long-term liabilities                   | —        | 808.8     | 0.6                       | 125.8                         | —            | 935.2        |
| Total liabilities                             | 320.4    | 2,733.5   | 207.9                     | 1,081.4                       | (1,197.4 )   | 3,145.8      |
| Total stockholders' equity                    | 113.4    | 433.8     | 525.6                     | 555.2                         | (1,514.6 )   | 113.4        |
| Total liabilities and stockholders'<br>equity | \$433.8  | \$3,167.3 | \$733.5                   | \$ 1,636.6                    | \$(2,712.0 ) | \$3,259.2    |

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## Condensed Consolidating Statements of Cash Flows

Nine Months Ended September

30,

(in millions)

|  | Holdings | AAM Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Elims  | Consolidated |   |
|--|----------|----------|---------------------------|-------------------------------|--------|--------------|---|
| 2015   |          |          |                           |                               |        |              |   |
| Net cash provided by operating activities            | \$—      | \$171.8  | \$36.2                    | \$ 60.1                       | \$—    | \$268.1      |   |
| Investing activities                                 |          |          |                           |                               |        |              |   |
| Purchases of property, plant and equipment           | —        | (26.7    | ) (7.4                    | ) (98.0                       | ) —    | (132.1       | ) |
| Proceeds from sale of property, plant and equipment  | —        | 0.1      | —                         | 0.1                           | —      | 0.2          |   |
| Intercompany activity                                | —        | —        | (28.5                     | ) —                           | 28.5   | —            |   |
| Net cash used in investing activities                | —        | (26.6    | ) (35.9                   | ) (97.9                       | ) 28.5 | (131.9       | ) |
| Financing activities                                 |          |          |                           |                               |        |              |   |
| Net debt activity                                    | —        | (6.7     | ) (0.3                    | ) 1.3                         | —      | (5.7         | ) |
| Employee stock option exercises                      | —        | 0.5      | —                         | —                             | —      | 0.5          |   |
| Purchase of treasury stock                           | (2.9     | ) —      | —                         | —                             | —      | (2.9         | ) |
| Intercompany activity                                | 2.9      | (2.9     | ) —                       | 28.5                          | (28.5  | ) —          |   |
| Net cash provided by (used in) financing activities  | —        | (9.1     | ) (0.3                    | ) 29.8                        | (28.5  | ) (8.1       | ) |
| Effect of exchange rate changes on cash              | —        | —        | —                         | (11.7                         | ) —    | (11.7        | ) |
| Net increase (decrease) in cash and cash equivalents | —        | 136.1    | —                         | (19.7                         | ) —    | 116.4        |   |
| Cash and cash equivalents at beginning of period     | —        | 69.7     | —                         | 179.5                         | —      | 249.2        |   |
| Cash and cash equivalents at end of period           | \$—      | \$205.8  | \$—                       | \$ 159.8                      | \$—    | \$365.6      |   |

