AMERICAN AXLE & MANUFACTURING HOLDINGS INC
Form 10-Q
November 03, 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 September 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

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

| | |
|---|---|
| Delaware<br>(State or Other Jurisdiction of Incorporation or Organization) | 38-3161171<br>(I.R.S. Employer Identification No.) |
| One Dauch Drive, Detroit, Michigan<br>(Address of Principal Executive Offices) | 48211-1198<br>(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 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 November 1, 2016, the latest practicable date, the number of shares of the registrant's Common Stock, par value $0.01 per share, outstanding was 76,473,166 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.

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AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 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 consummate and integrate acquisitions and joint ventures;
- 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 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 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;
- risks related to a failure of our information technology systems and networks, and risks associated with current and emerging technology threats and damage from computer viruses, unauthorized access, cyber attack and other similar disruptions;
- 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 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;
- 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, | |
| | 2016 | 2015 | 2016 | 2015 |
| | (in millions, except per share data) | | | |
| Net sales | $1,006.9 | $971.6 | $3,001.5 | $2,944.7 |
| Cost of goods sold | 825.7 | 813.3 | 2,454.9 | 2,469.1 |
| Gross profit | 181.2 | 158.3 | 546.6 | 475.6 |
| Selling, general and administrative expenses | 79.9 | 65.5 | 235.4 | 204.6 |
| Operating income | 101.3 | 92.8 | 311.2 | 271.0 |
| Interest expense | (23.2) | (24.8) | (70.2) | (74.7) |
| Investment income | 0.5 | 0.6 | 2.6 | 2.0 |
| Other income, net | 0.9 | 6.7 | 4.0 | 10.9 |
| Income before income taxes | 79.5 | 75.3 | 247.6 | 209.2 |
| Income tax expense | 17.8 | 14.4 | 53.8 | 36.5 |
| Net income | $61.7 | $60.9 | $193.8 | $172.7 |
| Basic earnings per share | $0.79 | $0.78 | $2.48 | $2.22 |
| Diluted earnings per share | $0.78 | $0.78 | $2.47 | $2.21 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (in millions) | | | |
| Net income | $61.7 | $60.9 | $193.8 | $172.7 |
| Other comprehensive income (loss) | | | | |
| Defined benefit plans, net of tax [(a)] | 0.6 | 0.3 | 5.3 | 5.1 |
| Foreign currency translation adjustments | (0.8) | (35.9) | 15.0 | (64.4) |
| Changes in cash flow hedges | (4.1) | (7.7) | (6.4) | (9.4) |
| Other comprehensive income (loss) | (4.3) | (43.3) | 13.9 | (68.7) |
| Comprehensive income | $57.4 | $17.6 | $207.7 | $104.0 |

(a) Amounts are net of tax of $(0.1) million and $(2.8) million for the three and nine months ended September 30, 2016, respectively, and $(0.2) million and $(2.6) million for the three and nine months ended September 30, 2015, respectively.

See accompanying notes to condensed consolidated financial statements.

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

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| | (Unaudited) | |
| Assets | (in millions) | |
| Current assets | | |
| Cash and cash equivalents | $433.9 | $ 282.5 |
| Accounts receivable, net | 683.7 | 539.1 |
| Inventories, net | 219.4 | 230.5 |
| Prepaid expenses and other | 82.9 | 72.1 |
| Total current assets | 1,419.9 | 1,124.2 |
| | | |
| Property, plant and equipment, net | 1,080.4 | 1,046.2 |
| Deferred income taxes | 344.4 | 373.6 |
| Goodwill | 154.4 | 154.4 |
| GM postretirement cost sharing asset | 237.4 | 243.2 |
| Other assets and deferred charges | 278.5 | 261.1 |
| Total assets | $3,515.0 | $ 3,202.7 |
| | | |
| Liabilities and Stockholders’ Equity | | |
| Current liabilities | | |
| Current portion of long-term debt | $3.4 | $ 3.3 |
| Accounts payable | 497.7 | 412.7 |
| Accrued compensation and benefits | 129.8 | 128.0 |
| Deferred revenue | 24.5 | 22.9 |
| Accrued expenses and other | 110.8 | 132.3 |
| Total current liabilities | 766.2 | 699.2 |
| | | |
| Long-term debt, net | 1,401.0 | 1,375.7 |
| Deferred revenue | 55.4 | 65.7 |
| Postretirement benefits and other long-term liabilities | 772.4 | 760.6 |
| Total liabilities | 2,995.0 | 2,901.2 |
| | | |
| Stockholders' equity | | |
| Common stock, par value $0.01 per share | 0.9 | 0.8 |
| Paid-in capital | 654.9 | 638.9 |
| Retained earnings | 398.0 | 204.2 |
| Treasury stock at cost, 6.5 million shares as of September 30, 2016 and 6.2 million shares as of December 31, 2015 | (191.2) | (185.9) |
| Accumulated other comprehensive loss | | |
| Defined benefit plans, net of tax | (218.6) | (223.9) |
| Foreign currency translation adjustments | (104.2) | (119.2) |
| Unrecognized loss on cash flow hedges | (19.8) | (13.4) |
| Total stockholders’ equity | 520.0 | 301.5 |
| Total liabilities and stockholders' equity | $3,515.0 | $ 3,202.7 |

