AMERICAN AXLE & MANUFACTURING HOLDINGS INC
Form 10-Q
July 29, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from _____________ to _____________

Commission File Number: 1-14303

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

Delaware	38-3161171
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
One Dauch Drive, Detroit, Michigan	48211-1198
(Address of Principal Executive Offices)	(Zip Code)

(313) 758-2000
(Registrant's Telephone Number, Including Area Code)

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

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

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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

(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 o No þ

As of July 27, 2016, the latest practicable date, the number of shares of the registrant's Common Stock, par value $0.01 per share, outstanding was 76,445,220 shares.

Internet Website Access to Reports

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

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2016
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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), 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 respond to changes in technology, increased competition or pricing pressures;
- our ability to attract new customers and programs for new products;
- 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;
- 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 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;
- 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, including those resulting from the United Kingdom's vote to exit the European Union);
- negative or unexpected tax consequences;
- our ability to consummate and integrate acquisitions and joint ventures;
- global economic conditions;
- 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;
- price volatility in, or reduced availability of, fuel;
- our ability to protect our intellectual property and successfully defend against assertions made against us;
- our ability to successfully implement upgrades to our enterprise resource planning systems;
- our ability to attract and retain key associates;
- availability of financing for working capital, capital expenditures, research and development (R&D) or other general corporate purposes including 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions, except per share data)			
Net sales	$1,025.4	$1,004.0	$1,994.6	$1,973.1
Cost of goods sold	834.0	839.5	1,629.2	1,655.8
Gross profit	191.4	164.5	365.4	317.3
Selling, general and administrative expenses	79.9	70.6	155.5	139.1
Operating income	111.5	93.9	209.9	178.2
Interest expense	(23.4)	(24.8)	(47.0)	(49.9)
Investment income	1.5	0.6	2.1	1.4
Other income, net	2.1	1.8	3.1	4.2
Income before income taxes	91.7	71.5	168.1	133.9
Income tax expense	20.7	12.9	36.0	22.1
Net income	$71.0	$58.6	$132.1	$111.8
Basic earnings per share	$0.91	$0.75	$1.69	$1.44
Diluted earnings per share	$0.90	$0.75	$1.68	$1.43

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)			
Net income	$71.0	$58.6	$132.1	$111.8
Other comprehensive income (loss)				
Defined benefit plans, net of tax [a]	0.5	0.9	4.7	4.8
Foreign currency translation adjustments	0.8	3.0	15.8	(28.5)
Changes in cash flow hedges	(5.7)	(1.2)	(2.3)	(1.7)
Other comprehensive income (loss)	(4.4)	2.7	18.2	(25.4)
Comprehensive income	$66.6	$61.3	$150.3	$86.4

(a) Amounts are net of tax of $(0.4) million and $(2.7) million for the three and six months ended June 30, 2016, respectively, and $(0.4) million and $(2.4) million for the three and six months ended June 30, 2015, respectively.

See accompanying notes to condensed consolidated financial statements.

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

	June 30, 2016	December 31, 2015
	(Unaudited)	
Assets	(in millions)	
Current assets		
Cash and cash equivalents	$388.4	$ 282.5
Accounts receivable, net	641.7	539.1
Inventories, net	226.9	230.5
Prepaid expenses and other	77.4	72.1
Total current assets	1,334.4	1,124.2
Property, plant and equipment, net	1,080.7	1,046.2
Deferred income taxes	352.2	373.6
Goodwill	154.4	154.4
GM postretirement cost sharing asset	238.2	243.2
Other assets and deferred charges	272.8	261.1
Total assets	$3,432.7	$ 3,202.7
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$3.4	$ 3.3
Accounts payable	503.8	412.7
Accrued compensation and benefits	113.0	128.0
Deferred revenue	24.1	22.9
Accrued expenses and other	107.6	132.3
Total current liabilities	751.9	699.2
Long-term debt, net	1,403.3	1,375.7
Deferred revenue	57.1	65.7
Postretirement benefits and other long-term liabilities	763.0	760.6
Total liabilities	2,975.3	2,901.2
Stockholders' equity		
Common stock, par value $0.01 per share	0.9	0.8
Paid-in capital	649.4	638.9
Retained earnings	336.3	204.2
Treasury stock at cost, 6.5 million shares as of June 30, 2016 and 6.2 million shares as of December 31, 2015	(190.9)	(185.9)
Accumulated other comprehensive loss		
Defined benefit plans, net of tax	(219.2)	(223.9)
Foreign currency translation adjustments	(103.4)	(119.2)
Unrecognized loss on cash flow hedges	(15.7)	(13.4)
Total stockholders' equity	457.4	301.5
Total liabilities and stockholders' equity	$3,432.7	$ 3,202.7

