

AMERICAN AXLE & MANUFACTURING HOLDINGS INC
Form 10-Q
November 03, 2017

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

FORM 10-Q

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

For the quarterly period ended September 30, 2017

or

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

For the transition period from _____ to _____

Commission File Number: 1-14303

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "accelerated filer," "large accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company (Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 1, 2017, the latest practicable date, the number of shares of the registrant's Common Stock, par value \$0.01 per share, outstanding was 111,290,072 shares.

Internet Website Access to Reports

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

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
 FORM 10-Q
 FOR THE QUARTER ENDED SEPTEMBER 30, 2017
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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 successfully integrate the business and information systems of Metaldyne Performance Group, Inc. (MPG) and to realize the anticipated benefits of the merger;
- risks inherent in our global operations (including adverse changes in trade agreements, tariffs, immigration policies, political stability, taxes and other law changes, potential disruptions of production and supply, and currency rate fluctuations);
- negative or unexpected tax consequences;
- risks related to disruptions to ongoing business operations as a result of the merger with MPG, including disruptions to management time;
- 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 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;
- a significant disruption in operations at one or more of our key manufacturing facilities;
- 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;
- potential liabilities or litigation relating to, or assumed in, the MPG merger;
-

potential adverse reactions or changes to business relationships resulting from the completion of the merger with MPG;

- 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 or reputational damage;
- 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,	
	2017	2016	2017	2016
	(in millions, except per share data)			
Net sales	\$1,724.4	\$1,006.9	\$4,532.1	\$3,001.5
Cost of goods sold	1,426.7	825.7	3,707.3	2,454.9
Gross profit	297.7	181.2	824.8	546.6
Selling, general and administrative expenses	102.3	78.6	289.1	231.8
Amortization of intangible assets	24.4	1.3	50.8	3.6
Restructuring and acquisition-related costs	22.8	—	90.5	—
Operating income	148.2	101.3	394.4	311.2
Interest expense	(57.5)	(23.2)	(139.9)	(70.2)
Investment income	0.8	0.5	2.2	2.6
Other income (expense)				
Debt refinancing and redemption costs	—	—	(2.7)	—
Other income (expense), net	0.5	0.9	(7.4)	4.0
Income before income taxes	92.0	79.5	246.6	247.6
Income tax expense	5.7	17.8	15.6	53.8
Net income	\$86.3	\$61.7	\$231.0	\$193.8
Net income attributable to noncontrolling interests	(0.1)	—	(0.2)	—
Net income attributable to AAM	\$86.2	\$61.7	\$230.8	\$193.8
Basic earnings per share	\$0.76	\$0.79	\$2.28	\$2.48
Diluted earnings per share	\$0.75	\$0.78	\$2.27	\$2.47

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(in millions)			
Net income	\$86.3	\$61.7	\$231.0	\$193.8
Other comprehensive income (loss)				
Defined benefit plans, net of tax ^(a)	3.1	0.6	3.7	5.3
Foreign currency translation adjustments	42.8	(0.8)	79.3	15.0
Changes in cash flow hedges, net of tax ^(b)	1.1	(4.1)	21.5	(6.4)
Other comprehensive income (loss)	47.0	(4.3)	104.5	13.9
Comprehensive income	\$133.3	\$57.4	\$335.5	\$207.7
Net income attributable to noncontrolling interests	(0.1)	—	(0.2)	—
Comprehensive income attributable to AAM	\$133.2	\$57.4	\$335.3	\$207.7

^(a) Amounts are net of tax of \$(1.0) million and \$(1.2) million for the three and nine months ended September 30, 2017, and \$(0.1) million and \$(2.8) million for the three and nine months ended September 30, 2016, respectively.

^(b) Amounts are net of tax of \$0.7 million for the nine months ended September 30, 2017.

