AMERICAN AXLE & MANUFACTURING HOLDINGS INC
Form 10-Q
October 29, 2010

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

FORM 10-Q

R	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended September 30, 2010

or

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from _____________ to _____________

Commission File Number: 1-14303

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	36-3161171 (I.R.S. Employer Identification No.)
One Dauch Drive, Detroit, Michigan (Address of Principal Executive Offices)	48211-1198 (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 R 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 o 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 o Accelerated filer R 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 R

As of October 27, 2010, the latest practicable date, the number of shares of the registrant's Common Stock, par value $0.01 per share, outstanding was 71,382,344 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, 2010
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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," and similar words of 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 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:

- global economic conditions;
- our ability to comply with the definitive terms and conditions of various commercial and financing arrangements with General Motors Company (GM);
- reduced purchases of our products by GM, Chrysler Group LLC (Chrysler) or other customers;
- reduced demand for our customers' products (particularly light trucks and SUVs produced by GM and Chrysler);
- availability of financing for working capital, capital expenditures, R&D or other general corporate purposes, including 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;
- the impact on us and our customers of requirements imposed on, or actions taken by, our customers in response to the U.S. government's ownership interest, the Troubled Asset Relief Program or similar programs;
- our ability to achieve cost reductions through ongoing restructuring actions;
- additional restructuring actions that may occur;
- our ability to achieve the level of cost reductions required to sustain global cost competitiveness;
- our ability to maintain satisfactory labor relations and avoid future work stoppages;
- our suppliers', our customers' and their suppliers' ability to maintain satisfactory labor relations and avoid work stoppages;
- our ability to continue to implement improvements in our U.S. labor cost structure;
- supply shortages or price increases in raw materials, utilities or other operating supplies;
- currency rate fluctuations;
- our ability or our customers' and suppliers' ability to successfully launch new product programs on a timely basis;
- our ability to realize the expected revenues from our new and incremental business backlog;
- our ability to attract new customers and programs for new products;
- 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;
- price volatility in, or reduced availability of, fuel;
- 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);
- adverse changes in the political stability of our principal markets (particularly North America, Europe, South America and Asia);
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liabilities arising from warranty claims, product liability and legal proceedings to which we are or may become a party;

- changes in liabilities arising from pension and other postretirement benefit obligations;
- risks of noncompliance with environmental regulations or risks of environmental issues that could result in unforeseen costs at our facilities;
- our ability to attract and retain key associates;
- 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 OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions, except per share data)			
Net sales	$618.2	$409.6	$1,699.7	$1,057.6
Cost of goods sold	504.3	321.1	1,399.6	1,157.1
Gross profit (loss)	113.9	88.5	300.1	(99.5)
Selling, general and administrative expenses	53.2	44.0	147.0	133.3
Operating income (loss)	60.7	44.5	153.1	(232.8)
Interest expense	(22.1)	(20.3)	(67.4)	(60.4)
Investment income	0.4	0.8	1.4	2.8
Other income (expense), net	0.5	0.1	(1.7)	(3.6)
Income (loss) before income taxes	39.5	25.1	85.4	(294.0)
Income tax expense	0.8	5.5	5.2	7.8
Net income (loss)	38.7	19.6	80.2	(301.8)
Net loss attributable to the noncontrolling interests	0.1	—	0.3	0.1
Net income (loss) attributable to AAM	$38.8	$19.6	$80.5	$(301.7)
Basic earnings (loss) per share	$0.54	$0.35	$1.13	$(5.83)
Diluted earnings (loss) per share	$0.52	$0.35	$1.08	$(5.83)

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2010 (Unaudited)	December 31, 2009
Assets	(in millions)	
Current assets		
Cash and cash equivalents	$240.2	$178.1
Short-term investments	2.8	4.2
Accounts receivable, net	188.9	129.7
Inventories, net	124.9	90.6
Prepaid expenses and other current assets	77.2	114.0
Total current assets	634.0	516.6
Property, plant and equipment, net	922.6	946.7
Goodwill	147.8	147.8
GM postretirement cost sharing asset	214.4	219.9
Other assets and deferred charges	152.6	155.8
Total assets	$2,071.4	$1,986.8
Liabilities and Stockholders’ Deficit		
Current liabilities		
Accounts payable	$311.6	$200.9
Accrued compensation and benefits	112.9	98.9
Deferred revenue	80.3	76.1
Accrued expenses and other current liabilities	67.3	69.6
Total current liabilities	572.1	445.5
Long-term debt	1,011.0	1,071.4
Deferred revenue	136.4	189.7
Postretirement benefits and other long-term liabilities	821.0	840.1
Total liabilities	2,540.5	2,546.7
Stockholders' deficit		
Common stock, par value $0.01 per share	0.8	0.8
Paid-in capital	587.0	579.9
Accumulated deficit	(821.2)	(901.7)
Treasury stock at cost, 5.5 million shares as of September 30, 2010 and 5.4 million shares as of December 31, 2009	(176.1)	(174.8)
Accumulated other comprehensive income (loss), net of tax		
Defined benefit plans	(101.5)	(101.8)
Foreign currency translation adjustments	41.0	37.4
Unrecognized gain on derivatives	0.9	—
Total AAM stockholders' deficit	(469.1)	(560.2)
Noncontrolling interest in subsidiaries	—	0.3
Total stockholders’ deficit	(469.1)	(559.9)
Total liabilities and stockholders' deficit	$2,071.4	$1,986.8

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2010	2009
	(in millions)	
Operating activities		
Net income (loss)	$80.2	$(301.8)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	98.1	102.8
Asset impairments and related indirect inventory obsolescence	8.7	151.6
Deferred income taxes	0.3	(2.9)
Stock-based compensation	7.0	10.9
Pensions and other postretirement benefits, net of contributions	(13.4)	(65.2)
Loss on retirement of equipment and held-for-sale assets, net	2.2	1.1
Changes in operating assets and liabilities		
Accounts receivable	(57.6)	97.4
Inventories	(33.6)	22.0
Accounts payable and accrued expenses	122.3	(71.4)
Deferred revenue	(49.3)	40.1
Other assets and liabilities	28.6	(4.3)
Net cash provided by (used in) operating activities	193.5	(19.7)
Investing activities		
Purchases of property, plant and equipment	(61.7)	(115.5)
Purchase buyouts of leased equipment	(7.8)	—
Investment in joint venture	—	(10.2)
Proceeds from sale of equipment	1.2	0.5
Redemption of short-term investments	1.6	68.0
Net cash used in investing activities	(66.7)	(57.2)
Financing activities		
Net short-term borrowings (repayments) under revolving credit facilities	(60.0)	38.5
Payments of long-term debt and capital lease obligations	(6.7)	(10.3)
Proceeds from issuance of long-term debt	5.9	4.6
Debt issuance costs	(2.2)	(18.2)
Proceeds from issuance of GM warrants	—	30.3
Repurchase of treasury stock	(1.3)	(0.3)
Employee stock option exercises	—	1.0
Net cash provided by (used in) financing activities	(64.3)	45.6
Effect of exchange rate changes on cash	(0.4)	5.6
Net increase (decrease) in cash and cash equivalents	62.1	(25.7)
Cash and cash equivalents at beginning of period	178.1	198.8

Cash and cash equivalents at end of period	$240.2	$173.1
Supplemental cash flow information		
Interest paid	$61.9	$67.0
Income taxes paid (refunds received)	$(43.5)	$3.0

See accompanying notes to condensed consolidated financial statements.