See accompanying notes to condensed consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (in millions) | |
| Operating activities | | |
| Net income | $193.8 | $172.7 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 150.4 | 149.7 |
| Asset impairment | 3.4 | — |
| Deferred income taxes | 32.3 | 16.0 |
| Stock-based compensation | 15.8 | 11.8 |
| Pensions and other postretirement benefits, net of contributions | (5.7) | (1.4) |
| Loss on disposal of property, plant and equipment, net | 2.2 | 3.8 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (140.0) | (119.5) |
| Inventories | 13.7 | 9.2 |
| Accounts payable and accrued expenses | 98.1 | 68.5 |
| Deferred revenue | (8.9) | (19.4) |
| Other assets and liabilities | (64.1) | (23.3) |
| Net cash provided by operating activities | 291.0 | 268.1 |
| | | |
| Investing activities | | |
| Purchases of property, plant and equipment | (158.7) | (132.1) |
| Proceeds from sale of property, plant and equipment | 0.7 | 0.2 |
| Proceeds from government grants | 2.8 | — |
| Final distribution of Reserve Yield Plus Fund | 1.0 | — |
| Acquisition, net | (5.6) | — |
| Net cash used in investing activities | (159.8) | (131.9) |
| | | |
| Financing activities | | |
| Payments of long-term debt and capital lease obligations | (6.2) | (19.1) |
| Proceeds from issuance of long-term debt | 28.8 | 13.4 |
| Purchase of treasury stock | (5.3) | (2.9) |
| Employee stock option exercises | 0.3 | 0.5 |
| Net cash provided by (used in) financing activities | 17.6 | (8.1) |
| | | |
| Effect of exchange rate changes on cash | 2.6 | (11.7) |
| | | |
| Net increase in cash and cash equivalents | 151.4 | 116.4 |
| | | |
| Cash and cash equivalents at beginning of period | 282.5 | 249.2 |
| | | |
| Cash and cash equivalents at end of period | $433.9 | $365.6 |

Supplemental cash flow information

| | | |
|---|---|---|
| Interest paid | $61.3 | $66.1 |
| Income taxes paid, net of refunds | $42.5 | $9.6 |

See accompanying notes to condensed consolidated financial statements.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 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 August 26, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This guidance becomes effective at the beginning of our 2018 fiscal year, however early adoption is permitted. The guidance requires a retrospective transition method. We are currently assessing the impact that this standard will have on our condensed consolidated financial statements.

On March 31, 2016, the FASB issued 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 $4.8 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.

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

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.

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.

Long-lived Assets In the third quarter of 2016, we identified an indicator of impairment at a location in India due to changes in forecasted cash flows. Accordingly, we performed an assessment of the recoverability of these assets and, as a result, recorded an impairment charge of $3.4 million to cost of goods sold to write the assets down to fair value.

Share Repurchase Program In May 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. Approximately $1.5 million of shares have been repurchased under the authorized share repurchase program, leaving approximately $98.5 million available for repurchase. There were no repurchases under the program in the third quarter of 2016.

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 first-in first-out 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, 2016 | December 31, 2015 |
|---|---|---|
| | (in millions) | |
| Raw materials and work-in-progress | $219.6 | $ 228.7 |
| Finished goods | 28.3 | 31.1 |
| Gross inventories | 247.9 | 259.8 |
| Inventory valuation reserves | (28.5 ) | (29.3 ) |
| Inventories, net | $219.4 | $ 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:

| | September 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 | 61.4 | 38.0 |
| Capital lease obligations | 5.5 | 5.6 |
| Total debt | 1,416.9 | 1,393.6 |
| Less: Current portion of long-term debt | 3.4 | 3.3 |
| Long-term debt | 1,413.5 | 1,390.3 |
| Less: Debt issuance costs | 12.5 | 14.6 |
| Long-term debt, net | $1,401.0 | $ 1,375.7 |

Revolving Credit Facility As of September 30, 2016, the revolving credit facility provided up to $523.5 million of revolving bank financing commitments through September 13, 2018. At September 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 nine months ended September 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 beginning in the fourth quarter of 2016. At September 30, 2016, $61.4 million was outstanding under our foreign credit facilities and an additional $64.7 million was available.

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

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

## 4. FAIR VALUE

Accounting Standards Codification 820 - Fair Value Measurement defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." The definition is based on an exit price rather than an entry price, regardless of whether the entity plans to hold or sell the asset. This guidance also establishes a fair value hierarchy to prioritize inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets;
- Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Financial instruments The estimated fair value of our financial assets and liabilities that are recognized at fair value on a recurring basis, using available market information and other observable data, are as follows:

| | September 30, 2016 | | December 31, 2015 | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Input |
| | (in millions) | | | | |
| Balance Sheet Classification | | | | | |
| Cash equivalents | $117.6 | $117.6 | $61.7 | $61.7 | Level 1 |
| Currency forward contracts - Prepaid expenses and other | | | | | |
| Nondesignated currency forward contracts | 0.2 | 0.2 | 0.2 | 0.2 | Level 2 |
| Currency forward contracts - Accrued expenses and other | | | | | |
| Cash flow hedges | 10.6 | 10.6 | 7.5 | 7.5 | Level 2 |
| Nondesignated currency forward contracts | 1.2 | 1.2 | 1.9 | 1.9 | Level 2 |
| Currency forward contracts - Postretirement benefits and other long-term liabilities | | | | | |
| Cash flow hedges | 9.2 | 9.2 | 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:

| | September 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 | 227.0 | 200.0 | 218.5 | Level 2 |
| 6.625% Notes | 550.0 | 581.6 | 550.0 | 574.8 | Level 2 |

| | | | | | |
|---|---|---|---|---|---|
| 6.25% Notes | 400.0 | 417.5 | 400.0 | 415.0 | Level 2 |
| 5.125% Notes | 200.0 | 202.6 | 200.0 | 202.0 | Level 2 |

AMERICAN AXLE & 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, Brazilian Real, British Pound Sterling, Thai Baht, Swedish Krona, Chinese Yuan and Polish Zloty. As of September 30, 2016, we have currency forward contracts outstanding with a notional amount of $183.0 million that hedge our exposure to changes in foreign currency exchange rates for certain payroll expenses into the third quarter of 2019 and certain direct and indirect inventory and other working capital items into the first quarter of 2017.