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2017 (Unaudited)	December 31, 2016
	(in millions)	
Assets		
Current assets		
Cash and cash equivalents	\$549.6	\$ 481.2
Accounts receivable, net	1,122.0	560.0
Inventories, net	396.6	182.3
Prepaid expenses and other	144.5	75.8
Total current assets	2,212.7	1,299.3
Property, plant and equipment, net	2,302.7	1,093.7
Deferred income taxes	39.9	369.4
Goodwill	1,654.6	154.0
Intangible assets, net	1,236.6	28.5
GM postretirement cost sharing asset	232.2	236.1
Other assets and deferred charges	379.6	242.9
Total assets	\$8,058.3	\$ 3,423.9
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$6.8	\$ 3.3
Accounts payable	856.4	382.3
Accrued compensation and benefits	200.0	139.3
Deferred revenue	28.5	24.6
Accrued expenses and other	193.3	102.0
Total current liabilities	1,285.0	651.5
Long-term debt, net	4,169.3	1,400.9
Deferred revenue	79.7	70.8
Deferred income taxes	233.5	15.0
Postretirement benefits and other long-term liabilities	854.2	779.9
Total liabilities	6,621.7	2,918.1
Stockholders' equity		
Common stock, par value \$0.01 per share; 150.0 million shares authorized; 118.2 million shares issued as of September 30, 2017 and 83.0 million shares issued as of December 31, 2016	1.2	0.9
Paid-in capital	1,258.5	660.1
Retained earnings	656.3	425.5
Treasury stock at cost, 6.9 million shares as of September 30, 2017 and 6.5 million shares as of December 31, 2016	(198.1)	(191.1)
Accumulated other comprehensive loss		
Defined benefit plans, net of tax	(239.8)	(243.5)
Foreign currency translation adjustments	(43.1)	(122.4)
Unrecognized loss on cash flow hedges, net of tax	(2.2)	(23.7)

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Total AAM stockholders' equity	1,432.8	505.8
Noncontrolling interests in subsidiaries	3.8	—
Total stockholders' equity	1,436.6	505.8
Total liabilities and stockholders' equity	\$8,058.3	\$ 3,423.9

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, 2017 2016 (in millions)	
Operating activities		
Net income	\$231.0	\$193.8
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	303.4	150.4
Impairment of property, plant and equipment	—	3.4
Deferred income taxes	(43.8)	32.3
Stock-based compensation	37.2	15.8
Pensions and other postretirement benefits, net of contributions	0.6	(5.7)
Loss on disposal of property, plant and equipment, net	0.7	2.2
Undistributed earnings in affiliate	(2.0)	(2.2)
Debt refinancing and redemption costs	2.7	—
Changes in operating assets and liabilities, net of amounts acquired		
Accounts receivable	(131.0)	(140.0)
Inventories	(3.3)	13.7
Accounts payable and accrued expenses	65.3	98.1
Deferred revenue	10.1	(8.9)
Other assets and liabilities	(50.2)	(61.9)
Net cash provided by operating activities	420.7	291.0
Investing activities		
Purchases of property, plant and equipment	(278.7)	(158.7)
Proceeds from sale of property, plant and equipment	1.7	0.7
Proceeds from government grants	—	2.8
Purchase buyouts of leased equipment	(12.6)	—
Final distribution of Reserve Yield Plus Fund	—	1.0
Proceeds from sale of business, net	5.9	—
Acquisition of business, net of cash acquired	(895.5)	(5.6)
Net cash used in investing activities	(1,179.2)	(159.8)
Financing activities		
Payments of long-term debt and capital lease obligations	(1,944.6)	(6.2)
Proceeds from issuance of long-term debt	2,858.1	28.8
Debt issuance costs	(90.8)	—
Purchase of treasury stock	(7.0)	(5.3)
Employee stock option exercises	0.9	0.3
Net cash provided by financing activities	816.6	17.6
Effect of exchange rate changes on cash	10.3	2.6
Net increase in cash and cash equivalents	68.4	151.4

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Cash and cash equivalents at beginning of period	481.2	282.5
Cash and cash equivalents at end of period	\$549.6	\$433.9
Supplemental cash flow information		
Interest paid	\$108.9	\$61.3
Income taxes paid, net of refunds	\$30.2	\$42.5
Non-cash investing activities: AAM common shares issued for acquisition of MPG	\$576.7	\$—

See accompanying notes to condensed consolidated financial statements.