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AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(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, crankshafts, transmission parts and metal-formed products. In addition to locations in the United States (U.S.) (Michigan, New York, Ohio, Indiana and Pennsylvania), we have offices or facilities in Brazil, China, England, Germany, India, Japan, Luxembourg, Mexico, Poland, Scotland, South Korea 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, 2009 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, 2009.

2. RESTRUCTURING ACTIONS

A summary of the restructuring related activity for the nine months ended September 30, 2010 is shown below (in millions):

	One-time Termination Benefits	Asset Impairments	Indirect Inventory Obsolescence	Asset Retirement Obligations	Contract Related Costs	Total
Accrual as of December 31, 2009	$8.0	$—	$—	$1.3	$21.3	$30.6
Charges	—	8.4	0.3	0.1	—	8.8
Cash utilization	(3.7)	—	—	—	(5.3)	(9.0)
Non-cash utilization	—	(8.4)	(0.3)	—	—	(8.7)
Accrual adjustments	(0.4)	—	—	—	(2.1)	(2.5)
Accrual as of September 30, 2010	$3.9	$—	$—	$1.4	$13.9	$19.2

In the second quarter of 2010, we recorded asset impairment charges and indirect inventory obsolescence of $8.7 million as a result of the announced closure of our Salem Manufacturing Facility.

In 2010, we adjusted our operating plans and revised certain sourcing arrangements. As a result, we elected to buy out and utilize certain leased assets that were previously determined to be permanently idled. In the second quarter of 2010, we paid $3.4 million to purchase these leased assets and recorded a reduction of cost of goods sold of $2.0 million to adjust the accrual that was originally recorded when these assets were idled.

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

We expect to make payments of approximately $4 million in the fourth quarter of 2010, $10 million in 2011 and $5 million in 2012 related to the remaining restructuring accrual.

3. SUPPLEMENTAL UNEMPLOYMENT BENEFITS

In conjunction with the 2008 labor agreements with the International United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), we accrued $18.0 million in 2008 related to supplemental unemployment benefits (SUB) to be paid to permanently idled associates during the contract period that expires in February 2012.

In 2010, we reached resolution with the UAW on an arbitration ruling related to the transfer of certain production from the Detroit Manufacturing Complex to another AAM facility. As a result, we concluded that we no longer expect any of our remaining UAW represented associates related to the 2008 labor agreements to be permanently idled for the remainder of the contract period. Therefore, we revised our previous estimate of our SUB liability. In the second quarter of 2010, we recorded a reduction of cost of goods sold of $5.0 million to adjust the remaining SUB accrual based on these revised estimates.

4. INVENTORIES

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

Inventories consist of the following:

	September 30, 2010	December 31, 2009
	(in millions)	
Raw materials and work-in-progress	$134.6	$101.3
Finished goods	20.3	23.0
Gross inventories	154.9	124.3
Inventory valuation reserves	(30.0)	(33.7)
Inventories, net	$124.9	$90.6

5. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2010	December 31, 2009
	(in millions)	
Revolving Credit Facility	$—	$60.0
9.25% Notes, net of discount	420.1	419.6
7.875% Notes	300.0	300.0
5.25% Notes, net of discount	249.9	249.9
2.00% Convertible Notes	0.4	0.4
Foreign credit facilities	33.7	34.1
Capital lease obligations	6.9	7.4

Long-term debt	$1,011.0	$1,071.4

As of September 30, 2010, the Revolving Credit Facility provided up to $296.3 million of revolving bank financing commitments through December 2011 and $243.2 million of such revolving bank financing commitments through June 2013. At September 30, 2010, we had $267.8 million available under the Revolving Credit Facility. This availability reflects a reduction of $28.5 million for standby letters of credit issued against the facility.

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

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.

We utilize local currency credit facilities to finance the operations of certain foreign subsidiaries. At September 30, 2010, $33.7 million was outstanding under these facilities and an additional $0.5 million was available.

The weighted-average interest rate of our long-term debt outstanding at September 30, 2010 was 8.2% and 8.3% as of December 31, 2009.

6. FAIR VALUE

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

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

Financial instruments The estimated fair value of our financial assets and liabilities that are recognized at fair value on a recurring basis, using available market information and other observable data, as of September 30, 2010, are as follows:

	September 30, 2010		December 31, 2009		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Input
	(in millions)		(in millions)		
Balance Sheet Classification					
Cash equivalents	$121.1	$121.1	$77.0	$77.0	Level 1
Short-term investments	2.8	2.8	4.2	4.2	Level 2
Prepaid expenses and other current assets					
Currency forward contracts	0.9	0.9	—	—	Level 2

In 2008, redemptions were temporarily suspended for certain money-market and other similar funds in which we invest. We received $1.6 million in redemptions from these funds in the nine months ended September 30, 2010. As of September 30, 2010, we have classified the fair value of the remaining investments of $2.8 million as short-term investments on our Condensed Consolidated Balance Sheet. We expect to receive the remaining balance of our current holdings in these funds within the next 12 months.

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

The carrying value of our cash, accounts receivable, accounts payable and accrued liabilities approximates their fair values due to the short-term maturities of these instruments. The carrying value of our borrowings under the foreign credit facilities approximates 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, 2010		December 31, 2009		
	Carrying Amount (in millions)	Fair Value	Carrying Amount (in millions)	Fair Value	Input
Revolving Credit Facility	$—	$—	$60.0	$57.0	Level 2
9.25% Notes	420.1	459.0	419.6	433.5	Level 2
7.875% Notes	300.0	291.0	300.0	258.0	Level 2
5.25% Notes	249.9	232.5	249.9	212.5	Level 2

Long-lived assets In the second quarter of 2010, as part of our impairment analysis, we were required to measure the fair value of certain long-lived assets. In this analysis we utilized the income approach, which determines fair value through a discounted cash flow analysis based on the assumptions a market participant would use in pricing these assets. Significant inputs used by management when determining the fair value of long-lived assets for impairment include general economic conditions, future expected production volumes, product pricing and cost estimates, working capital and capital investment requirements, discount rates and estimated liquidation values. The following table summarizes impairments of long-lived assets measured at fair value on a nonrecurring basis subsequent to initial recognition (in millions):

	Fair Value Measurements using Level 3 Inputs	Asset Impairment Recorded in the Second Quarter of 2010
Balance Sheet Classification		
Property, plant and equipment, net	$—	$7.6
Other assets and deferred charges	—	0.8

In the third quarter of 2010, we classified certain administrative and engineering facilities located in Detroit, Michigan as held-for-sale and wrote these assets down to their estimated fair value using available market data. As a result, we recorded a loss of $4.8 million in the third quarter of 2010, of which $3.0 million was recorded to selling, general and administrative expenses and $1.8 million was recorded to cost of goods sold. We reclassified $0.6 million from property, plant and equipment, net to other assets and deferred charges on our Condensed Consolidated Balance Sheet as of September 30, 2010. The following table summarizes the loss on remeasurement of long-lived assets held-for-sale measured at fair value on a nonrecurring basis subsequent to initial recognition (in millions):

	Fair Value Measurements using Level 3 Inputs	Loss on Remeasurement Recorded in the Third Quarter of 2010
Balance Sheet Classification		
Other assets and deferred charges	$0.6	$4.8

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

7. 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. As of September 30, 2010, we have forward contracts outstanding with a notional amount of $23.9 million that hedge our exposure to changes in foreign currency exchange rates for our payroll expenses. There were no currency forward contracts in place as of December 31, 2009.