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
	(in millions)	
Operating activities		
Net income	$132.1	$111.8
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	100.5	100.6
Deferred income taxes	20.9	10.1
Stock-based compensation	10.5	7.7
Pensions and other postretirement benefits, net of contributions	(2.4)	0.2
Loss on disposal of property, plant and equipment, net	1.1	0.8
Changes in operating assets and liabilities		
Accounts receivable	(100.6)	(110.7)
Inventories	6.3	8.3
Accounts payable and accrued expenses	74.8	59.9
Deferred revenue	(7.5)	(20.4)
Other assets and liabilities	(52.2)	(14.0)
Net cash provided by operating activities	183.5	154.3
Investing activities		
Purchases of property, plant and equipment	(105.7)	(91.4)
Proceeds from sale of property, plant and equipment	0.6	0.1
Proceeds from government grants	2.8	—
Final distribution of Reserve Yield Plus Fund	1.0	—
Net cash used in investing activities	(101.3)	(91.3)
Financing activities		
Payments of long-term debt and capital lease obligations	(3.8)	(17.3)
Proceeds from issuance of long-term debt	29.6	12.9
Purchase of treasury stock	(5.0)	(2.7)
Employee stock option exercises	0.1	0.4
Net cash provided by (used in) financing activities	20.9	(6.7)
Effect of exchange rate changes on cash	2.8	(4.2)
Net increase in cash and cash equivalents	105.9	52.1
Cash and cash equivalents at beginning of period	282.5	249.2
Cash and cash equivalents at end of period	$388.4	$301.3
Supplemental cash flow information		
Interest paid	$43.9	$47.2
Income taxes paid, net of refunds	$38.1	$7.9

See accompanying notes to condensed consolidated financial statements.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016
(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 and Indiana), 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, 2015 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, 2015.

Effect of New Accounting Standards On March 31, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09 - Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The update is intended to simplify the current guidance for stock-based compensation for a range of issues including: the timing of income statement impact for tax benefits or deficiencies in excess of compensation cost, the classification of tax-related cash flows resulting from share based payments, the allowable threshold for tax withholding without resulting in liability award classification, and a policy election for estimating forfeiture rates or recognizing forfeitures as they occur. This guidance becomes effective at the beginning of our 2017 fiscal year, however as permitted, we plan to early adopt this guidance in the fourth quarter of 2016. The guidance requires a retrospective, modified-retrospective, or prospective transition method depending on the applicable section of the ASU. We estimate the effect of implementing this ASU on our Consolidated Balance Sheet would increase our deferred tax assets and retained earnings by approximately $5.1 million as of January 1, 2016, using the modified-retrospective transition method, for the cumulative-effect adjustment of excess tax benefits that were not previously recognized because the related tax deduction had not reduced current taxes payable. We have evaluated the aspects of this new guidance and, other than this one-time increase in deferred tax assets and retained earnings, the adoption of this ASU will not have a material impact on our accounting for share-based payments.

On February 25, 2016, the FASB issued ASU 2016-02 - Leases (Topic 842), which supersedes the existing lease accounting guidance and establishes new criteria for recognizing lease assets and liabilities. The most significant impact of the update, to AAM, is that a lessee will be required to recognize a "right-of-use" asset and lease liability for operating lease agreements that were not previously included on the balance sheet under the existing lease guidance. A lessee will be permitted to make a policy election, excluding recognition of the right-of-use asset and associated liability for lease terms of 12 months or less. Expense recognition in the statement of income along with cash flow statement classification for both financing (capital) and operating leases under the new standard will not be significantly changed from existing lease guidance. Accounting for leases as a lessor under the new guidance remains also largely unchanged. This guidance becomes effective for AAM at the beginning of our 2019 fiscal year and requires transition under a modified retrospective method. We are currently assessing the impact that this standard will have on our condensed consolidated financial statements.