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AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017
(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization On April 6, 2017, Alpha SPV I, Inc., a wholly-owned subsidiary of American Axle & Manufacturing Holdings, Inc. (Holdings), merged with and into Metaldyne Performance Group, Inc. (MPG), with MPG as the surviving corporation in the merger. Upon completion of the merger, MPG became a wholly-owned subsidiary of Holdings. As a result, we are now a global Tier I supplier to the automotive, commercial and industrial markets. We design, engineer, validate and manufacture driveline, metal forming, powertrain and casting products, employing over 25,000 associates, operating at more than 90 facilities in 17 countries, to support our customers on global and regional platforms with a continued focus on delivering operational excellence, technology leadership and quality.

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, 2016 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, 2016.

Change in Accounting Principle Effective April 1, 2017, we changed our method of accounting for indirect inventory from capitalizing and recording as expense when the inventory was consumed to now expensing indirect inventory at the time of purchase. We believe that expensing indirect inventory at the time of purchase is preferable as the change (1) aligns purchase patterns of indirect inventory with our current operational strategies, (2) reduces the administrative burden associated with recordkeeping for indirect inventory, and (3) results in a uniform accounting policy across our global operations as MPG's accounting method had been to expense indirect inventory upon purchase.

Based on the guidance in Accounting Standards Codification (ASC) 250 Accounting Changes and Error Corrections we applied this change in accounting principle retrospectively. As a result of the change, we have decreased previously reported inventories, net by \$37.2 million, decreased previously reported retained earnings by \$24.2 million and increased previously reported deferred tax assets by \$13.0 million as of January 1, 2016 and December 31, 2016. The cumulative impact of the change in accounting principle from January 1, 2016 to March 31, 2017, which covers the periods in which we would be required to retrospectively revise our Statements of Income and Balance Sheets, is an increase to income of \$2.4 million, net of tax. We have determined that the quarterly impact of this adjustment would not be material in any required prior period nor is the impact of recording the cumulative impact of \$2.4 million, net of tax material to the current period. As such, we recorded the \$2.4 million, net of tax adjustment related to prior periods in the second quarter of 2017. The impact of this \$2.4 million, net of tax adjustment to income

resulted in an increase in basic and diluted earnings per share of \$0.02 per share for the nine months ended September 30, 2017. The impact on current period income for the quarter ended September 30, 2017 was immaterial in comparison to accounting for indirect inventory under our historical accounting policy. See Note 5 - Inventories for further discussion.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Effect of New Accounting Standards

Accounting Standards Update 2017-12

On August 28, 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-12 - Targeted Improvements to Accounting for Hedging Activities (Topic 815). ASU 2017-12 is intended to better align the risk management activities of a company with the company's financial reporting for hedging relationships. This guidance expands and refines several aspects of hedge accounting. The most applicable changes to AAM as a result of the new guidance are as follows: 1) the concept of risk component hedging is introduced in ASU 2017-12, which could allow us to hedge contractually specified components in a contract; 2) the guidance now allows entities to utilize a 31-day period in assessing whether the critical terms of a forecasted transaction match the maturity of the hedging derivative, which could allow for expanded use of hedging instruments for certain sales and purchases; and 3) we may now qualitatively assess hedge effectiveness on a quarterly basis when the facts and circumstances related to the hedging relationship have not changed significantly. This guidance becomes effective at the beginning of our 2019 fiscal year, however early adoption is permitted, and we expect to adopt this guidance effective January 1, 2018. The adoption of this guidance is not expected to have any impact on the measurement or presentation of our existing hedging relationships.