Interest rate hedges We are exposed to variable interest rates on certain credit facilities. From time to time, we use interest rate hedging to reduce the effects of fluctuations in market interest rates. As of September 30, 2010 and December 31, 2009, no interest rate hedges were in place.

The following table summarizes the reclassification of pre-tax derivative gains (losses) into net income (loss) from accumulated other comprehensive income (loss):

	Location of	Gain (Loss) Reclassified				Gain Expected to be
	Gain (Loss) Reclassified into Net Income (Loss)	Three Months Ended September 30,		Nine Months Ended September 30,		Reclassified During the Next 12 Months
		2010	2009	2010	2009	
		(in millions)				
Currency forward contracts	Cost of Goods Sold	$0.1	$(1.6)	$0.1	$(6.2)	$0.9
Interest rate hedges	Interest Expense	—	(1.0)	—	(3.0)	—

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

8. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost are as follows:

	Pension Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Service cost	$1.2	$1.1	$3.7	$3.8
Interest cost	9.3	8.8	27.8	26.6
Expected asset return	(8.0)	(7.3)	(24.0)	(22.7)
Amortized loss	0.6	0.2	1.8	0.8
Curtailment	—	0.6	—	(1.2)
Special and contractual termination benefits	—	—	—	2.5
Net periodic benefit cost	$3.1	$3.4	$9.3	$9.8

	Other Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Service cost	$0.2	$0.5	$0.7	$1.9
Interest cost	4.1	4.5	12.1	13.7
Amortized gain	(0.3)	(0.5)	(1.0)	(1.7)
Amortized prior service credit	(0.8)	(1.3)	(2.3)	(4.6)
Curtailment	—	(42.9)	—	(63.4)
Special and contractual termination benefits	—	—	—	(0.7)
Net periodic benefit cost (credit)	$3.2	$(39.7)	$9.5	$(54.8)

We contributed $25.5 million to our pension trusts in the nine months ended September 30, 2010, which represents substantially all of our 2010 pension funding requirements. We expect our net cash outlay for other postretirement benefit obligations in 2010, net of GM cost sharing, to be approximately $15 million.

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

9. PRODUCT WARRANTIES

We record a liability for estimated warranty obligations at the dates our product 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 adjust the liability as necessary.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Beginning balance	$2.0	$2.4	$2.1	$2.6
Accruals	0.3	0.1	0.8	0.2
Settlements	(0.2)	(0.2)	(0.4)	(0.3)
Adjustment to prior period accruals	—	—	(0.3)	(0.4)
Foreign currency translation and other	0.1	(0.1)	—	0.1
Ending balance	$2.2	$2.2	$2.2	$2.2

10. INCOME TAXES

We are required to adjust our effective tax rate each quarter to consistently estimate our annual effective tax rate. We must also record the tax impact of certain discrete items, unusual or infrequently occurring, 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 $0.8 million in the three months ended September 30, 2010 and $5.2 million in the first nine months of 2010 as compared to $5.5 million in the three months ended September 30, 2009 and $7.8 million in the first nine months of 2009. Our effective income tax rate was 2.0% in the third quarter of 2010 and 6.1% in the first nine months of 2010 as compared to 22.0% in the third quarter of 2009 and negative 2.7% in the first nine months of 2009. Our income tax expense and effective tax rate for the three and nine months ended September 30, 2010 and 2009 reflected the effect of recording a valuation allowance against income tax benefits on U.S. losses. In conjunction with the filing of our 2009 federal tax return, under provisions contained in the American Recovery and Reinvestment Act of 2009, we recorded a tax benefit of $1.4 million in the three and nine months ended September 30, 2010 attributable to the monetization of alternative minimum tax and research and development credits. We will receive this tax refund during the fourth quarter of 2010. Our income tax expense and effective tax rate in the third quarter of 2009 reflects the effect of increasing our contingent tax liabilities by $4.8 million as a result of our quarterly analysis of uncertain tax positions.

In the first quarter of 2010, we received a $48.8 million refund as a result of the Worker, Homeownership and Business Act of 2009 which extended our 2008 net operating loss carryback period to 2003.

As a result of the Patient Protection and Affordable Care Act of 2010, our deferred tax asset decreased by approximately $11 million. As we have previously recorded a valuation allowance against our U.S. deferred tax assets, there was no net impact to income tax expense or our net deferred tax assets.

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

11. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Net income (loss)	$38.7	$19.6	$80.2	$(301.8)
Defined benefit plans, net of tax	(1.7)	(70.7)	0.3	(86.1)
Foreign currency translation adjustments, net of tax	11.5	11.8	3.6	34.3
Change in derivatives, net of tax	0.8	1.9	0.9	8.7
Comprehensive income (loss)	$49.3	$(37.4)	$85.0	$(344.9)
Net loss attributable to noncontrolling interests	0.1	—	0.3	0.1
Foreign currency translation adjustments related to noncontrolling interests	—	—	—	(0.3)
Comprehensive income (loss) attributable to AAM	$49.4	$(37.4)	$85.3	$(345.1)

12. EARNINGS (LOSS) PER SHARE (EPS)

The following table sets forth the computation of our basic and diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions, except per share data)			
Numerator				
Net income (loss) attributable to AAM	$38.8	$19.6	$80.5	$(301.7)
Denominator				
Basic shares outstanding -				
Weighted-average shares outstanding	71.4	55.4	71.5	51.8
Effect of dilutive securities				
Dilutive stock-based compensation	0.1	—	0.1	—
Dilutive GM warrants	2.8	0.4	2.9	—
Diluted shares outstanding -				
Adjusted weighted-average shares after assumed conversions	74.3	55.8	74.5	51.8
Basic EPS	$0.54	$0.35	$1.13	$(5.83)
Diluted EPS	$0.52	$0.35	$1.08	$(5.83)

Basic and diluted loss per share are the same for the nine months ended September 30, 2009 because the effect of 0.1 million potentially dilutive GM warrants would have been antidilutive.

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Certain exercisable stock options were excluded in 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 4.8 million at September 30, 2010 and 5.8 million at September 30, 2009. The ranges of exercise prices related to the excluded exercisable stock options were $10.08 - $40.83 at September 30, 2010 and $2.81 - $40.83 at September 30, 2009.

13. SUBSEQUENT EVENT

On October 1, 2010, we formed a joint venture with Saab Automobile AB (Saab). The new company, e-AAM Driveline Systems AB (e-AAM), will engineer, develop and commercialize electric all-wheel-drive and hybrid driveline systems for passenger cars and crossover vehicles. e-AAM systems will be designed to improve fuel efficiency, reduce CO2 emissions and provide all-wheel-drive capability utilizing torque vectoring for vehicle stability. AAM is the majority owner, owning 67% of the shares in this joint venture while Saab owns the remaining 33%.