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

|   | Holdings | AAM Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Elims   | Consolidated |
|---|----------|----------|---------------------------|-------------------------------|---------|--------------|
| 2014  |          |          |                           |                               |         |              |
| Net cash provided by (used in) operating activities | \$(0.1 ) | \$32.6   | \$33.1                    | \$ 166.0                      | \$—     | \$231.6      |
| Investing activities                                |          |          |                           |                               |         |              |
| Purchases of property, plant and equipment          | —        | (32.7 )  | (13.7 )                   | (109.8 )                      | —       | (156.2 )     |
| Proceeds from sale of property, plant and equipment | —        | 7.8      | 0.2                       | 0.5                           | —       | 8.5          |
| Intercompany activity                               | —        | —        | (19.3 )                   | —                             | 19.3    | —            |
| Net cash used in investing activities               | —        | (24.9 )  | (32.8 )                   | (109.3 )                      | 19.3    | (147.7 )     |
| Financing activities                                |          |          |                           |                               |         |              |
| Net debt activity                                   | —        | (5.9 )   | (0.3 )                    | (10.5 )                       | —       | (16.7 )      |
| Debt issuance costs                                 | —        | (0.3 )   | —                         | —                             | —       | (0.3 )       |
| Employee stock option exercises                     | —        | 1.2      | —                         | —                             | —       | 1.2          |
| Purchase of treasury stock                          | (0.3 )   | —        | —                         | —                             | —       | (0.3 )       |
| Intercompany activity                               | 0.4      | (0.4 )   | —                         | 19.3                          | (19.3 ) | —            |
| Net cash provided by (used in) financing activities | 0.1      | (5.4 )   | (0.3 )                    | 8.8                           | (19.3 ) | (16.1 )      |
| Effect of exchange rate changes on cash             | —        | —        | —                         | (2.8 )                        | —       | (2.8 )       |
| Net increase in cash and cash equivalents           | —        | 2.3      | —                         | 62.7                          | —       | 65.0         |
| Cash and cash equivalents at beginning of period    | —        | 36.9     | —                         | 117.1                         | —       | 154.0        |
| Cash and cash equivalents at end of period          | \$—      | \$39.2   | \$—                       | \$ 179.8                      | \$—     | \$219.0      |

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

This management's discussion and analysis (MD&A) should be read in conjunction with the unaudited condensed consolidated financial statements and notes appearing elsewhere in this Quarterly Report and our Annual Report on Form 10-K for the year ended December 31, 2014.

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

### COMPANY OVERVIEW

We are a Tier I supplier to the automotive industry. We manufacture, engineer, design and validate driveline and drivetrain systems and related components and chassis modules for light trucks, sport utility vehicles (SUVs), passenger cars, crossover vehicles and commercial vehicles. Driveline and drivetrain systems include components that transfer power from the transmission and deliver it to the drive wheels. Our driveline, drivetrain and related products include axles, chassis modules, driveshafts, power transfer units, transfer cases, chassis and steering components, 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.

We are the principal supplier of driveline components to General Motors Company (GM) for its full-size 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 66% of our consolidated net sales in the first nine months of 2015 and 68% of our consolidated net sales for both the first nine months and the full year of 2014.

We are the sole-source supplier to GM for certain axles and other driveline products for the life of each GM vehicle program covered by Lifetime Program Contracts and Long Term Program Contracts (collectively, LPCs). Substantially all of our sales to GM are made pursuant to the LPCs. The LPCs have terms equal to the lives of the relevant vehicle programs or their respective derivatives, which typically run 5 to 7 years, and require us to remain competitive with respect to technology, design and quality.

We also supply driveline system products to FCA US LLC (FCA), formerly known as Chrysler Group LLC, for heavy-duty Ram full-size pickup trucks and its derivatives, as well as the AWD Jeep Cherokee and the AWD Chrysler 200. Sales to FCA were approximately 20% of our total net sales in the first nine months of 2015 as compared to 18% for both the first nine months and the full year of 2014. In addition to GM and FCA, we supply driveline systems and other related components to Volkswagen AG (Volkswagen), Audi AG (Audi), Mercedes-Benz, Honda Motor Co., Ltd., Jaguar Land Rover Limited (JLR), Harley-Davidson Inc., PACCAR Inc., Nissan Motor Co., Ltd. (Nissan), Ford Motor Company (Ford), Daimler Truck and other original equipment manufacturers (OEMs) and Tier I supplier companies such as Jatco Ltd. and Hino Motors Ltd. Our net sales to customers other than GM increased by 13% to \$993.6 million in the first nine months of 2015 as compared to \$882.7 million in the first nine months of 2014.



RESULTS OF OPERATIONS — THREE MONTHS ENDED SEPTEMBER 30, 2015 AS COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2014

**Net Sales** Net sales increased \$20.8 million to \$971.6 million in the third quarter of 2015 as compared to \$950.8 million in the third quarter of 2014. Our sales in the third quarter of 2015, as compared to the third quarter of 2014, primarily reflect higher sales supporting a global crossover program for GM and a passenger car driveshaft program for FCA, both of which launched in the second half of 2014. Our sales in the third quarter of 2015 also reflect the continuing strength in the North American light truck and SUV market, which was partially offset by a reduction in metal market pass throughs.