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

On May 1, 2015, the FASB issued ASU 2015-07 - Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which changes the disclosure requirements for investments in certain entities that calculate net asset value (NAV) per share. Under current accounting standards entities are permitted to estimate the fair value of certain investments using the investment's NAV as a practical expedient. The current disclosure guidance also permits entities to disclose the investment at NAV in the fair value hierarchy table as either Level 2 or Level 3, based upon certain criteria. The measurement basis utilizing NAV is different than the measurement criteria of all other investments which utilize inputs to calculate fair value. Due to this inconsistency, the FASB issued this ASU which prohibits entities from categorizing investments measured at NAV within the fair value hierarchy. Other than the change in presentation, which requires retrospective application, the adoption of this new guidance will not have an impact on our condensed consolidated financial statements. AAM adopted this policy on January 1, 2016.

In 2014, the FASB issued ASU 2014-09 - Revenue from Contracts with Customers (Topic 606), which 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 March 17, 2016, the FASB issued ASU 2016-08 - Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross Versus Net), to further clarify the new standard's guidance on identifying gross versus net reporting in the context of a contract. Based on the clarification, an entity should analyze the principal versus agent relationship for each specified good or service within a contract. On April 14, 2016, the FASB issued ASU 2016-10 - Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which better articulates the principle for determining whether promised goods or services are separately identifiable in the context of the contract. The guidance also excludes from an entity's performance obligation analysis, the requirement to assess certain promised contract goods and services deemed immaterial in the context of the contract. On May 9, 2016, the FASB issued ASU 2016-12 - Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which addresses improvements to the guidance on collectibility, non-cash consideration, and completed contracts at transition. The update also provides a practical expedient for contract modifications at transition and a policy election related to the presentation of sales taxes and other similar taxes collected from customers. On August 12, 2015, the FASB issued ASU 2015-14 - Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, 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 condensed consolidated financial statements.

Share Repurchase Program In the second quarter of 2016, AAM's Board of Directors authorized a share repurchase program of up to $100 million of AAM's common shares through December 31, 2018 as part of AAM's overall capital allocation strategy. The repurchase of shares may be made in the open market or in privately negotiated transactions and will be funded through available cash balances and cash flow from operations. The timing and amount of any share repurchases will be determined based on market and economic conditions, share price, alternative uses of capital and other factors.

During the second quarter of 2016, we completed an initial share repurchase of 100,000 shares for $1.5 million under the authorized share repurchase program.

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

2. INVENTORIES

We state our inventories at the lower of cost or market. The cost of our inventories is determined using the FIFO method. When we determine that our gross inventories exceed usage requirements, or if inventories become obsolete or otherwise not saleable, we record a provision for such loss as a component of our inventory accounts.

Inventories consist of the following:

	June 30, 2016	December 31, 2015
	(in millions)	
Raw materials and work-in-progress	$221.3	$ 228.7
Finished goods	34.2	31.1
Gross inventories	255.5	259.8
Inventory valuation reserves	(28.6)	(29.3)
Inventories, net	$226.9	$ 230.5

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

3. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2016	December 31, 2015
	(in millions)	
Revolving Credit Facility	$—	$ —
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	64.6	38.0
Capital lease obligations	5.3	5.6
Total debt	1,419.9	1,393.6
Less: Current portion of long-term debt	3.4	3.3
Long-term debt	1,416.5	1,390.3
Less: Debt issuance costs	13.2	14.6
Long-term debt, net	$1,403.3	$ 1,375.7

Revolving Credit Facility As of June 30, 2016, the revolving credit facility provided up to $523.5 million of revolving bank financing commitments through September 13, 2018. At June 30, 2016, 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.

Foreign credit facilities We utilize local currency credit facilities to finance the operations of certain foreign subsidiaries. During the six months ended June 30, 2016, we increased the borrowings on our foreign credit facilities, primarily to fund capital expenditures and working capital in preparation for the launch of programs in China. At June 30, 2016, $64.6 million was outstanding under our foreign credit facilities and an additional $62.9 million was available.

The weighted-average interest rate of our long-term debt outstanding was 6.6% at June 30, 2016 and 6.5% at December 31, 2015.