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

14. 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. Holdings fully and unconditionally guarantees the 5.25% Notes and 7.875% Notes, which are senior unsecured obligations of AAM, Inc. The 2.00% Convertible Notes are senior unsecured obligations of Holdings and are fully and unconditionally guaranteed by AAM, Inc.

The following Condensed Consolidating Financial Statements are included in lieu of providing separate financial statements for Holdings and AAM, Inc. 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 Operations
Three months ended, September 30,
(in millions)

	Holdings	AAM Inc.	All Others	Elims	Consolidated
2010					
Net sales					
External	$—	$191.5	$426.7	$—	$618.2
Intercompany	—	6.4	48.2	(54.6)	—
Total net sales	—	197.9	474.9	(54.6)	618.2
Cost of goods sold	—	178.8	380.1	(54.6)	504.3
Gross profit	—	19.1	94.8	—	113.9
Selling, general and administrative expenses	—	48.6	4.6	—	53.2
Operating income (loss)	—	(29.5)	90.2	—	60.7
Non-operating expense, net	—	(22.0)	0.8	—	(21.2)
Income (loss) before income taxes	—	(51.5)	91.0	—	39.5
Income tax expense (benefit)	—	(1.1)	1.9	—	0.8
Earnings from equity in subsidiaries	38.8	70.0	—	(108.8)	—
Net income before royalties and dividends	38.8	19.6	89.1	(108.8)	38.7
Royalties and dividends	—	19.2	(19.2)	—	—
Net income after royalties and dividends	38.8	38.8	69.9	(108.8)	38.7
Net loss attributable to noncontrolling interests	—	—	0.1	—	0.1
Net income attributable to AAM	$38.8	$38.8	$70.0	$(108.8)	$38.8
2009					
Net sales					
External	$—	$116.3	$293.3	$—	$409.6
Intercompany	—	5.6	29.7	(35.3)	—
Total net sales	—	121.9	323.0	(35.3)	409.6
Cost of goods sold	—	85.4	271.0	(35.3)	321.1
Gross income	—	36.5	52.0	—	88.5
Selling, general and administrative expenses	—	41.2	2.8	—	44.0
Operating income (loss)	—	(4.7)	49.2	—	44.5
Non-operating income (expense), net	—	(21.0)	1.6	—	(19.4)
Income (loss) before income taxes	—	(25.7)	50.8	—	25.1
Income tax expense (benefit)	—	(0.3)	5.8	—	5.5

Earnings from equity in subsidiaries	19.6	31.4	—	(51.0)	—
Net income before royalties and dividends	19.6	6.0	45.0	(51.0)	19.6
Royalties and dividends	—	13.6	(13.6)	—	—
Net income after royalties and dividends	19.6	19.6	31.4	(51.0)	19.6
Net loss attributable to noncontrolling interests	—	—	—	—	—
Net income attributable to AAM	$19.6	$19.6	$31.4	$(51.0)	$19.6

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

Condensed Consolidating Statements of Operations
Nine months ended, September 30,
(in millions)

	Holdings	AAM Inc.	All Others	Elims	Consolidated
2010					
Net sales					
External	$—	$446.5	$1,253.2	$—	$1,699.7
Intercompany	—	20.8	132.8	(153.6)	—
Total net sales	—	467.3	1,386.0	(153.6)	1,699.7
Cost of goods sold	—	441.5	1,111.7	(153.6)	1,399.6
Gross profit	—	25.8	274.3	—	300.1
Selling, general and administrative expenses	—	135.0	12.0	—	147.0
Operating income (loss)	—	(109.2)	262.3	—	153.1
Non-operating expense, net	—	(66.5)	(1.2)	—	(67.7)
Income (loss) before income taxes	—	(175.7)	261.1	—	85.4
Income tax expense (benefit)	—	(0.9)	6.1	—	5.2
Earnings from equity in subsidiaries	80.5	197.6	—	(278.1)	—
Net income before royalties and dividends	80.5	22.8	255.0	(278.1)	80.2
Royalties and dividends	—	57.7	(57.7)	—	—
Net income after royalties and dividends	80.5	80.5	197.3	(278.1)	80.2
Net loss attributable to noncontrolling interests	—	—	0.3	—	0.3
Net income attributable to AAM	$80.5	$80.5	$197.6	$(278.1)	$80.5
2009					
Net sales					
External	$—	$409.5	$648.1	$—	$1,057.6
Intercompany	—	18.5	73.0	(91.5)	—
Total net sales	—	428.0	721.1	(91.5)	1,057.6
Cost of goods sold	—	543.1	705.5	(91.5)	1,157.1
Gross profit (loss)	—	(115.1)	15.6	—	(99.5)
Selling, general and administrative expenses	—	125.8	7.5	—	133.3
Operating income (loss)	—	(240.9)	8.1	—	(232.8)
Non-operating income (expense), net	—	(61.8)	0.6	—	(61.2)
Income (loss) before income taxes	—	(302.7)	8.7	—	(294.0)
Income tax expense	—	1.3	6.5	—	7.8
Loss from equity in subsidiaries	(301.7)	(26.0)	—	327.7	—
Net income (loss) before royalties and dividends	(301.7)	(330.0)	2.2	327.7	(301.8)
Royalties and dividends	—	28.3	(28.3)	—	—
Net loss after royalties and dividends	(301.7)	(301.7)	(26.1)	327.7	(301.8)
Net loss attributable to noncontrolling interests	—	—	0.1	—	0.1
Net loss attributable to AAM	$(301.7)	$(301.7)	$(26.0)	$327.7	$(301.7)

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

Condensed Consolidating Balance Sheets
(in millions)

	Holdings	AAM Inc.	All Others	Elims	Consolidated
September 30, 2010					
Assets					
Current assets					
Cash and cash equivalents	$—	$70.8	$169.4	$—	$240.2
Short-term investments	—	—	2.8	—	2.8
Accounts receivable, net	—	27.5	161.4	—	188.9
Inventories, net	—	32.2	92.7	—	124.9
Prepaid expense and other current assets	—	42.0	35.2	—	77.2
Total current assets	—	172.5	461.5	—	634.0
Property, plant and equipment, net	—	260.2	662.4	—	922.6
Goodwill	—	—	147.8	—	147.8
Other assets and deferred charges	—	298.1	68.9	—	367.0
Investment in subsidiaries	—	928.5	—	(928.5)	—
Total assets	$—	$1,659.3	$1,340.6	$(928.5)	$2,071.4
Liabilities and stockholders' equity (deficit)					
Current liabilities					
Accounts payable	$—	$90.3	$221.3	$—	$311.6
Accrued expenses and other current liabilities	—	188.6	71.9	—	260.5
Total current liabilities	—	278.9	293.2	—	572.1
Intercompany payable (receivable)	320.0	(318.6)	(1.4)	—	—
Long-term debt	0.4	970.0	40.6	—	1,011.0
Investment in subsidiaries obligation	148.7	—	—	(148.7)	—
Other long-term liabilities	—	877.7	79.7	—	957.4
Total liabilities	469.1	1,808.0	412.1	(148.7)	2,540.5
Total AAM stockholders' equity (deficit)	(469.1)	(148.7)	928.5	(779.8)	(469.1)
Noncontrolling interest in subsidiaries	—	—	—	—	—
Total stockholders' equity (deficit)	(469.1)	(148.7)	928.5	(779.8)	(469.1)
Total liabilities and stockholders' equity (deficit)	$—	$1,659.3	$1,340.6	$(928.5)	$2,071.4
December 31, 2009					
Assets					
Current assets					
Cash and cash equivalents	$—	$80.6	$97.5	$—	$178.1
Short-term investments	—	1.4	2.8	—	4.2
Accounts receivable, net	—	10.9	118.8	—	129.7
Inventories, net	—	22.8	67.8	—	90.6
Other current assets	—	86.4	27.6	—	114
Total current assets	—	202.1	314.5	—	516.6
Property, plant and equipment, net	—	272.8	673.9	—	946.7
Goodwill	—	—	147.8	—	147.8
Other assets and deferred charges	—	304.8	70.9	—	375.7
Investment in subsidiaries	—	725.9	—	(725.9)	—
Total assets	$—	$1,505.6	$1,207.1	$(725.9)	$1,986.8
Liabilities and stockholders' equity (deficit)					