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 September 30, 2016 | 2015 | Nine Months Ended September 30, 2016 | 2015 | Loss Expected to be Reclassified During the Next 12 Months |
|---|---|---|---|---|---|---|
| | | (in millions) | | | | |
| Currency forward contracts | Cost of Goods Sold | $(2.6) | $(3.1) | $(6.9) | $(6.9) | $ (10.6 ) |

See Note 10 - Reclassifications Out of Accumulated Other Comprehensive Income (Loss) (AOCI) for amounts recognized in other comprehensive income (loss) during the three and nine months ended September 30, 2016 and September 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 September 30, 2016 | 2015 | Nine Months Ended September 30, 2016 | 2015 |
|---|---|---|---|---|---|
| | | (in millions) | | | |
| Currency forward contracts | Cost of Goods Sold | $(1.3) | $(2.1) | $(4.0) | $(4.1) |
| Currency forward contracts | Other Income, Net | — | (1.1 ) | (0.7 ) | (1.4 ) |

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 September 30, | | Nine Months Ended September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| | (in millions) | | | |
| Service cost | $0.8 | $0.8 | $2.3 | $2.4 |
| Interest cost | 7.3 | 7.2 | 21.9 | 21.6 |
| Expected asset return | (10.7 ) | (10.6 ) | (32.1 ) | (31.8 ) |
| Amortized loss | 1.3 | 1.5 | 4.1 | 4.5 |
| Net periodic benefit credit | $(1.3) | $(1.1) | $(3.8) | $(3.3 ) |

| | Other Postretirement Benefits | | | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| | (in millions) | | | |
| Service cost | $0.1 | $0.1 | $0.3 | $0.3 |
| Interest cost | 3.5 | 3.8 | 10.5 | 11.4 |
| Amortized loss | 0.1 | 0.2 | 0.3 | 0.6 |
| Amortized prior service credit | (0.7 ) | (0.7 ) | (2.0 ) | (2.1 ) |
| Net periodic benefit cost | $3.0 | $3.4 | $9.1 | $10.2 |

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 September 30, 2016 and December 31, 2015, we have a noncurrent pension liability of $98.0 million and $103.1 million, respectively. As of September 30, 2016 and December 31, 2015, we have a noncurrent other postretirement benefits liability of $542.9 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.

AMERICAN AXLE & 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (in millions) | | | |
| Beginning balance | $37.9 | $23.2 | $36.6 | $12.4 |
| Accruals | 4.4 | 4.8 | 12.4 | 13.8 |
| Payments | (3.0) | (4.6) | (6.7) | (5.2) |
| Adjustment to prior period accruals | — | (0.4) | (3.1) | 2.3 |
| Foreign currency translation | — | (0.3) | 0.1 | (0.6) |
| Ending balance | $39.3 | $22.7 | $39.3 | $22.7 |

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 $17.8 million in the three months ended September 30, 2016 as compared to $14.4 million in the three months ended September 30, 2015. Our effective income tax rate was 22.4% in the third quarter of 2016 as compared to 19.3% in the third quarter of 2015. Income tax expense was $53.8 million in the nine months ended September 30, 2016 as compared to $36.5 million in the nine months ended September 30, 2015. Our effective income tax rate was 21.7% in the nine months ended September 30, 2016 as compared to 17.5% in the nine months ended September 30, 2015. Our effective tax rates for the three and nine months ended September 30, 2016 are higher than our effective tax rates for the three and nine months ended September 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 nine months ended September 30, 2016 and September 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 September 30, 2016 and December 31, 2015, we have recorded a liability for unrecognized income tax benefits and related interest and penalties of $32.0 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 nine 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 approximately $30 million.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (in millions, except per share data) | | | |
| Numerator | | | | |
| Net income | $61.7 | $60.9 | $193.8 | $172.7 |
| Less: Net income attributable to participating securities | (1.4) | (1.4) | (4.4) | (4.0) |
| Net income attributable to common shareholders - Basic | $60.3 | $59.5 | $189.4 | $168.7 |
| Undistributed earnings reallocated to common shareholders under two step dilutive method | — | — | — | — |
| Net income attributable to common shareholders - Dilutive | $60.3 | $59.5 | $189.4 | $168.7 |
| Denominators | | | | |
| Basic common shares outstanding - | | | | |
| Weighted-average shares outstanding | 78.3 | 77.8 | 78.2 | 77.7 |
| Less: Participating securities | (1.8) | (1.8) | (1.8) | (1.8) |
| Weighted-average common shares outstanding | 76.5 | 76.0 | 76.4 | 75.9 |
| Effect of dilutive securities - | | | | |
| Dilutive stock-based compensation | 0.5 | 0.4 | 0.4 | 0.4 |
| Diluted shares outstanding - | | | | |
| Adjusted weighted-average shares after assumed conversions | 77.0 | 76.4 | 76.8 | 76.3 |
| Basic EPS | $0.79 | $0.78 | $2.48 | $2.22 |
| Diluted EPS | $0.78 | $0.78 | $2.47 | $2.21 |

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, with an exercise price of $26.02, at both September 30, 2016 and September 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 September 30, 2016 and September 30, 2015 are as follows (in millions):

| | Defined Benefit Plans | | Foreign Currency Translation Adjustments | Unrecognized Loss on Cash Flow Hedges | | Total |
|---|---|---|---|---|---|---|
| Balance at June 30, 2016 | $(219.2) | | $ (103.4) | $ (15.7) | | $(338.3) |
| Other comprehensive loss before reclassifications | — | | (0.8) | (6.7) | | (7.5) |
| Income tax effect of other comprehensive loss before reclassifications | — | | — | — | | — |
| Amounts reclassified from accumulated other comprehensive loss | 0.7 | (a) | — | 2.6 | (b) | 3.3 |
| Income tax benefit reclassified into net income | (0.1) | | — | — | | (0.1) |
| Net current period other comprehensive income (loss) | 0.6 | | (0.8) | (4.1) | | (4.3) |
| Balance at September 30, 2016 | $(218.6) | | $ (104.2) | $ (19.8) | | $(342.6) |

| | Defined Benefit Plans | | Foreign Currency Translation Adjustments | Unrecognized Loss on Cash Flow Hedges | | 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) |
| Income tax effect of other comprehensive loss before reclassifications | — | | — | — | | — |
| Amounts reclassified from accumulated other comprehensive loss | 0.5 | (a) | — | 3.1 | (b) | 3.6 |
| Income tax benefit reclassified into net income | (0.2) | | — | — | | (0.2) |
| 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) |