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

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:

	June 30, 2016		December 31, 2015		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Input
	(in millions)				
Balance Sheet Classification					
Cash equivalents	$97.7	$97.7	$61.7	$61.7	Level 1
Currency forward contracts - Prepaid expenses and other					
Nondesignated currency forward contracts	0.4	0.4	0.2	0.2	Level 2
Currency forward contracts - Other assets and deferred charges					
Cash flow hedges	0.4	0.4	—	—	Level 2
Currency forward contracts - Accrued expenses and other					
Cash flow hedges	8.8	8.8	7.5	7.5	Level 2
Nondesignated currency forward contracts	1.3	1.3	1.9	1.9	Level 2
Currency forward contracts - Postretirement benefits and other long-term liabilities					
Cash flow hedges	7.3	7.3	5.9	5.9	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:

	June 30, 2016		December 31, 2015		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Input
	(in millions)				
Revolving Credit Facility	$ —	$ —	$ —	$ —	Level 2
7.75% Notes	200.0	202.0	200.0	218.5	Level 2

6.625% Notes	550.0	578.9	550.0	574.8	Level 2
6.25% Notes	400.0	416.0	400.0	415.0	Level 2
5.125% Notes	200.0	203.5	200.0	202.0	Level 2

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, Brazilian Real, British Pound Sterling, Thai Baht, Swedish Krona, Chinese Yuan and Polish Zloty. As of June 30, 2016, we have currency forward contracts outstanding with a notional amount of $196.8 million that hedge our exposure to changes in foreign currency exchange rates for certain payroll expenses into the second quarter of 2019 and certain direct and indirect inventory and other working capital items through 2016.

The following table summarizes the reclassification of pre-tax derivative losses into net income from accumulated other comprehensive loss for those derivative instruments designated as cash flow hedges under Accounting Standards Codification 815 - Derivatives and Hedging (ASC 815):

	Location of Loss Reclassified into Net Income	Loss Reclassified During Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015	Loss Expected to be Reclassified During the Next 12 Months
		(in millions)				
Currency forward contracts	Cost of Goods Sold	$(2.3)	$(2.3)	$(4.3)	$(3.8)	$ (8.8)

See Note 10 - Reclassifications Out of Accumulated Other Comprehensive Income (Loss) (AOCI) for amounts recognized in other comprehensive income (loss) during the three and six months ended June 30, 2016 and June 30, 2015.

The following table summarizes the amount and location of losses recognized in the Condensed Consolidated Statements 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 June 30, 2016	2015	Six Months Ended June 30, 2016	2015
		(in millions)			
Currency forward contracts	Cost of Goods Sold	$(2.2)	$(1.0)	$(2.7)	$(2.0)
Currency forward contracts	Other Income, Net	—	(0.3)	(0.7)	(0.3)

AMERICAN AXLE & 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			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)			
Service cost	$0.8	$0.8	$1.5	$1.6
Interest cost	7.3	7.2	14.6	14.4
Expected asset return	(10.7)	(10.6)	(21.4)	(21.2)
Amortized loss	1.4	1.3	2.8	3.0
Net periodic benefit credit	$(1.2)	$(1.3)	$(2.5)	$(2.2)

	Other Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)			
Service cost	$0.1	$0.1	$0.2	$0.2
Interest cost	3.5	3.8	7.0	7.6
Amortized loss	0.1	0.2	0.2	0.4
Amortized prior service credit	(0.6)	(0.7)	(1.3)	(1.4)
Net periodic benefit cost	$3.1	$3.4	$6.1	$6.8

The noncurrent liabilities associated with our pension and other postretirement benefit plans are classified as postretirement benefits and other long-term liabilities on our Condensed Consolidated Balance Sheets. As of June 30, 2016 and December 31, 2015, we have a noncurrent pension liability of $100.7 million and $103.1 million, respectively. As of June 30, 2016 and December 31, 2015, we have a noncurrent other postretirement benefits liability of $544.8 million and $559.0 million, respectively.

Due to the availability of our prefunding balances (previous contributions in excess of prior required pension contributions) for our U.S. pension plans and our contributions made in 2015 for our U.K. pension plan, we are not required to make any cash payments to our pension trusts in 2016. We expect our cash payments for other postretirement benefit obligations in 2016, net of GM cost sharing, to be approximately $16 million.