Current liabilities					
Accounts payable	$—	$59.4	$141.5	$—	$200.9
Accrued expenses and other current liabilities	—	185.1	59.5	—	244.6
Total current liabilities	—	244.5	201.0	—	445.5
Intercompany payable (receivable)	318.8	(470.1)	151.3	—	—
Long-term debt	0.4	1,029.4	41.6	—	1,071.4
Investment in subsidiaries obligation	241.0	—	—	(241.0)	—
Other long-term liabilities	—	942.8	87.0	—	1,029.8
Total liabilities	560.2	1,746.6	480.9	(241.0)	2,546.7
Total AAM stockholders' equity (deficit)	(560.2)	(241.0)	725.9	(484.9)	(560.2)
Noncontrolling interest in subsidiaries	—	—	0.3	—	0.3
Total stockholders' equity (deficit)	(560.2)	(241.0)	726.2	(484.9)	(559.9)
Total liabilities and stockholders' equity (deficit)	$—	$1,505.6	$1,207.1	$(725.9)	$1,986.8

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.	All Others	Elims	Consolidated
2010					
Operating activities					
Net cash provided by (used in) operating activities	$—	$(84.8)	$278.3	$—	$193.5
Investing activities					
Purchases of property, plant and equipment	—	(20.7)	(41.0)	—	(61.7)
Proceeds from sale of equipment	—	1.1	0.1	—	1.2
Purchase buyouts of leased equipment	—	(7.8)	—	—	(7.8)
Redemptions of short-term investments	—	1.6	—	—	1.6
Net cash used in investing activities	—	(25.8)	(40.9)	—	(66.7)
Financing activities					
Net debt activity	—	(59.4)	(1.4)	—	(60.8)
Intercompany activity	1.3	162.4	(163.7)	—	—
Debt issuance costs	—	(2.2)	—	—	(2.2)
Purchase of treasury stock	(1.3)	—	—	—	(1.3)
Net cash provided by (used in) financing activities	—	100.8	(165.1)	—	(64.3)
Effect of exchange rate changes on cash	—	—	(0.4)	—	(0.4)
Net increase (decrease) in cash and cash equivalents	—	(9.8)	71.9	—	62.1
Cash and cash equivalents at beginning of period	—	80.6	97.5	—	178.1
Cash and cash equivalents at end of period	$—	$70.8	$169.4	$—	$240.2
2009					
Operating activities					
Net cash provided by (used in) operating activities	$—	$(98.5)	$78.8	$—	$(19.7)
Investing activities					
Purchases of property, plant and equipment	—	(47.9)	(67.6)	—	(115.5)
Proceeds from sale of equipment	—	0.5	—	—	0.5
Redemption of short-term investments	—	7.9	60.1	—	68.0
Investment in joint venture	—	—	(10.2)	—	(10.2)
Net cash used in investing activites	—	(39.5)	(17.7)	—	(57.2)
Financing activities					
Net debt activity	—	47.5	(14.7)	—	32.8
Intercompany activity	(30.0)	98.8	(68.8)	—	—
Debt issuance costs	—	(18.2)	—	—	(18.2)
Proceeds from issuance of GM warrants	30.3	—	—	—	30.3
Employee stock option exercises	—	1.0	—	—	1.0
Purchase of treasury stock	(0.3)	—	—	—	(0.3)
Net cash provided by (used in) financing activities	—	129.1	(83.5)	—	45.6

Effect of exchange rate changes on cash	—	—	5.6	—	5.6
Net decrease in cash and cash equivalents	—	(8.9)	(16.8)	—	(25.7)
Cash and cash equivalents at beginning of period	—	54.6	144.2	—	198.8
Cash and cash equivalents at end of period	$—	$45.7	$127.4	$—	$173.1

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

15. SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS – 9.25% NOTES

Holdings has no significant asset other than its 100% ownership in AAM, Inc. and no direct subsidiaries other than AAM, Inc. The 9.25% Notes are senior secured obligations of AAM Inc. and are fully and unconditionally guaranteed by Holdings and all domestic subsidiaries of AAM, Inc.

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 Operations
Three months ended September 30,
(in millions)

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2010						
Net sales						
External	$—	$191.5	$49.1	$377.6	$—	$618.2
Intercompany	—	6.4	44.0	4.2	(54.6)	—
Total net sales	—	197.9	93.1	381.8	(54.6)	618.2
Cost of goods sold	—	178.8	83.4	296.7	(54.6)	504.3
Gross profit	—	19.1	9.7	85.1	—	113.9
Selling, general and administrative expenses	—	48.6	—	4.6	—	53.2
Operating income (loss)	—	(29.5)	9.7	80.5	—	60.7
Non-operating income (expense), net	—	(22.0)	—	0.8	—	(21.2)
Income (loss) before income taxes	—	(51.5)	9.7	81.3	—	39.5
Income tax expense (benefit)	—	(1.1)	—	1.9	—	0.8
Earnings (loss) from equity in subsidiaries	38.8	70.0	(4.5)	—	(104.3)	—
Net income before royalties and dividends	38.8	19.6	5.2	79.4	(104.3)	38.7
Royalties and dividends	—	19.2	—	(19.2)	—	—
Net income after royalties and dividends	38.8	38.8	5.2	60.2	(104.3)	38.7
Net loss attributable to noncontrolling interests	—	—	—	0.1	—	0.1
Net income attributable to AAM	$38.8	$38.8	$5.2	$60.3	$(104.3)	$38.8