Our content-per-vehicle (as measured by the dollar value of our products supporting our customers' North American light truck and SUV programs) decreased to \$1,622 in the third quarter of 2015 as compared to \$1,676 in the third quarter of 2014. Our 4WD/AWD penetration rate increased to 69.9% in the third quarter of 2015 as compared to 67.9% in the third quarter of 2014.

**Gross Profit** Gross profit increased to \$158.3 million in the third quarter of 2015 as compared to \$140.7 million in the third quarter of 2014. Gross margin increased to 16.3% in the third quarter of 2015 as compared to 14.8% in the third quarter of 2014. The increase in gross profit in the third quarter of 2015, as compared to the third quarter of 2014, primarily reflects the benefit of higher contribution margin on increased sales, partially offset by higher warranty and incentive compensation accruals.

**Selling, General and Administrative Expenses (SG&A)** SG&A (including research and development (R&D)) was \$65.5 million or 6.7% of net sales in the third quarter of 2015 as compared to \$64.0 million or 6.7% of net sales in the third quarter of 2014. R&D, net of customer engineering, design and development (ED&D) recoveries, was \$25.8 million in the third quarter of 2015 as compared to \$26.4 million in the third quarter of 2014. The change in SG&A in the third quarter of 2015 as compared to the third quarter of 2014 is primarily due to higher incentive compensation accruals and increased information technology-related costs, which include upgrades to our enterprise resource planning systems.

**Operating Income** Operating income increased to \$92.8 million in the third quarter of 2015 as compared to \$76.7 million in the third quarter of 2014. Operating margin increased to 9.5% in the third quarter of 2015 as compared to 8.1% in the third quarter of 2014. The changes in operating income and operating margin were due to factors discussed in Gross Profit and SG&A above.

**Interest Expense and Investment Income** Interest expense was \$24.8 million in the third quarter of 2015 as compared to \$25.1 million in the third quarter of 2014. Investment income was \$0.6 million in the third quarter of 2015 as compared to \$0.7 million in the third quarter of 2014.

The weighted-average interest rate of our long-term debt outstanding was 6.3% in the third quarter of 2015 and 6.2% in the third quarter of 2014.

**Other Income (Expense), Net** Other income (expense), net, which includes the net effect of foreign exchange gains and losses and our proportionate share of earnings from equity in unconsolidated subsidiaries, was income of \$6.7 million in the third quarter of 2015 and expense of \$0.8 million in the third quarter of 2014. The increase in the third quarter of 2015 as compared to the third quarter of 2014 is primarily due to the remeasurement of our Peso denominated assets and liabilities, as the Peso continues to weaken against the US dollar.

**Income Tax Expense** Income tax expense was \$14.4 million in the third quarter of 2015 as compared to \$7.5 million in the third quarter of 2014. Our effective income tax rate was 19.3% in the third quarter of 2015 as compared to

14.6% in the third quarter of 2014.

Our effective tax rate for the three months ended September 30, 2015 is higher than our effective tax rate for the three months ended September 30, 2014 primarily as a result of an increase in the proportionate share of income attributable to higher tax rate jurisdictions. Our income tax expense and effective tax rate for the three months ended September 30, 2015 and September 30, 2014 primarily reflect favorable foreign tax rates, along with our inability to realize a tax benefit for current foreign losses.

Net Income and Earnings Per Share (EPS) Net income increased to \$60.9 million in the third quarter of 2015 as compared to \$44.0 million in the third quarter of 2014. Diluted EPS increased to \$0.78 in the third quarter of 2015 as compared to \$0.57 in the third quarter of 2014. Net income and EPS for the third quarters of 2015 and 2014 were primarily impacted by the factors discussed in Net Sales, Gross Profit, SG&A and Other Income (Expense), Net above.