(a) The amount reclassified from AOCI included $1.0 million in cost of goods sold (COGS) and $(0.3) million in selling, general & administrative expenses (SG&A) for the three months ended September 30, 2016 and $0.8 million in COGS and $(0.3) million in SG&A for the three months ended September 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 nine months ended September 30, 2016 and September 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 | 15.0 | (13.3) | 7.4 |
| Income tax effect of other comprehensive income (loss) before reclassifications | (2.0) | — | — | (2.0) |
| Amounts reclassified from accumulated other comprehensive loss | 2.4 (a) | — | 6.9 (b) | 9.3 |
| Income tax benefit reclassified into net income | (0.8) | — | — | (0.8) |
| Net current period other comprehensive income (loss) | 5.3 | 15.0 | (6.4) | 13.9 |
| Balance at September 30, 2016 | $(218.6) | $(104.2) | $(19.8) | $(342.6) |

| | 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 | (64.4) | (16.3) | (76.0) |
| Income tax effect of other comprehensive income (loss) before reclassifications | (1.6) | — | — | (1.6) |
| Amounts reclassified from accumulated other comprehensive loss | 3.0 (a) | — | 6.9 (b) | 9.9 |
| Income tax benefit reclassified into net income | (1.0) | — | — | (1.0) |
| 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) |

(a) The amount reclassified from AOCI included $3.3 million in COGS and $(0.9) million in SG&A for the nine months ended September 30, 2016 and $3.7 million in COGS and $(0.7) million in SG&A for the nine months ended September 30, 2015.

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

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 September 30,
(in millions)

| | Holdings | AAM Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Elims | Consolidated |
|---|---|---|---|---|---|---|
| 2016 | | | | | | |
| Net sales | | | | | | |
| External | $ — | $274.7 | $ 49.9 | $ 682.3 | $— | $ 1,006.9 |
| Intercompany | — | 3.7 | 62.7 | 4.4 | (70.8 ) | — |
| Total net sales | — | 278.4 | 112.6 | 686.7 | (70.8 ) | 1,006.9 |
| Cost of goods sold | — | 265.4 | 94.9 | 536.2 | (70.8 ) | 825.7 |
| Gross profit | — | 13.0 | 17.7 | 150.5 | — | 181.2 |
| Selling, general and administrative expenses | — | 72.6 | — | 7.3 | — | 79.9 |
| Operating income (loss) | — | (59.6 ) | 17.7 | 143.2 | — | 101.3 |
| Non-operating income (expense), net | — | (24.9 ) | 2.9 | 0.2 | — | (21.8 ) |
| Income (loss) before income taxes | — | (84.5 ) | 20.6 | 143.4 | — | 79.5 |
| Income tax expense | — | 7.9 | 0.1 | 9.8 | — | 17.8 |
| Earnings (loss) from equity in subsidiaries | 61.7 | 87.4 | (7.1 ) | — | (142.0 ) | — |
| Net income (loss) before royalties | 61.7 | (5.0 ) | 13.4 | 133.6 | (142.0 ) | 61.7 |
| Royalties | — | 66.7 | — | (66.7 ) | — | — |
| Net income after royalties | 61.7 | 61.7 | 13.4 | 66.9 | (142.0 ) | 61.7 |
| Other comprehensive income (loss), net of tax | (4.3 ) | (4.3 ) | 1.0 | (3.3 ) | 6.6 | (4.3 ) |
| Comprehensive income | $ 57.4 | $57.4 | $ 14.4 | $ 63.6 | $(135.4) | $ 57.4 |

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

| | Holdings | AAM Inc. | Guarantor Subsidiaries | Non-Guarantor 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 expenses | — | 60.3 | — | 5.2 | — | 65.5 |
| Operating income (loss) | — | (49.1 ) | 22.1 | 119.8 | — | 92.8 |
| Non-operating income (expense), 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 subsidiaries | 60.9 | 79.9 | (3.5 ) | — | (137.3 ) | — |
| Net income before royalties | 60.9 | 2.3 | 20.8 | 114.2 | (137.3 ) | 60.9 |
| Royalties | — | 58.6 | — | (58.6 ) | — | — |
| Net income after royalties | 60.9 | 60.9 | 20.8 | 55.6 | (137.3 ) | 60.9 |
| Other comprehensive loss, net of tax | (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 & 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 Subsidiaries | Non-Guarantor Subsidiaries | Elims | Consolidated |
|---|---|---|---|---|---|---|
| 2016 | | | | | | |
| Net sales | | | | | | |
| External | $ — | $ 866.3 | $ 161.4 | $ 1,973.8 | $ — | $ 3,001.5 |
| Intercompany | — | 8.1 | 185.7 | 12.2 | (206.0) | — |
| Total net sales | — | 874.4 | 347.1 | 1,986.0 | (206.0) | 3,001.5 |
| Cost of goods sold | — | 833.5 | 284.3 | 1,543.1 | (206.0) | 2,454.9 |
| Gross profit | — | 40.9 | 62.8 | 442.9 | — | 546.6 |
| Selling, general and administrative expenses | — | 210.3 | — | 25.1 | — | 235.4 |
| Operating income (loss) | — | (169.4) | 62.8 | 417.8 | — | 311.2 |
| Non-operating income (expense), net | — | (72.7) | 8.4 | 0.7 | — | (63.6) |
| Income (loss) before income taxes | — | (242.1) | 71.2 | 418.5 | — | 247.6 |
| Income tax expense | — | 28.9 | 0.3 | 24.6 | — | 53.8 |
| Earnings (loss) from equity in subsidiaries | 193.8 | 266.6 | (28.0) | — | (432.4) | — |
| Net income (loss) before royalties | 193.8 | (4.4) | 42.9 | 393.9 | (432.4) | 193.8 |
| Royalties | — | 198.2 | — | (198.2) | — | — |
| Net income after royalties | 193.8 | 193.8 | 42.9 | 195.7 | (432.4) | 193.8 |
| Other comprehensive income, net of tax | 13.9 | 13.9 | 23.2 | 16.9 | (54.0) | 13.9 |
| Comprehensive income | $ 207.7 | $ 207.7 | $ 66.1 | $ 212.6 | $ (486.4) | $ 207.7 |