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

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2009						
Net sales						
External	$—	$116.3	$36.6	$256.7	$—	$409.6
Intercompany	—	5.6	27.9	1.8	(35.3)	—
Total net sales	—	121.9	64.5	258.5	(35.3)	409.6
Cost of goods sold	—	85.4	62.8	208.2	(35.3)	321.1
Gross profit	—	36.5	1.7	50.3	—	88.5
Selling, general and administrative expenses	—	41.2	—	2.8	—	44.0
Operating income (loss)	—	(4.7)	1.7	47.5	—	44.5
Non-operating income (expense), net	—	(21.0)	0.2	1.4	—	(19.4)
Income (loss) before income taxes	—	(25.7)	1.9	48.9	—	25.1
Income tax expense (benefit)	—	(0.3)	—	5.8	—	5.5
Earnings (loss) from equity in subsidiaries	19.6	31.4	(14.2)	—	(36.8)	—
Net income (loss) before royalties and dividends	19.6	6.0	(12.3)	43.1	(36.8)	19.6
Royalties and dividends	—	13.6	—	(13.6)	—	—
Net income (loss) after royalties and dividends	19.6	19.6	(12.3)	29.5	(36.8)	19.6
Net loss attributable to noncontrolling interests	—	—	—	—	—	—
Net income (loss) attributable to AAM	$19.6	$19.6	$(12.3)	$29.5	$(36.8)	$19.6

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

Condensed Consolidating Statements of Operations
Nine months ended September 30,
(in millions)

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2010						
Net sales						
External	$—	$446.5	$142.4	$1,110.8	$—	$1,699.7
Intercompany	—	20.8	121.3	11.5	(153.6)	—
Total net sales	—	467.3	263.7	1,122.3	(153.6)	1,699.7
Cost of goods sold	—	441.5	248.0	863.7	(153.6)	1,399.6
Gross profit	—	25.8	15.7	258.6	—	300.1
Selling, general and administrative expenses	—	135.0	—	12.0	—	147.0
Operating income (loss)	—	(109.2)	15.7	246.6	—	153.1
Non-operating income (expense), net	—	(66.5)	0.1	(1.3)	—	(67.7)
Income (loss) before income taxes	—	(175.7)	15.8	245.3	—	85.4
Income tax expense (benefit)	—	(0.9)	—	6.1	—	5.2
Earnings (loss) from equity in subsidiaries	80.5	197.6	(20.5)	—	(257.6)	—
Net income (loss) before royalties and dividends	80.5	22.8	(4.7)	239.2	(257.6)	80.2
Royalties and dividends	—	57.7	—	(57.7)	—	—
Net income (loss) after royalties and dividends	80.5	80.5	(4.7)	181.5	(257.6)	80.2
Net loss attributable to noncontrolling interests	—	—	—	0.3	—	0.3
Net income (loss) attributable to AAM	$80.5	$80.5	$(4.7)	$181.8	$(257.6)	$80.5

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

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2009						
Net sales						
External	$—	$409.5	$100.5	$547.6	$—	$1,057.6
Intercompany	—	18.5	62.6	10.4	(91.5)	—
Total net sales	—	428.0	163.1	558.0	(91.5)	1,057.6
Cost of goods sold	—	543.1	199.6	505.9	(91.5)	1,157.1
Gross profit (loss)	—	(115.1)	(36.5)	52.1	—	(99.5)
Selling, general and administrative expenses	—	125.8	—	7.5	—	133.3
Operating income (loss)	—	(240.9)	(36.5)	44.6	—	(232.8)
Non-operating income (expense), net	—	(61.8)	(0.1)	0.7	—	(61.2)
Income (loss) before income taxes	—	(302.7)	(36.6)	45.3	—	(294.0)
Income tax expense	—	1.3	—	6.5	—	7.8
Loss from equity in subsidiaries	(301.7)	(26.0)	(41.6)	—	369.3	—
Net income (loss) before royalties and dividends	(301.7)	(330.0)	(78.2)	38.8	369.3	(301.8)
Royalties and dividends	—	28.3	—	(28.3)	—	—
Net income (loss) after royalties and dividends	(301.7)	(301.7)	(78.2)	10.5	369.3	(301.8)
Net loss attributable to noncontrolling interests	—	—	—	0.1	—	0.1
Net income (loss) attributable to AAM	$(301.7)	$(301.7)	$(78.2)	$10.6	$369.3	$(301.7)

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, 2010						
Assets						
Current assets						
Cash and cash equivalents	$—	$70.8	$—	$169.4	$—	$240.2
Short-term investments	—	—	—	2.8	—	2.8
Accounts receivable, net	—	27.5	29.8	131.6	—	188.9
Inventories, net	—	32.2	25.1	67.6	—	124.9
Other current assets	—	42.0	2.3	32.9	—	77.2
Total current assets	—	172.5	57.2	404.3	—	634.0
Property, plant and equipment, net	—	260.2	90.6	571.8	—	922.6
Goodwill	—	—	147.8	—	—	147.8
Other assets and deferred charges	—	298.1	16.2	52.7	—	367.0
Investment in subsidiaries	—	928.5	31.5	—	(960.0)	—
Total assets	$—	$1,659.3	$343.3	$1,028.8	$(960.0)	$2,071.4
Liabilities and stockholders' equity (deficit)						
Current liabilities						
Accounts payable	$—	$90.3	$40.5	$180.8	$—	$311.6
Other current liabilities	—	188.6	4.3	67.6	—	260.5
Total current liabilities	—	278.9	44.8	248.4	—	572.1
Intercompany payable (receivable)	320.0	(318.6)	266.8	(268.2)	—	—
Long-term debt	0.4	970.0	6.1	34.5	—	1,011.0
Investment in subsidiaries obligation	148.7	—	—	—	(148.7)	—
Other long-term liabilities	—	877.7	0.8	78.9	—	957.4
Total liabilities	469.1	1,808.0	318.5	93.6	(148.7)	2,540.5
Total AAM Stockholders' equity (deficit)	(469.1)	(148.7)	24.8	935.2	(811.3)	(469.1)
Noncontrolling interests in subsidiaries	—	—	—	—	—	—
Total stockholders' equity (deficit)	(469.1)	(148.7)	24.8	935.2	(811.3)	(469.1)
Total liabilities and stockholders' equity (deficit)	$—	$1,659.3	$343.3	$1,028.8	$(960.0)	$2,071.4

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

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
December 31, 2009						
Assets						
Current assets						
Cash and cash equivalents	$—	$80.6	$1.9	$ 95.6	$—	$178.1
Short-term investments	—	1.4	—	2.8	—	4.2
Accounts receivable, net	—	10.9	27.5	91.3	—	129.7
Inventories, net	—	22.8	16.8	51.0	—	90.6
Other current assets	—	86.4	1.4	26.2	—	114.0
Total current assets	—	202.1	47.6	266.9	—	516.6
Property, plant and equipment, net	—	272.8	101.2	572.7	—	946.7
Goodwill	—	—	147.8	—	—	147.8
Other assets and deferred charges	—	304.8	14.5	56.4	—	375.7
Investment in subsidiaries	—	725.9	13.4	—	(739.3)	—
Total assets	$—	$1,505.6	$324.5	$ 896.0	$(739.3)	$1,986.8
Liabilities and stockholders' equity (deficit)						
Current liabilities						
Accounts payable	$—	$59.4	$26.0	$ 115.5	$—	$200.9
Other current liabilities	—	185.1	3.7	55.8	—	244.6
Total current liabilities	—	244.5	29.7	171.3	—	445.5
Intercompany payable (receivable)	318.8	(470.1)	262.7	(111.4)	—	—
Long-term debt	0.4	1,029.4	6.3	35.3	—	1,071.4
Investment in subsidiaries obligation	241.0	—	—	—	(241.0)	—
Other long-term liabilities	—	942.8	0.7	86.3	—	1,029.8
Total liabilities	560.2	1,746.6	299.4	181.5	(241.0)	2,546.7
Total AAM Stockholders' equity (deficit)	(560.2)	(241.0)	25.1	714.2	(498.3)	(560.2)
Noncontrolling interests in subsidiaries	—	—	—	0.3	—	0.3
Total stockholders' equity (deficit)	(560.2)	(241.0)	25.1	714.5	(498.3)	(559.9)
Total liabilities and stockholders' equity (deficit)	$—	$1,505.6	$324.5	$ 896.0	$(739.3)	$1,986.8