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RESULTS OF OPERATIONS — NINE MONTHS ENDED SEPTEMBER 30, 2015 AS COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2014

**Net Sales** Net sales increased \$188.2 million to \$2,944.7 million in the first nine months of 2015 as compared to \$2,756.5 million in the first nine months of 2014. Our sales in the first nine months of 2015, as compared to the first nine months of 2014, reflect an increase of approximately 4% in production volumes for the North American light truck and SUV programs we currently support for GM and FCA, which was partially offset by a reduction in metal market pass throughs. The increase in sales in the first nine months of 2015 also reflects higher sales supporting a global crossover program for GM and a passenger car driveshaft program for FCA, both of which launched in the second half of 2014.

Our content-per-vehicle (as measured by the dollar value of our products supporting our customers' North American light truck and SUV programs) decreased to \$1,645 in the first nine months of 2015 as compared to \$1,657 in the first nine months of 2014. Our 4WD/AWD penetration rate increased to 70.5% in the first nine months of 2015 as compared to 67.3% in the first nine months of 2014.

**Gross Profit** Gross profit increased to \$475.6 million in the first nine months of 2015 as compared to \$411.6 million in the first nine months of 2014. Gross margin increased to 16.1% in the first nine months of 2015 as compared to 14.9% in the first nine months of 2014. The increase in gross profit in the first nine months of 2015, as compared to the first nine months of 2014, primarily reflects the benefit of higher contribution margin on increased sales, partially offset by higher warranty and incentive compensation accruals.

**Selling, General and Administrative Expenses (SG&A)** SG&A (including research and development (R&D)) was \$204.6 million or 6.9% of net sales in the first nine months of 2015 as compared to \$182.6 million or 6.6% of net sales in the first nine months of 2014. R&D, net of customer engineering, design and development (ED&D) recoveries, was \$82.6 million in the first nine months of 2015 as compared to \$76.6 million in the first nine months of 2014. The change in SG&A in the first nine months of 2015 as compared to the first nine months of 2014 is primarily due to higher R&D expense, increases in our salaried workforce, higher incentive compensation accruals and increased information technology-related costs, which include upgrades to our enterprise resource planning systems.

**Operating Income** Operating income increased to \$271.0 million in the first nine months of 2015 as compared to \$229.0 million in the first nine months of 2014. Operating margin increased to 9.2% in the first nine months of 2015 as compared to 8.3% in the first nine months of 2014. The changes in operating income and operating margin were due to factors discussed in Gross Profit and SG&A above.

**Interest Expense and Investment Income** Interest expense was \$74.7 million in the first nine months of 2015 as compared to \$75.2 million in the first nine months of 2014. Investment income was \$2.0 million in the first nine months of 2015 as compared to \$1.3 million in the first nine months of 2014.

The weighted-average interest rate of our long-term debt outstanding was 6.4% in the first nine months of 2015 and 6.3% in the first nine months of 2014.

**Other Income, Net** Other income, net, which includes the net effect of foreign exchange gains and losses and our proportionate share of earnings from equity in unconsolidated subsidiaries, was \$10.9 million in the first nine months of 2015 and \$0.5 million in the first nine months of 2014. The increase in the third quarter of 2015 as compared to the third quarter of 2014 is primarily due to the remeasurement of our Peso denominated assets and liabilities, as the Peso continues to weaken against the US dollar.

**Income Tax Expense** Income tax expense was \$36.5 million in the first nine months of 2015 as compared to \$25.8 million in the first nine months of 2014. Our effective income tax rate was 17.5% in the first nine months of 2015 as compared to 16.6% in the first nine months of 2014.

Our income tax expense and effective tax rate for the nine months ended September 30, 2015 and September 30, 2014 primarily reflect favorable foreign tax rates, along with our inability to realize a tax benefit for current foreign losses.