Accounting Standards Update 2017-07

On March 10, 2017, the FASB issued ASU 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this update require that an employer disaggregate the service cost component from the other components of defined benefit pension cost and postretirement benefit cost (net benefit cost). The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. This guidance becomes effective at the beginning of our 2018 fiscal year and requires a retrospective transition method for the income statement classification of the net benefit cost components and a prospective transition method for the capitalization of the service cost component in assets. We are currently assessing the impact that this standard will have on our consolidated financial statements.

Accounting Standards Update 2017-04

On January 26, 2017, the FASB issued ASU 2017-04 - Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendments in this update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination, or what is referred to under existing guidance as "Step 2." Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. This guidance becomes effective at the beginning of our 2020 fiscal year, however early adoption is permitted. The guidance requires a prospective transition method. We are currently assessing the impact that this standard will have on our consolidated financial statements.

Accounting Standards Update 2016-16

On October 24, 2016, the FASB issued ASU 2016-16 - Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. Existing income tax guidance prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This existing guidance is deemed an exception to the principle of comprehensive recognition of current and deferred income taxes under GAAP. Due to the limited authoritative guidance about this exception, diversity in practice exists. ASU 2016-16 eliminates this exception for intra-entity transfers of assets other than inventory and requires that entities recognize the income tax consequences when the transfers occur. This guidance becomes effective at the beginning of our 2018 fiscal year and requires a modified retrospective transition method. We are currently assessing the impact that this standard will have on our consolidated financial statements.

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

Accounting Standards Update 2016-02

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. 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 consolidated financial statements.

Accounting Standards Update 2014-09

In 2014, the FASB issued ASU 2014-09 - Revenue from Contracts with Customers (Topic 606), and has subsequently issued ASUs 2015-14 - Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, 2016-08 - Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross Versus Net), 2016-10 - Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, 2016-12 - Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, and 2016-20 - Revenue from Contracts with Customers (Topic 606): Technical Corrections and Improvements to Topic 606 (collectively, the Revenue Recognition ASUs).

The Revenue Recognition ASUs outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersede 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. This guidance is effective for AAM beginning on January 1, 2018 and entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. We expect to adopt this guidance using the modified retrospective approach.

We are concluding the assessment phase of implementing this guidance. We have evaluated each of the five steps in the new revenue recognition model, which are as follows: 1) Identify the contract with the customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations; and 5) Recognize revenue when (or as) performance obligations are satisfied. Our preliminary conclusion is that the impact of implementing the Revenue Recognition ASUs will be immaterial to our financial statements and that our method for recognizing revenue subsequent to the implementation of the Revenue Recognition ASUs will not vary significantly from our revenue recognition practices under current GAAP.

There are certain considerations related to internal control over financial reporting that are associated with implementing the new guidance under Topic 606 and we are currently implementing the necessary changes to our control framework for revenue recognition. Disclosure requirements under the new guidance in Topic 606 have been significantly expanded in comparison to the disclosure requirements under the current guidance. We are currently concluding our assessment of the new disclosure requirements and we are in the process of drafting our disclosures for both interim and annual periods under Topic 606.

Share Repurchase Program In 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 first nine months of 2017.

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 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. RESTRUCTURING AND ACQUISITION-RELATED COSTS

In the fourth quarter of 2016, AAM initiated actions under a global restructuring program focused on creating a more streamlined organization in addition to reducing our cost structure and preparing for acquisition integration activities. A summary of this activity for the first nine months of 2017 is shown below:

	Severance Charges	Implementation Costs	Total
	(in millions)		
Accrual as of December 31, 2016	\$0.6	\$ 9.2	\$9.8
Charges	1.7	13.5	15.2
Cash utilization	(2.3)	(17.8)	(20.1)
Non-cash utilization	—	—	—
Accrual adjustments	—	—	—
Accrual as of September 30, 2017	\$—	\$ 4.9	\$4.9

As part of our restructuring actions, we incurred severance charges of approximately \$1.7 million, as well as implementation costs, including professional expenses, of approximately \$13.5 million during the nine months ended September 30, 2017. Since the inception of our global restructuring program, we have incurred severance charges totaling \$2.3 million and implementation costs totaling \$23.7 million. We expect to incur up to \$5 million of additional charges under our global restructuring program in 2017.