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

| | Holdings | AAM Inc. | Guarantor Subsidiaries | Non-Guarantor 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 expenses | — | 179.9 | — | 24.7 | — | 204.6 |
| Operating income (loss) | — | (153.2 ) | 66.0 | 358.2 | — | 271.0 |
| Non-operating income (expense), 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 subsidiaries | 172.7 | 236.4 | (12.9 ) | — | (396.2 ) | — |
| Net income (loss) before royalties | 172.7 | (8.0 ) | 60.7 | 343.5 | (396.2 ) | 172.7 |
| Royalties | — | 180.7 | — | (180.7 ) | — | — |
| Net income after royalties | 172.7 | 172.7 | 60.7 | 162.8 | (396.2 ) | 172.7 |
| Other comprehensive loss, net of tax | (68.7 ) | (68.7 ) | (61.0 ) | (69.7 ) | 199.4 | (68.7 ) |
| Comprehensive income (loss) | $ 104.0 | $104.0 | $ (0.3 ) | $ 93.1 | $(196.8) | $ 104.0 |

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

Condensed Consolidating Balance Sheets
(in millions)

| | Holdings | AAM Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Elims | Consolidated |
|---|---|---|---|---|---|---|
| September 30, 2016 | | | | | | |
| Assets | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | $ — | $ 136.5 | $ 1.3 | $ 296.1 | $— | $ 433.9 |
| Accounts receivable, net | — | 151.9 | 26.1 | 505.7 | — | 683.7 |
| Intercompany receivables | — | 343.5 | 316.2 | 9.1 | (668.8 ) | — |
| Inventories, net | — | 48.6 | 29.6 | 141.2 | — | 219.4 |
| Prepaid expenses and other | — | 23.9 | 0.6 | 58.4 | — | 82.9 |
| Total current assets | — | 704.4 | 373.8 | 1,010.5 | (668.8 ) | 1,419.9 |
| Property, plant and equipment, net | — | 208.6 | 100.1 | 771.7 | — | 1,080.4 |
| Goodwill | — | — | 147.8 | 6.6 | — | 154.4 |
| Intercompany notes and accounts receivable | — | 362.7 | 249.0 | — | (611.7 ) | — |
| Other assets and deferred charges | — | 644.6 | 42.9 | 172.8 | — | 860.3 |
| Investment in subsidiaries | 846.1 | 1,562.4 | — | — | (2,408.5 ) | — |
| Total assets | $ 846.1 | $ 3,482.7 | $ 913.6 | $ 1,961.6 | $ (3,689.0) | $ 3,515.0 |
| Liabilities and Stockholders’ Equity | | | | | | |
| Current liabilities | | | | | | |
| Current portion of long-term debt | $ — | $— | $ — | $ 3.4 | $— | $ 3.4 |
| Accounts payable | — | 131.4 | 42.4 | 323.9 | — | 497.7 |
| Intercompany payables | — | 312.6 | 161.4 | 194.8 | (668.8 ) | — |
| Accrued expenses and other | — | 136.5 | 4.7 | 123.9 | — | 265.1 |
| Total current liabilities | — | 580.5 | 208.5 | 646.0 | (668.8 ) | 766.2 |
| Intercompany notes and accounts payable | 326.1 | — | 47.4 | 238.2 | (611.7 ) | — |
| Long-term debt, net | — | 1,338.8 | 4.2 | 58.0 | — | 1,401.0 |
| Investment in subsidiaries obligation | — | — | 104.1 | — | (104.1 ) | — |
| Other long-term liabilities | — | 717.3 | 0.6 | 109.9 | — | 827.8 |
| Total liabilities | 326.1 | 2,636.6 | 364.8 | 1,052.1 | (1,384.6 ) | 2,995.0 |
| Total stockholders’ equity | 520.0 | 846.1 | 548.8 | 909.5 | (2,304.4 ) | 520.0 |
| Total liabilities and stockholders’ equity | $ 846.1 | $ 3,482.7 | $ 913.6 | $ 1,961.6 | $ (3,689.0) | $ 3,515.0 |

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

| | Holdings | AAM Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Elims | Consolidated |
|---|---|---|---|---|---|---|
| December 31, 2015 | | | | | | |
| Assets | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | $ — | $52.0 | $ — | $ 230.5 | $— | $ 282.5 |
| Accounts receivable, net | — | 127.2 | 19.7 | 392.2 | — | 539.1 |
| Intercompany receivables | — | 311.8 | 249.7 | 9.4 | (570.9 ) | — |
| Inventories, net | — | 59.8 | 31.1 | 139.6 | — | 230.5 |
| Prepaid expenses and other | — | 30.4 | 0.5 | 41.2 | — | 72.1 |
| Total current assets | — | 581.2 | 301.0 | 812.9 | (570.9 ) | 1,124.2 |
| Property, plant and equipment, net | — | 214.1 | 91.9 | 740.2 | — | 1,046.2 |
| Goodwill | — | — | 147.8 | 6.6 | — | 154.4 |
| Intercompany notes and accounts receivable | — | 393.5 | 252.2 | — | (645.7 ) | — |
| Other assets and deferred charges | — | 683.6 | 41.4 | 152.9 | — | 877.9 |
| Investment in subsidiaries | 622.3 | 1,315.9 | — | — | (1,938.2 ) | — |
| Total assets | $ 622.3 | $3,188.3 | $ 834.3 | $ 1,712.6 | $(3,154.8) | $ 3,202.7 |
| Liabilities and Stockholders' Equity | | | | | | |
| Current liabilities | | | | | | |
| Current portion of long-term debt | $ — | $— | $ — | $ 3.3 | $— | $ 3.3 |
| Accounts payable | — | 103.0 | 35.8 | 273.9 | — | 412.7 |
| Intercompany payables | — | 248.7 | 154.9 | 167.3 | (570.9 ) | — |
| Accrued expenses and other | — | 134.2 | 4.1 | 144.9 | — | 283.2 |
| Total current liabilities | — | 485.9 | 194.8 | 589.4 | (570.9 ) | 699.2 |
| Intercompany notes and accounts payable | 320.8 | 10.3 | — | 314.6 | (645.7 ) | — |
| Long-term debt, net | — | 1,336.5 | 4.5 | 34.7 | — | 1,375.7 |
| Investment in subsidiaries obligation | — | — | 111.7 | — | (111.7 ) | — |
| Other long-term liabilities | — | 733.3 | 0.5 | 92.5 | — | 826.3 |
| Total liabilities | 320.8 | 2,566.0 | 311.5 | 1,031.2 | (1,328.3 ) | 2,901.2 |
| Total stockholders' equity | 301.5 | 622.3 | 522.8 | 681.4 | (1,826.5 ) | 301.5 |
| Total liabilities and stockholders' equity | $ 622.3 | $3,188.3 | $ 834.3 | $ 1,712.6 | $(3,154.8) | $ 3,202.7 |