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)			
Beginning balance	$37.0	$17.9	$36.6	$12.4
Accruals	4.1	5.0	8.0	9.5
Payments	(3.2)	(0.4)	(3.7)	(0.6)
Adjustment to prior period accruals	—	0.8	(3.1)	2.2
Foreign currency translation	—	(0.1)	0.1	(0.3)
Ending balance	$37.9	$23.2	$37.9	$23.2

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 $20.7 million in the three months ended June 30, 2016 as compared to $12.9 million in the three months ended June 30, 2015. Our effective income tax rate was 22.6% in the second quarter of 2016 as compared to 18.0% in the second quarter of 2015. Income tax expense was $36.0 million in the six months ended June 30, 2016 as compared to $22.1 million in the six months ended June 30, 2015. Our effective income tax rate was 21.4% in the six months ended June 30, 2016 as compared to 16.5% in the six months ended June 30, 2015. Our effective tax rates for the three and six months ended June 30, 2016 are higher than our effective tax rates for the three and six months ended June 30, 2015 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 rates for the three and six months ended June 30, 2016 and June 30, 2015 reflect the impact of favorable foreign tax rates, partially offset by our inability to realize a tax benefit for current foreign losses.

Based on the status of audits outside the U.S., and the protocol of finalizing audits by the relevant tax authorities, it is not possible to estimate the timing or impact of changes, if any, to previously recorded uncertain tax positions. As of June 30, 2016 and December 31, 2015, we have recorded a liability for unrecognized income tax benefits and related interest and penalties of $29.6 million and $48.5 million, respectively. In January 2016, we completed negotiations with the Mexican tax authorities to settle transfer pricing audits. Including these settlements, we made payments of $26.1 million in the first six months of 2016 to the Mexican tax authorities related to transfer pricing matters and we expect our total transfer pricing related payments in 2016 to be in the range of $30 to $40 million.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Although it is difficult to estimate with certainty the amount of our tax liabilities for the years that remain subject to audit, we do not expect the settlements will be materially different from what we have recorded in unrecognized tax benefits. We will continue to monitor the progress and conclusions of current and future audits and will adjust our estimated liability as necessary.

9. EARNINGS PER SHARE (EPS)

We present earnings per share 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 non-forfeitable 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions, except per share data)			
Numerator				
Net income	$71.0	$58.6	$132.1	$111.8
Less: Net income attributable to participating securities	(1.7)	(1.4)	(3.0)	(2.6)
Net income attributable to common shareholders - Basic	$69.3	$57.2	$129.1	$109.2
Undistributed earnings reallocated to common shareholders under two step dilutive method	—	—	—	—
Net income attributable to common shareholders - Dilutive	$69.3	$57.2	$129.1	$109.2
Denominators				
Basic common shares outstanding -				
Weighted-average shares outstanding	78.3	77.8	78.1	77.7
Less: Participating securities	(1.8)	(1.9)	(1.8)	(1.9)
Weighted-average common shares outstanding	76.5	75.9	76.3	75.8
Effect of dilutive securities -				
Dilutive stock-based compensation	0.4	0.4	0.4	0.4
Diluted shares outstanding -				
Adjusted weighted-average shares after assumed conversions	76.9	76.3	76.7	76.2
Basic EPS	$0.91	$0.75	$1.69	$1.44
Diluted EPS	$0.90	$0.75	$1.68	$1.43

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 both June 30, 2016 and June 30, 2015. The exercise price related to the excluded exercisable stock options was $26.02 at both June 30, 2016 and June 30, 2015.

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

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

Reclassification adjustments and other activity impacting accumulated other comprehensive income (loss) during the three months ended June 30, 2016 and June 30, 2015 are as follows (in millions):

	Defined Benefit Plans	Foreign Currency Translation Adjustments	Unrecognized Loss on Cash Flow Hedges	Total
Balance at March 31, 2016	$(219.7)	$ (104.2)	$ (10.0)	$(333.9)
Other comprehensive income (loss) before reclassifications	—	0.8	(8.0)	(7.2)
Income tax effect of other comprehensive income (loss) before reclassifications	—	—	—	—
Amounts reclassified from accumulated other comprehensive loss	0.9 (a)	—	2.3 (b)	3.2
Income tax benefit reclassified into net income	(0.4)	—	—	(0.4)
Net current period other comprehensive income (loss)	0.5	0.8	(5.7)	(4.4)
Balance at June 30, 2016	$(219.2)	$ (103.4)	$ (15.7)	$(338.3)