On March 1, 2017, we completed the acquisition of USM Mexico Manufacturing LLC (USM Mexico) and on April 6, 2017, we completed the acquisition of MPG. During the nine months ended September 30, 2017, we incurred the following charges related to these acquisitions:

	Acquisition-Related Costs	Severance Charges	Integration Expenses	Total
	(in millions)			
Charges	\$40.7	\$ 5.6	\$ 29.0	\$75.3

Total restructuring and
 acquisition-related charges \$90.5

Acquisition-related costs primarily consist of advisory, legal, accounting, valuation and certain other professional or consulting fees incurred. Also included in acquisition-related costs is a one-time charge of approximately \$20 million for MPG stock-based compensation that was accelerated and settled as a result of the acquisition. Integration expenses reflect costs incurred for information technology systems, ongoing operational activities, and consulting fees incurred in conjunction with the acquisitions. Total charges associated with our global restructuring program and acquisition-related charges of \$22.8 million and \$90.5 million are shown on a separate line item titled "Restructuring and Acquisition-Related Costs" in our Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2017, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. BUSINESS COMBINATIONS

Acquisition of MPG

On April 6, 2017, AAM completed its acquisition of 100% of the equity interests of MPG for a total purchase price of approximately \$1.5 billion plus the assumption of approximately \$1.7 billion in net debt (comprised of approximately \$1.9 billion in debt less approximately \$0.2 billion of MPG cash and cash equivalents). Under the terms of the agreement and plan of merger (Merger Agreement), each share of MPG common stock (other than MPG excluded shares as defined in the Merger Agreement) was converted into the right to receive (a) \$13.50 in cash, without interest, and (b) 0.5 of a share of AAM common stock (Merger Consideration). Further, MPG stock options outstanding immediately prior to the effective time of the merger were accelerated and holders of the stock options received the Merger Consideration less the per share exercise price of the MPG stock options. All MPG restricted shares and restricted stock unit awards outstanding under an MPG equity plan were also accelerated and each holder thereof received the Merger Consideration for each restricted share or restricted stock unit award of MPG common stock.

MPG provides highly-engineered components for use in powertrain and safety-critical platforms for the global light, commercial and industrial markets. MPG produces these components using complex metal-forming manufacturing technologies and processes for a global customer base of OEMs and Tier I suppliers, which help their customers meet fuel economy, performance and safety standards. Our acquisition of MPG contributes significantly to diversifying our global customer base and end markets, while also allowing us to expand our presence as a global Tier I supplier to the commercial and industrial markets, in addition to our existing presence as a global Tier I supplier to the automotive industry.

The aggregate cash consideration for the acquisition of MPG was financed using (i) net proceeds from the issuance in March 2017 by AAM of \$1.2 billion of new senior notes consisting of \$700.0 million aggregate principal amount of 6.25% senior notes due 2025, and \$500.0 million aggregate principal amount of 6.50% senior notes due 2027, and on April 6, 2017: (ii) borrowings by AAM of \$100.0 million under a term loan that matures in 2022, (iii) borrowings by AAM of \$1.55 billion under a term loan that matures in 2024, and (iv) cash on hand.

The acquisition of MPG was accounted for under the acquisition method under Accounting Standards Codification 805 Business Combinations (ASC 805) with the purchase price allocated to the identifiable assets and liabilities of the acquired company based on the respective fair values of the assets and liabilities.