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
2010						
Net cash provided by (used in) operating activities	$—	$(84.8)	$32.3	$ 246.0	$—	$193.5
Investing activities						
Purchases of property, plant and equipment	—	(20.7)	(3.3)	(37.7)	—	(61.7)
Redemption of short-term investments	—	1.6	—	—	—	1.6
Purchase buyouts of leased equipment	—	(7.8)	—	—	—	(7.8)
Proceeds from sale of equipment	—	1.1	—	0.1	—	1.2
Net cash used in investing activities	—	(25.8)	(3.3)	(37.6)	—	(66.7)
Financing activities						
Net debt activity	—	(59.4)	(0.1)	(1.3)	—	(60.8)
Intercompany activity	1.3	162.4	(30.8)	(132.9)	—	—
Debt issuance costs	—	(2.2)	—	—	—	(2.2)
Purchase of treasury stock	(1.3)	—	—	—	—	(1.3)
Net cash provided by (used in) financing activities	—	100.8	(30.9)	(134.2)	—	(64.3)
Effect of exchange rate changes on cash	—	—	—	(0.4)	—	(0.4)
Net increase (decrease) in cash and cash equivalents	—	(9.8)	(1.9)	73.8	—	62.1
Cash and cash equivalents at beginning of period	—	80.6	1.9	95.6	—	178.1
Cash and cash equivalents at end of period	$—	$70.8	$—	$ 169.4	$—	$240.2

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

	Holdings	AAM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elims	Consolidated
2009						
Net cash provided by (used in) operating activities	$—	$(98.5)	$(10.4)	$ 89.2	$—	$(19.7)
Investing activities						
Purchases of property, plant and equipment	—	(47.9)	(7.8)	(59.8)	—	(115.5)
Redemption of short-term investments	—	7.9	—	60.1	—	68.0
Investment in joint venture	—	—	(10.2)	—	—	(10.2)
Proceeds from sale of equipment	—	0.5	—	—	—	0.5
Net cash provided by (used in) investing activities	—	(39.5)	(18.0)	0.3	—	(57.2)
Financing activities						
Net debt activity	—	47.5	(0.2)	(14.5)	—	32.8
Intercompany activity	(30.0)	98.8	32.6	(101.4)	—	—
Debt issuance costs	—	(18.2)	—	—	—	(18.2)
Proceeds from stock option exercises, including tax benefit	—	1.0	—	—	—	1.0
Proceeds from issuance of GM warrants	30.3	—	—	—	—	30.3
Purchase of treasury stock	(0.3)	—	—	—	—	(0.3)
Net cash provided by (used in) financing activities	—	129.1	32.4	(115.9)	—	45.6
Effect of exchange rate changes on cash	—	—	—	5.6	—	5.6
Net increase (decrease) in cash and cash equivalents	—	(8.9)	4.0	(20.8)	—	(25.7)
Cash and cash equivalents at beginning of period	—	54.6	—	144.2	—	198.8
Cash and cash equivalents at end of period	$—	$45.7	$4.0	$ 123.4	$—	$173.1

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, 2009.

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, driving heads, crankshafts, transmission parts and metal-formed products.

We are the principal supplier of driveline components to General Motors Company (GM) for its rear-wheel drive (RWD) light trucks and SUVs manufactured in North America, supplying substantially all of GM’s rear axle and front four-wheel drive and all-wheel drive (4WD/AWD) axle requirements for these vehicle platforms. Sales to GM were approximately 76% of our total net sales in the first nine months of 2010 as compared to 78% for the first nine months of 2009 and for the full-year 2009.

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 a Lifetime Program Contract (LPC). 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 6 to 10 years, and require us to remain competitive with respect to technology, design and quality.

We are also the principal supplier of driveline system products for the Chrysler Group LLC’s (Chrysler) heavy-duty Dodge Ram full-size pickup trucks (Dodge Ram program) and its derivatives. Sales to Chrysler were approximately 9% of our total net sales in the first nine months of 2010 as compared to 7% for the first nine months of 2009 and 8% for the full-year 2009.

In addition to GM and Chrysler, we supply driveline systems and other related components to Volkswagen AG, Scania AB, PACCAR Inc., Harley-Davidson Inc., Deere & Company, Tata Motors, Mack Trucks Inc., Ford Motor Company, and other original equipment manufacturers (OEMs) and Tier I supplier companies. Our net sales to customers other than GM and Chrysler were $259.0 million in the first nine months of 2010 as compared to $149.4 million in the first nine months of 2009.

RESULTS OF OPERATIONS — THREE MONTHS ENDED SEPTEMBER 30, 2010 AS COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2009

Net Sales Net sales increased to $618.2 million in the third quarter of 2010 as compared to $409.6 million in the third quarter of 2009. Sales in the third quarter of 2009 reflected the adverse impact of extended production shutdowns at GM and Chrysler, which was estimated at $100.6 million. As compared to the third quarter of 2009, our sales in the third quarter of 2010 reflect an increase of approximately 40% in production volumes for the North American light truck and SUV programs we currently support for GM and Chrysler. These increases reflect the impact of the stabilization of general economic conditions, the improving market conditions in the automotive industry and the impact of the extended production shutdowns in the third quarter of 2009. The increase in sales also reflects the favorable impact of recent new product launches, many of which support passenger car and crossover vehicle platforms.

Our content-per-vehicle (as measured by the dollar value of our products supporting GM's North American light truck platforms and the Dodge Ram program) was $1,458 in the third quarter of 2010 as compared to $1,396 in the third quarter of 2009. The increase is primarily due to higher metal market pass throughs and our support of the next generation of heavy-duty trucks for GM, which launched in June 2010, partially offset by a change in the billing process for consigned components for the Dodge Ram program. Our 4WD/AWD penetration rate on these vehicle programs was 62.3% in the third quarter of 2010 as compared to 65.4% in the third quarter of 2009.

Gross Profit   Gross profit increased to $113.9 million in the third quarter of 2010 as compared to $88.5 million in the third quarter of 2009. Gross margin was 18.4% in the third quarter of 2010 as compared to 21.6% in the third quarter of 2009. The increase in gross profit in the third quarter of 2010, as compared to the third quarter of 2009, reflects the positive impact of an increase in sales and continued structural cost reductions. The increase also reflects the adverse impact of the extended production shutdowns at GM and Chrysler on gross profit in the third quarter of 2009, which we estimated to be $29.3 million.