	Defined Benefit Plans	Foreign Currency Translation Adjustments	Unrecognized Loss on Cash Flow Hedges	Total
Balance at March 31, 2015	$(236.7)	$ (80.4)	$ (7.9)	$(325.0)
Other comprehensive income (loss) before reclassifications	—	3.0	(3.5)	(0.5)
Income tax effect of other comprehensive income (loss) before reclassifications	—	—	—	—
Amounts reclassified from accumulated other comprehensive loss	1.3 (a)	—	2.3 (b)	3.6
Income tax benefit reclassified into net income	(0.4)	—	—	(0.4)
Net current period other comprehensive income (loss)	0.9	3.0	(1.2)	2.7
Balance at June 30, 2015	$(235.8)	$ (77.4)	$ (9.1)	$(322.3)

(a) The amount reclassified from AOCI included $1.2 million in cost of goods sold (COGS) and $(0.3) million in selling, general & administrative expenses (SG&A) for the three months ended June 30, 2016 and $1.5 million in COGS and $(0.2) million in SG&A for the three months ended June 30, 2015.

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

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

Reclassification adjustments and other activity impacting accumulated other comprehensive income (loss) during the six months ended June 30, 2016 and June 30, 2015 are as follows (in millions):

	Defined Benefit Plans	Foreign Currency Translation Adjustments	Unrecognized Loss on Cash Flow Hedges	Total
Balance at December 31, 2015	$(223.9)	$ (119.2)	$ (13.4)	$(356.5)
Other comprehensive income (loss) before reclassifications	5.7	15.8	(6.6)	14.9
Income tax effect of other comprehensive income (loss) before reclassifications	(2.0)	—	—	(2.0)
Amounts reclassified from accumulated other comprehensive loss	1.7 (a)	—	4.3 (b)	6.0
Income tax benefit reclassified into net income	(0.7)	—	—	(0.7)
Net current period other comprehensive income (loss)	4.7	15.8	(2.3)	18.2
Balance at June 30, 2016	$(219.2)	$ (103.4)	$ (15.7)	$(338.3)

	Defined Benefit Plans	Foreign Currency Translation Adjustments	Unrecognized Loss on Cash Flow Hedges	Total
Balance at December 31, 2014	$(240.6)	$ (48.9)	$ (7.4)	$(296.9)
Other comprehensive income (loss) before reclassifications	4.7	(28.5)	(5.5)	(29.3)
Income tax effect of other comprehensive income (loss) before reclassifications	(1.6)	—	—	(1.6)
Amounts reclassified from accumulated other comprehensive loss	2.5 (a)	—	3.8 (b)	6.3
Income tax benefit reclassified into net income	(0.8)	—	—	(0.8)
Net current period other comprehensive income (loss)	4.8	(28.5)	(1.7)	(25.4)
Balance at June 30, 2015	$(235.8)	$ (77.4)	$ (9.1)	$(322.3)

(a) The amount reclassified from AOCI included $2.3 million in COGS and $(0.6) million in SG&A for the six months ended June 30, 2016 and $2.9 million in COGS and $(0.4) million in SG&A for the six months ended June 30, 2015.

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

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AMERICAN AXLE & 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 June 30,
(in millions)

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2016						
Net sales						
External	$ —	$ 308.4	$ 56.7	$ 660.3	$ —	$ 1,025.4
Intercompany	—	2.8	63.3	4.1	(70.2)	—
Total net sales	—	311.2	120.0	664.4	(70.2)	1,025.4
Cost of goods sold	—	291.8	96.9	515.5	(70.2)	834.0
Gross profit	—	19.4	23.1	148.9	—	191.4
Selling, general and administrative expenses	—	70.2	—	9.7	—	79.9
Operating income (loss)	—	(50.8)	23.1	139.2	—	111.5
Non-operating income (expense), net	—	(23.5)	2.5	1.2	—	(19.8)
Income (loss) before income taxes	—	(74.3)	25.6	140.4	—	91.7
Income tax expense	—	13.2	0.1	7.4	—	20.7