**Net Income and Earnings Per Share (EPS)** Net income increased to \$172.7 million in the first nine months of 2015 as compared to \$129.8 million in the first nine months of 2014. Diluted EPS increased to \$2.21 in the first nine months of 2015 as compared to \$1.68 in the first nine months of 2014. Net income and EPS for the first nine months of 2015 and 2014 were primarily impacted by the factors discussed in Net Sales, Gross Profit, SG&A and Other Income, Net above.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund capital expenditures, debt service obligations and our working capital requirements. We believe that operating cash flow, available cash and cash equivalent balances and available committed borrowing capacity under our revolving credit facility will be sufficient to meet these needs.

**Operating Activities** In the first nine months of 2015, net cash provided by operating activities increased to \$268.1 million as compared to \$231.6 million in the first nine months of 2014. The following factors impacted cash provided by operating activities in the first nine months of 2015 as compared to the first nine months of 2014:

**Accounts receivable** Accounts receivable at September 30, 2015 and September 30, 2014 were \$641.3 million and \$600.2 million, respectively, as compared to \$532.7 million and \$458.5 million at December 31, 2014 and 2013, respectively. The increase in our accounts receivable balance at September 30, 2015 as compared to September 30, 2014 is primarily due to higher sales in 2015.

**Deferred revenue** In the first quarter of 2014, we reached an agreement with GM to increase installed capacity and adjust product mix for our largest vehicle program. As a result of this agreement, we received \$32.8 million in 2014, of which \$27.5 million was received in the first nine months of 2014.

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. As a result of this agreement, we received \$9.3 million in the first nine months of 2014.

**Income taxes** Based on the status of the audits outside the U.S., and the protocol of finalizing audits by the relevant tax authorities, it is not possible to estimate the impact of changes, if any, to previously recorded uncertain tax positions or predict the timing of the conclusion of all ongoing audits with certainty. As of September 30, 2015 and December 31, 2014, we have recorded a liability for unrecognized income tax benefits and related interest and penalties of \$62.9 million and \$59.5 million, respectively. We anticipate that the current 2007 through 2009 audits with the Mexican tax authorities will be completed before the end of 2015 and will result in a subsequent cash payment to the tax authorities.

Although it is difficult to estimate with certainty the amount of an audit settlement for the years currently under audit, we do not expect the settlement will be materially different from what we have recorded in unrecognized tax benefits. We will continue to monitor the progress and conclusions of all ongoing audits and will adjust our estimated liability as necessary.

**Pension and Other Postretirement Benefits (OPEB)** Due to the availability of our prefunding balances (previous contributions in excess of prior required pension contributions), we are not required to make any cash payments in 2015. We expect our cash payments for other postretirement benefit obligations in 2015, net of GM cost sharing, to be approximately \$16 million.

**Investing Activities** Capital expenditures were \$132.1 million in the first nine months of 2015 as compared to \$156.2 million in the first nine months of 2014. We expect our capital spending to be approximately 4.5% of sales, which includes support for our global program launches in 2015 and 2016 within our new and incremental business backlog.

In the first quarter of 2014, we sold our Detroit Manufacturing Complex and received net proceeds of \$9.2 million related to this transaction. For the first nine months of 2014, we classified \$7.2 million of these proceeds, which represents the amount related to the land and building for which we have no future continuing involvement, in the Investing Activities section of our Condensed Consolidated Statement of Cash Flows.

**Financing Activities** In the first nine months of 2015, net cash used in financing activities was \$8.1 million as compared to \$16.1 million in the first nine months of 2014. Total debt outstanding decreased \$9.1 million in the first nine months of 2015 to \$1,527.3 million as compared to \$1,536.4 million at year-end 2014, primarily as a result of principal payments on our term facility.

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.

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.

#### CYCLICALITY AND SEASONALITY

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

#### LITIGATION AND ENVIRONMENTAL MATTERS

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

We are subject to various federal, state, local and foreign environmental and occupational safety and health laws, regulations and ordinances, including those regulating air emissions, water discharge, waste management and environmental cleanup. We will continue to closely monitor our environmental conditions to ensure that we are in compliance with all laws, regulations and ordinances. We have made, and will continue to make, capital and other expenditures (including recurring administrative costs) to comply with environmental requirements. Such expenditures were not significant in the third quarter of 2015, and we do not expect such expenditures to be significant for the remainder of 2015.