AMERICAN AXLE & 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 Subsidiaries | Non-Guarantor Subsidiaries | Elims | Consolidated |
|---|---|---|---|---|---|---|
| 2016 | | | | | | |
| Net cash provided by operating activities | $ — | $114.8 | $ 20.9 | $ 155.3 | $ — | $ 291.0 |
| Investing activities | | | | | | |
| Purchases of property, plant and equipment | — | (25.9) | (12.0) | (120.8) | — | (158.7) |
| Proceeds from sale of property, plant and equipment | — | — | 0.3 | 0.4 | — | 0.7 |
| Proceeds from government grants | — | — | — | 2.8 | — | 2.8 |
| Final distribution of Reserve Yield Plus Fund | — | 1.0 | — | — | — | 1.0 |
| Acquisition, net | — | — | (5.6) | — | — | (5.6) |
| Intercompany activity | — | — | (2.0) | — | 2.0 | — |
| Net cash used in investing activities | — | (24.9) | (19.3) | (117.6) | 2.0 | (159.8) |
| Financing activities | | | | | | |
| Net debt activity | — | (0.4) | (0.3) | 23.3 | — | 22.6 |
| Employee stock option exercises | — | 0.3 | — | — | — | 0.3 |
| Purchase of treasury stock | (5.3) | — | — | — | — | (5.3) |
| Intercompany activity | 5.3 | (5.3) | — | 2.0 | (2.0) | — |
| Net cash provided by (used in) financing activities | — | (5.4) | (0.3) | 25.3 | (2.0) | 17.6 |
| Effect of exchange rate changes on cash | — | — | — | 2.6 | — | 2.6 |
| Net increase in cash and cash equivalents | — | 84.5 | 1.3 | 65.6 | — | 151.4 |
| Cash and cash equivalents at beginning of period | — | 52.0 | — | 230.5 | — | 282.5 |
| Cash and cash equivalents at end of period | $ — | $136.5 | $ 1.3 | $ 296.1 | $ — | $ 433.9 |

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

| | Holdings | AAM Inc. | Guarantor Subsidiaries | Non-Guarantor 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 |

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## 12. SUBSEQUENT EVENTS

On November 3, 2016, AAM entered into a definitive merger agreement with Metaldyne Performance Group Inc. (MPG) under which AAM will acquire MPG for approximately $1.6 billion in cash and stock, plus the assumption of $1.7 billion in net debt (comprised of approximately $1.8 billion in debt, reduced by approximately $0.1 billion of MPG cash and cash equivalents). Under the terms of the agreement, each share of MPG's common stock will be converted into the right to receive $13.50 per share in cash and 0.5 share of AAM common stock. Upon closing of the transaction, AAM's shareholders will own approximately 70% of the combined company and MPG's shareholders will own approximately 30%. The transaction has been approved by the board of directors of both AAM and MPG, and is now subject to shareholder and regulatory approval and other customary closing conditions.

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, 2015.

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 and Indiana), 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 four-wheel drive and all-wheel drive (4WD/AWD) axle requirements for these vehicle platforms. Sales to GM were approximately 68% of our consolidated net sales in the first nine months of 2016 and 66% of our consolidated net sales for both the first nine months and the full year of 2015.

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 five to seven years, and require us to remain competitive with respect to technology, design, quality and cost.

We also supply driveline system products to FCA US LLC (FCA) for heavy-duty Ram full-size pickup trucks and its derivatives, the AWD Jeep Cherokee, and a passenger car driveshaft program. Sales to FCA were approximately 19% of our consolidated net sales in the first nine months of 2016 and 20% of our consolidated net sales for both the first nine months and the full year of 2015. In addition to GM and FCA, we supply driveline systems and other related components to Nissan Motor Co., Ltd. (Nissan), Mercedes-Benz, Volkswagen AG (Volkswagen), Audi AG (Audi), Jaguar Land Rover Automotive PLC (JLR), Honda Motor Co., Ltd., Ford Motor Company (Ford), PACCAR Inc., Daimler Truck, Harley-Davidson Inc. and other original equipment manufacturers (OEMs) and Tier I supplier companies such as Jatco Ltd. and Hino Motors Ltd. Our consolidated net sales to customers other than GM were $964.8 million in the first nine months of 2016 as compared to $993.6 million in the first nine months of 2015.

RESULTS OF OPERATIONS — THREE MONTHS ENDED SEPTEMBER 30, 2016 AS COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2015

Net Sales  Net sales increased to $1,006.9 million in the third quarter of 2016 as compared to $971.6 million in the third quarter of 2015.  Our sales in the third quarter of 2016, as compared to the third quarter of 2015, reflect an increase of approximately 8% in production volumes for the North American light truck and SUV programs we currently support, which was partially offset by a reduction of approximately $7.0 million in commercial vehicle sales due to an expired program.

Our content-per-vehicle (CPV) (as measured by the dollar value of our products supporting our customers' North American light truck and SUV programs) was $1,612 in the third quarter of 2016 as compared to $1,622 in the third quarter of 2015. The change in CPV in the third quarter of 2016, as compared to the third quarter of 2015, relates primarily to the impact of annual productivity price-downs for certain programs. Our 4WD/AWD penetration rate was 71% in the third quarter of 2016 as compared to 70% in the third quarter of 2015.

Cost of Goods Sold Cost of goods sold was $825.7 million in the third quarter of 2016 as compared to $813.3 million in the third quarter of 2015. The change in cost of goods sold reflects the net impact of approximately $12.0 million related to an increase in sales volumes and a product mix change in the third quarter of 2016, as compared to the third quarter of 2015, and the impact of lower net manufacturing costs and productivity initiatives.

For the three months ended September 30, 2016 and September 30, 2015, material costs were approximately 68% of total costs of goods sold.