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

The following represents the preliminary fair values of the assets acquired and liabilities assumed resulting from the acquisition, as well as the calculation of goodwill:

(in millions)	April 6, 2017
Cash consideration	\$953.5
Share consideration	576.7
Total consideration transferred	\$1,530.2
Fair value of MPG noncontrolling interests	3.6
Total fair value of MPG	\$1,533.8
Cash and cash equivalents	\$202.1
Accounts receivable	403.2
Inventories	199.0
Prepaid expenses and other long-term assets	121.0
Property, plant and equipment	985.7
Intangible assets	1,223.1
Total assets acquired	\$3,134.1
Accounts payable	287.8
Accrued expenses and other	137.2
Deferred income tax liabilities	596.4
Debt	1,918.7
Postretirement benefits and other long-term liabilities	54.5
Net assets acquired	\$139.5
Goodwill	\$1,394.3

The preliminary allocation of the purchase price to the assets acquired and liabilities assumed, including the residual amount recognized as goodwill, is based upon estimated information and is subject to change within the measurement period. Under the guidance in ASC 805, the measurement period is a period not to exceed one year from the acquisition date during which we may adjust estimated or provisional amounts recorded during purchase accounting if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in revised estimated values of those assets or liabilities as of that date. Measurement period adjustments are recorded in the period identified with an offsetting entry to goodwill. Any adjustments to amounts recorded in purchase accounting that do not qualify as measurement period adjustments will be included in earnings in the period identified.

In the third quarter of 2017, we made measurement period adjustments to reflect changes to facts and circumstances that existed as of the acquisition date, which resulted in a net increase in Goodwill of \$18.0 million. These adjustments related primarily to Intangible assets and the corresponding offset to Deferred income tax liabilities as a result of changes to our third-party valuation and customary post-closing reviews. The resulting impact to amortization expense in our Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2017 of adjusting our intangible assets was immaterial.

The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair value of property, plant and equipment and intangible assets, as well as deferred income tax assets and liabilities, and contingent liabilities. The fair values of the assets acquired and liabilities assumed are based on our preliminary estimates and assumptions, as well as other information compiled by management, including valuations that utilize

customary valuation procedures and techniques. While we believe that these preliminary estimates provide a reasonable basis for estimating the fair value of the assets acquired and liabilities assumed, we will continue to evaluate available information prior to finalization of the amounts.

Goodwill resulting from the acquisition is primarily attributable to anticipated synergies and economies of scale from which we expect to benefit as a combined entity. None of the goodwill is expected to be deductible for tax purposes.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We recognized \$1,223.1 million of amortizable intangible assets for customer platforms, customer relationships, developed technology and licensing agreements as a result of the acquisition of MPG. These intangible assets will be amortized over a period ranging from five to 17 years. The intangible assets were valued using primarily the relief from royalty method or the multi-period excess earnings method, both of which utilize significant unobservable inputs. These inputs are defined in the fair value hierarchy as Level 3 inputs, which require management to make estimates and assumptions regarding certain financial measures using forecasted or projected information.

AAM had an existing accounts payable balance of \$12.4 million with MPG as of the date of acquisition. As a result of the acquisition, this pre-existing accounts payable balance was settled and AAM accounted for this settlement separately from the acquisition. This resulted in a \$12.4 million reduction in the purchase price and this portion of the cash paid to acquire MPG has been reflected as an operating cash outflow in our Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2017.

Included in net sales and net income attributable to AAM for the period from the acquisition date on April 6, 2017 through September 30, 2017 was approximately \$1,351 million and \$42 million, respectively, attributable to MPG.

Unaudited Pro Forma Financial Information

Unaudited pro forma net sales for AAM, on a combined basis with MPG for the nine months ended September 30, 2017 and September 30, 2016, were \$5.3 billion and \$5.1 billion, respectively, excluding MPG sales to AAM during those periods. Unaudited pro forma net income amounts for the nine months ended September 30, 2017 and September 30, 2016 were approximately \$290 million and \$170 million, respectively. Unaudited pro forma earnings per share amounts for the nine months ended September 30, 2017 and September 30, 2016 were \$2.57 per share and \$1.64 per share, respectively.