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

#### MARKET RISK

Our business and financial results are affected by fluctuations in world financial markets, including interest rates and currency exchange rates. Our hedging policy has been developed to manage these risks to an acceptable level based on management's judgment of the appropriate trade-off between risk, opportunity and cost. We do not hold financial instruments for trading or speculative purposes.

**Currency Exchange Risk** From time to time, we use foreign currency forward contracts to reduce the effects of fluctuations in exchange rates, primarily relating to the Mexican Peso, Euro, Pound Sterling, Thai Baht, Swedish Krona and Polish Zloty. At September 30, 2015, we had currency forward contracts with a notional amount of \$200.4 million outstanding. The potential decrease in fair value of foreign exchange contracts, assuming a 10% adverse change in the foreign currency exchange rates, would be approximately \$18.3 million at September 30, 2015 and approximately \$9.0 million at December 31, 2014.

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

**Interest Rate Risk** We are exposed to variable interest rates on certain credit facilities. From time to time, we have used interest rate hedging to reduce the effects of fluctuations in market interest rates. As of September 30, 2015, there are no interest rate swaps in place. The pre-tax earnings and cash flow impact of a one-percentage-point increase in interest rates (approximately 16% of our weighted-average interest rate at September 30, 2015) on our long-term debt outstanding, would be approximately \$1.7 million at September 30, 2015 and approximately \$1.8 million at December 31, 2014, on an annualized basis.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures and internal control over financial reporting and concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) were effective as of September 30, 2015.

#### Changes in Internal Control over Financial Reporting

On January 1, 2015, we began the implementation of a new release of our global Oracle enterprise resource planning (ERP) system at our U.S. locations, which includes upgrades to many of our existing operating and financial systems. As part of this implementation, we modified the design and documentation of our internal controls processes and procedures, where appropriate. We continued the implementation of these upgrades to our ERP system at our Brazil and Mexico locations, during the second and third quarter of 2015, respectively. We will continue to upgrade our ERP systems at our remaining global locations during the fourth quarter of 2015 and early 2016.

Except as described above, there were no changes in our internal control over financial reporting during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II. OTHER INFORMATION

## Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in our December 31, 2014 Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In the third quarter of 2015, we withheld and repurchased shares of AAM stock to satisfy employee tax withholding obligations due upon the vesting of restricted stock units. The following table provides information about our equity security purchases during the quarter ended September 30, 2015:

## ISSUER PURCHASES OF EQUITY SECURITIES

| Period                           | Total Number of Shares (Or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|----------------------------------|---|--|---|---|
| July 1 - July 31, 2015           | 1,066                                       | \$21.13                                | —   | —   |
| August 1 - August 31, 2015       | —   | —                                      | —   | —   |
| September 1 - September 30, 2015 | 10,610                                      | 19.14                                  | —   | —   |
| Total                            | 11,676                                      | \$19.32                                | —   | —   |

## Item 6. Exhibits

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



SIGNATURES

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

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.  
(Registrant)

/s/ Christopher J. May  
Christopher J. May  
Vice President & Chief Financial Officer  
(also in the capacity of Chief Accounting Officer)  
October 30, 2015

EXHIBIT INDEX

| Number    | Description of Exhibit  |
|-----------|---|
| *31.1     | Certification of David C. Dauch, Chairman of the Board & Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act  |
| *31.2     | Certification of Christopher J. May, Vice President & Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act   |
| *32       | Certifications of David C. Dauch, Chairman of the Board & Chief Executive Officer and Christopher J. May, Vice President & Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| **101.INS | XBRL Instance Document  |
| **101.SCH | XBRL Taxonomy Extension Schema Document   |
| **101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   |
| **101.LAB | XBRL Taxonomy Extension Label Linkbase Document   |
| **101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |
| **101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  |
| *         | Filed herewith  |
| **        | Submitted electronically with this Report.  |