Gross Profit   Gross profit increased to $181.2 million in the third quarter of 2016 as compared to $158.3 million in the third quarter of 2015.  Gross margin increased to 18.0% in the third quarter of 2016 as compared to 16.3% in the third quarter of 2015.  The increase in gross profit in the third quarter of 2016, as compared to the third quarter of 2015, reflects the benefit of increased contribution margin on higher production volumes for the North American light truck and SUV programs that we support. Gross profit and gross margin were also impacted by the other factors discussed in Net Sales and Cost of Goods Sold above.

Selling, General and Administrative Expenses (SG&A)  SG&A (including research and development (R&D)) was $79.9 million or 7.9% of net sales in the third quarter of 2016 as compared to $65.5 million or 6.7% of net sales in the third quarter of 2015.  R&D, net of customer engineering, design and development (ED&D) recoveries, was $36.2 million in the third quarter of 2016 as compared to $25.8 million in the third quarter of 2015. The change in SG&A in the third quarter of 2016, as compared to the third quarter of 2015, is primarily due to the increase in R&D expense.

Operating Income  Operating income increased to $101.3 million in the third quarter of 2016 as compared to $92.8 million in the third quarter of 2015.  Operating margin increased to 10.1% in the third quarter of 2016 as compared to 9.5% in the third quarter of 2015.  The changes in operating income and operating margin were due to factors discussed in Net Sales, Cost of Goods Sold and SG&A above.

Interest Expense and Investment Income  Interest expense decreased to $23.2 million in the third quarter of 2016 as compared to $24.8 million in the third quarter of 2015.  Investment income was $0.5 million in the third quarter of 2016 as compared to $0.6 million in the third quarter of 2015.

The weighted-average interest rate of our long-term debt outstanding was 6.7% in the third quarter of 2016 and 6.3% in the third quarter of 2015.

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 $0.9 million in the third quarter of 2016 as compared to $6.7 million in the third quarter of 2015. The change in other income, net in the third quarter of 2016, as compared to the third quarter of 2015, is principally attributable to remeasurement of our Mexican Peso denominated assets and liabilities.

Income Tax Expense  Income tax expense was $17.8 million in the third quarter of 2016 as compared to $14.4 million in the third quarter of 2015.  Our effective income tax rate was 22.4% in the third quarter of 2016 as compared to 19.3% in the third quarter of 2015.

Our effective tax rate for the three months ended September 30, 2016 is higher than our effective tax rate for the three months ended September 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 rate for the three months ended September 30, 2016 and September 30, 2015 reflect the impact of favorable foreign tax rates, partially offset by our inability to realize a tax benefit for current foreign losses.

Net Income and Earnings Per Share (EPS)  Net income increased to $61.7 million in the third quarter of 2016 as compared to $60.9 million in the third quarter of 2015. Diluted EPS was $0.78 in the third quarter of both 2016 and 2015. Net income and EPS for the third quarters of 2016 and 2015 were primarily impacted by the factors discussed in Net Sales, Cost of Goods Sold and SG&A above.

RESULTS OF OPERATIONS — NINE MONTHS ENDED SEPTEMBER 30, 2016 AS COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2015

Net Sales  Net sales increased to $3,001.5 million in the first nine months of 2016 as compared to $2,944.7 million in the first nine months of 2015.  Our sales in the first nine months of 2016, as compared to the first nine months of 2015, reflect an increase of approximately 9% in production volumes for the North American light truck and SUV programs we currently support. This increase was partially offset by a reduction of approximately $46.0 million in commercial vehicle sales due to an expired program, $15.0 million related to reduced production volumes on a program in Brazil, and reductions in both metal market pass-throughs to our customers and the impact of foreign exchange related to translation adjustments.

Our content-per-vehicle (as measured by the dollar value of our products supporting our customers' North American light truck and SUV programs) was $1,611 in the first nine months of 2016 as compared to $1,645 in the first nine months of 2015. The change in CPV in the first nine months of 2016, as compared to the first nine months of 2015, relates primarily to the reduction in metal market pass-throughs to our customers, as well as the impact of annual productivity price-downs for certain programs. Our 4WD/AWD penetration rate was 71% in the first nine months of both 2016 and 2015.

Cost of Goods Sold Cost of goods sold decreased to $2,454.9 million in the first nine months of 2016 as compared to $2,469.1 million in the first nine months of 2015. The change in cost of goods sold reflects the net impact of approximately $30.0 million related to an increase in sales volumes and a product mix change in the first nine months of 2016, as compared to the first nine months of 2015, and the impact of lower net manufacturing costs and productivity initiatives. Cost of goods sold was also impacted by a reduction of approximately $45.0 million related to metal market pass-through costs and foreign exchange related to translation adjustments.

For the nine months ended September 30, 2016 and September 30, 2015, material costs were approximately 69% of total costs of goods sold.

Gross Profit   Gross profit increased to $546.6 million in the first nine months of 2016 as compared to $475.6 million in the first nine months of 2015.  Gross margin increased to 18.2% in the first nine months of 2016 as compared to 16.1% in the first nine months of 2015.  The increase in gross profit in the first nine months of 2016, as compared to the first nine months of 2015, reflects the benefit of increased contribution margin on higher production volumes for the North American light truck and SUV programs that we support. Gross profit and gross margin were also impacted by the other factors discussed in Net Sales and Cost of Goods Sold above.

Selling, General and Administrative Expenses  SG&A (including research and development) was $235.4 million or 7.8% of net sales in the first nine months of 2016 as compared to $204.6 million or 6.9% of net sales in the first nine months of 2015.  R&D, net of customer engineering, design and development recoveries, was $102.3 million in the first nine months of 2016 as compared to $82.6 million in the first nine months of 2015. The change in SG&A in the first nine months of 2016, as compared to the first nine months of 2015, is primarily due to higher R&D expense and higher incentive compensation accruals.

Operating Income  Operating income increased to $311.2 million in the first nine months of 2016 as compared to $271.0 million in the first nine months of 2015.  Operating margin increased to 10.4% in the first nine months of 2016 as compared to 9.2% in the first nine months of 2015.  The changes in operating income and operating margin were due to factors discussed in Net Sales, Cost of Goods Sold and SG&A above.