The unaudited pro forma net income amounts for the nine months ended September 30, 2017 and September 30, 2016 have been adjusted by approximately \$20 million for a one-time charge for MPG stock-based compensation that was accelerated and settled on the date of acquisition, approximately \$25 million related to the step-up of inventory to fair value as a result of the acquisition, and approximately \$55 million in acquisition-related costs. This adjustment resulted in a reclassification of approximately \$65 million, net of tax, from unaudited pro forma net income for the first nine months of 2017 into pro forma net income for the first nine months of 2016, as we are required to disclose the unaudited pro forma amounts as if the acquisition of MPG had been completed on January 1, 2016.

The disclosure of unaudited pro forma net sales and earnings is for informational purposes only and does not purport to indicate the results that would actually have been obtained had the merger been completed on the assumed date for the periods presented, or which may be realized in the future.

Acquisition of USM Mexico

On March 1, 2017, AAM completed the acquisition of 100% of USM Mexico, a former subsidiary of U.S. Manufacturing Corporation (USM). The purchase price was funded entirely with available cash and the acquisition was accounted for under the acquisition method.

USM Mexico includes USM's operations in Guanajuato, Mexico, which has historically been one of the largest suppliers to AAM's Guanajuato Manufacturing Complex. This acquisition allows AAM to vertically integrate the supply chain and helps ensure continuity of supply for certain parts to our largest manufacturing facility.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following represents the estimated fair value of the assets acquired and liabilities assumed resulting from the acquisition, as well as the calculation of goodwill:

(in millions)	March 1, 2017
Contractual purchase price	\$162.5
Adjustments to contractual purchase price for capital equipment	4.9
Adjustment to contractual purchase price for settlement of existing accounts payable balance	(22.8)
Cash acquired	(0.5)
Adjusted purchase price, net of cash acquired	\$144.1
Accounts receivable	1.1
Inventories	4.8
Prepaid expenses and other	2.4
Property, plant and equipment	38.4
Intangible assets	31.7
Total assets acquired	\$78.4
Accounts payable	10.8
Accrued expenses and other	2.7
Deferred income tax liabilities	1.2
Net assets acquired	\$63.7
Goodwill	\$80.4

The purchase agreement specifies a period of time subsequent to the acquisition date for calculating the final working capital amount of USM Mexico as of the acquisition date. As a result, the purchase price, working capital and goodwill amounts as included in the table above are considered provisional and are subject to adjustment. We expect these provisional amounts to be finalized in the fourth quarter of 2017. None of the goodwill is expected to be deductible for tax purposes.

AAM had an existing accounts payable balance of \$22.8 million with USM Mexico as of the date of acquisition. As a result of the acquisition, this pre-existing accounts payable balance was settled and AAM accounted for this settlement separately from the acquisition. This resulted in a \$22.8 million reduction in the purchase price and this portion of the cash paid to acquire USM Mexico has been reflected as an operating cash outflow in our Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2017.

The operating results of USM Mexico from the acquisition date through September 30, 2017 were insignificant to AAM's Condensed Consolidated Statement of Income for the three months and nine months ended September 30, 2017. Further, we have not included pro forma revenue and earnings for the nine months ended September 30, 2017 and September 30, 2016 as the inclusion of USM Mexico would be insignificant to AAM's consolidated results for these periods.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. GOODWILL AND INTANGIBLE ASSETS

Goodwill The following table provides a reconciliation of changes in goodwill for the nine months ended September 30, 2017:

	Driveline	Metal Forming	Powertrain	Casting	Consolidated
	(in millions)				
Balance as of December 31, 2016	\$ 130.1	\$ 23.9	\$ —	\$ —	\$ 154.0
Acquisition of MPG	—	516.0	472.3	406.0	1,394.3
Acquisition of USM Mexico	80.4	—	—	—	80.4
Foreign currency translation	0.4	16.6	8.9	—	