Interest Expense and Investment Income  Interest expense decreased to $70.2 million in the first nine months of 2016 as compared to $74.7 million in the first nine months of 2015.  Investment income increased to $2.6 million in the first nine months of 2016 as compared to $2.0 million in the first nine months of 2015.

The weighted-average interest rate of our long-term debt outstanding was 6.7% in the first nine months of 2016 and 6.4% in the first nine months of 2015.

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 $4.0 million in the first nine months of 2016 as compared to $10.9 million in the first nine months of 2015. The change in other income, net in the first nine months of 2016, as compared to the first nine months of 2015, is principally attributable to remeasurement of our Mexican Peso denominated assets and liabilities.

Income Tax Expense  Income tax expense was $53.8 million in the first nine months of 2016 as compared to $36.5 million in the first nine months of 2015.  Our effective income tax rate was 21.7% in the first nine months of 2016 as compared to 17.5% in the first nine months of 2015.

Our effective tax rate for the nine months ended September 30, 2016 is higher than our effective tax rate for the nine months ended September 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 rate for the nine months ended September 30, 2016 and September 30, 2015 reflect the impact of favorable foreign tax rates, partially offset by our inability to realize a tax benefit for current foreign losses.

Net Income and Earnings Per Share  Net income increased to $193.8 million in the first nine months of 2016 as compared to $172.7 million in the first nine months of 2015. Diluted EPS increased to $2.47 in the first nine months of 2016 as compared to $2.21 in the first nine months of 2015. Net income and EPS for the first nine months of 2016 and 2015 were primarily impacted by the factors discussed in Net Sales, Cost of Goods Sold, SG&A and Income Tax Expense above.

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund capital expenditures, debt service obligations and 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 2016, net cash provided by operating activities increased to $291.0 million as compared to $268.1 million in the first nine months of 2015.  The following factors impacted cash provided by operating activities in the first nine months of 2016 as compared to the first nine months of 2015:

Net income Net income increased to $193.8 million in the first nine months of 2016 as compared to $172.7 million in the first nine months of 2015. The increase in net income in the first nine months of 2016, as compared to the first nine months of 2015, was the result of the factors discussed in the Results of Operations - Nine Months Ended September 30, 2016 as Compared to Nine Months Ended September 30, 2015 section of this MD&A.

Accounts payable Accounts payable at September 30, 2016 and September 30, 2015 were $497.7 million and $479.8 million, respectively, as compared to $412.7 million and $444.3 million at December 31, 2015 and 2014, respectively. The change in accounts payable balances during the first nine months of 2016, as compared to the first nine months of 2015, was primarily due to the timing of payments to suppliers.

Income taxes  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 September 30, 2016 and December 31, 2015, we have recorded a liability for unrecognized income tax benefits and related interest and penalties of $32.0 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 nine 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 approximately $30 million.

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.

Pension and Other Postretirement Benefits (OPEB) 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.

Investing Activities Capital expenditures were $158.7 million in the first nine months of 2016 as compared to $132.1 million in the first nine months of 2015. We expect our capital spending to be approximately 6% of sales in 2016, which includes support for our global program launches within our new and incremental business backlog.

Financing Activities In the first nine months of 2016, net cash provided by financing activities was $17.6 million as compared to a use of $8.1 million in the first nine months of 2015. The following factors impacted cash provided by (used in) financing activities in the first nine months of 2016 as compared to the first nine months of 2015:

Total debt outstanding, net of debt issuance costs Total debt outstanding, net of debt issuance costs, increased by $25.4 million in the first nine months of 2016 to $1,404.4 million as compared to $1,379.0 million at year-end 2015.

Revolving Credit Facility and Term Facility As of September 30, 2016, the revolving credit facility provided up to $523.5 million of revolving bank financing commitments through September 13, 2018. At September 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 credit agreement provided for a senior secured term loan A facility in an aggregate principal amount of $150.0 million (term facility), which we elected to voluntarily repay in December 2015. During the first nine months of 2015, we made principal payments on our term facility of $6.6 million.

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 nine months ended September 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 beginning in the fourth quarter of 2016. At September 30, 2016, $61.4 million was outstanding under our foreign credit facilities and an additional $64.7 million was available.

Treasury stock Treasury stock increased by $5.3 million in the first nine months of 2016 to $191.2 million as compared to $185.9 million at year-end 2015, due to the withholding and repurchase of shares of AAM stock to satisfy employee tax withholding obligations due upon the vesting of restricted stock units, as well as an initial share repurchase under the authorized share repurchase program.

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.

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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 2016, and we do not expect such expenditures to be significant for the remainder of 2016.

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, Brazilian Real, British Pound Sterling, Thai Baht, Swedish Krona, Chinese Yuan and Polish Zloty. At September 30, 2016, we had currency forward contracts with a notional amount of $183.0 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 $16.7 million at September 30, 2016 and was approximately $17.3 million at December 31, 2015.

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 global operations may be adversely affected by changes in currency exchange rates. If and when appropriate, we intend to manage these risks by creating hedges in the structure of our global operations, 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, 2016, 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 15% of our weighted-average interest rate at September 30, 2016) on our long-term debt outstanding, would be approximately $0.6 million at September 30, 2016 and was approximately $0.3 million at December 31, 2015, 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, 2016.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2016 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, 2015 Form 10-K.

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

On May 5, 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. There were no repurchases under the authorized share repurchase program during the third quarter of 2016 and there is approximately $98.5 million available for repurchase.

In the third quarter of 2016, we withheld and repurchased shares of AAM stock to satisfy employee tax withholding obligations due upon the vesting of performance shares and restricted stock units. The following table provides information about our equity security purchases during the quarter ended September 30, 2016:

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 (in millions) |
|---|---|---|---|---|
| July 1 - July 31, 2016 | 10,114 | $ 14.99 | — | $ — |
| August 1 - August 31, 2016 | 312 | 17.72 | — | — |
| September 1 - September 30, 2016 | — | — | — | — |
| Total | 10,426 | $ 15.07 | — | $ — |

### 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)
November 3, 2016

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.