Gross profit in the third quarter of 2009 included a net gain of $42.3 million for the curtailment of certain pension and other postretirement benefits (OPEB). These curtailments primarily related to hourly UAW-represented associates at our original U.S. locations who elected to accelerate their remaining BDP payments and terminate employment with AAM in 2009. Gross profit in the third quarter of 2009 also included $6.6 million of special charges and other non-recurring operating costs, which primarily related to plant closure costs, the redeployment of assets to support capacity utilization initiatives and estimated postemployment benefits to be paid to associates in our European operations.

Selling, General and Administrative Expenses (SG&A) SG&A (including research and development (R&D)) was $53.2 million or 8.6% of net sales in the third quarter of 2010 as compared to $44.0 million or 10.7% of net sales in the third quarter of 2009. R&D was $21.2 million in the third quarter of 2010 as compared to $15.1 million in the third quarter of 2009. The increase in SG&A in the third quarter of 2010 reflects increased R&D spending and higher profit sharing accruals and other incentive compensation expense due to increased profitability, partially offset by lower professional fees related to restructuring actions. SG&A in the third quarter of 2010 included a $3.0 million write down of administrative and engineering facilities located in Detroit, Michigan. SG&A in the third quarter of 2009 included special charges related to salaried workforce reductions of $0.7 million. In addition, in the third quarter of 2009, we incurred $5.7 million of professional fees related to restructuring actions.

Operating Income Operating income was $60.7 million in the third quarter of 2010 as compared to $44.5 million in the third quarter of 2009. Operating margin was 9.8% in the third quarter of 2010 as compared to 10.9% in the third quarter of 2009. The changes in operating income and operating margin were due to factors discussed in Gross Profit and SG&A above.

Interest Expense Interest expense was $22.1 million in the third quarter of 2010 as compared to $20.3 million in the third quarter of 2009. The increase in interest expense primarily reflects higher interest rates in the third quarter of 2010 as compared to the third quarter of 2009.

The weighted-average interest rate of our long-term debt outstanding was 8.0% in the third quarter of 2010 as compared to 6.9% in the third quarter of 2009.

Investment Income Investment income was $0.4 million in the third quarter of 2010 as compared to $0.8 million in the third quarter of 2009. The decrease in investment income is a result of lower returns on cash balances in the third quarter of 2010 as compared to the third quarter of 2009.

Other Income, net Other income, net, which includes the net effect of foreign exchange gains and losses and equity in net income of our unconsolidated affiliate, was $0.5 million in the third quarter of 2010 as compared to $0.1 million in the third quarter of 2009.

Income Tax Expense Income tax expense was $0.8 million in the third quarter of 2010 as compared to $5.5 million in the third quarter of 2009. Our effective income tax rate was 2.0% in the third quarter of 2010 as compared to 21.9% in the third quarter of 2009. Our income tax expense and effective tax rate in the third quarter of 2010 and 2009 reflect the effect of recording a valuation allowance against income tax benefits on U.S. losses. In conjunction with the filing of our 2009 federal tax return, under provisions contained in the American Recovery and Reinvestment Act of 2009, we recorded a tax benefit of $1.4 million in the third quarter of 2010 attributable to the monetization of alternative minimum tax and research and development credits. We will receive this tax refund during the fourth quarter of 2010. Our income tax expense and effective tax rate in the third quarter of 2009 reflects the effect of increasing our contingent tax liabilities by $4.8 million as a result of our quarterly analysis of uncertain tax positions.

Net Income Attributable to AAM and Earnings (Loss) Per Share (EPS) Net income attributable to AAM was $38.8 million in the third quarter of 2010 as compared to $19.6 million in the third quarter of 2009. Diluted EPS was $0.52 in the third quarter of 2010 as compared to $0.35 in the third quarter of 2009. Net income attributable to AAM and EPS for the third quarters of 2010 and 2009 were primarily impacted by the factors discussed in Net Sales, Gross Profit, Interest Expense and Income Tax Expense above.

RESULTS OF OPERATIONS — NINE MONTHS ENDED SEPTEMBER 30, 2010 AS COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2009

Net Sales Net sales increased to $1,699.7 million in the first nine months of 2010 as compared to $1,057.6 million in the first nine months of 2009. Sales in the first nine months of 2009 reflected the adverse impact of extended production shutdowns at GM and Chrysler, which was estimated at $304.3 million. As compared to the first nine months of 2009, our sales in the first nine months of 2010 reflect an increase of approximately 56% in production volumes for the North American light truck and SUV programs we currently support for GM and Chrysler. These increases reflect the impact of the stabilization of general economic conditions, the improving market conditions in the automotive industry and the impact of the extended production shutdowns in the third quarter of 2009. The increase in sales also reflects the favorable impact of recent new product launches, many of which support passenger car and crossover vehicle platforms.

Our content-per-vehicle (as measured by the dollar value of our products supporting GM’s North American light truck platforms and the Dodge Ram program) increased to $1,420 in the first nine months of 2010 as compared to $1,408 in the first nine months of 2009. The increase is primarily due to higher metal market pass throughs and our support of the next generation of heavy-duty trucks for GM, which launched in June 2010, partially offset by a change in the billing process for consigned components for the Dodge Ram program. Our 4WD/AWD penetration rate was 63.1% in the first nine months of 2010 and 2009.

Gross Profit (Loss) Gross profit increased to $300.1 million in the first nine months of 2010 as compared to a loss of $99.5 million in the first nine months of 2009. Gross margin was 17.7% in the first nine months of 2010 as compared to negative 9.4% in the first nine months of 2009. The increase in gross profit and gross margin in the first nine months of 2010 as compared to the first nine months of 2009 reflects lower special charges, the positive impact of an increase in sales and continued structural cost reductions. The increase also reflects the adverse impact of the extended production shutdowns at GM and Chrysler on gross loss and gross margin in the first nine months of 2009, which we estimated to be $95.0 million.

Gross profit in the first nine months of 2010 includes the adverse impact of an arbitration ruling related to the transfer of certain production from the Detroit Manufacturing Complex (DMC) to another AAM facility for which we recorded a charge of $5.3 million for wages and benefits owed to certain UAW represented associates at the DMC. Gross profit in the first nine months of 2010 also includes net special charges of $1.7 million related to $8.7 million of asset impairment and related charges at our Salem Manufacturing Facility, net of $7.0 million of adjustments to previously recorded estimates for SUB and idled leased asset accruals.

Gross loss in the first nine months of 2009 included $166.4 million in net special charges and other non-recurring operating costs, which primarily relate to asset impairments, indirect inventory obsolescence, idled leased assets and the acceleration of Buydown Program expense. These net special charges also include gains related to the curtailment of certain pension and OPEB primarily related to associates at our original U.S. locations who elected to accelerate their remaining BDP payments and terminate employment with AAM in 2009.

Selling, General and Administrative Expenses (SG&A) SG&A (including research and development (R&D)) was $147.0 million or 8.6% of net sales in the first nine months of 2010 as compared to $133.3 million or 12.6% of net sales in the first nine months of 2009. R&D was $58.9 million in the first nine months of 2010 as compared to $50.7 million in the first nine months of 2009. The increase in SG&A in the first nine months of 2010 reflects increased R&D spending and higher profit sharing accruals and other incentive compensation expense due to increased profitability, partially offset by lower professional fees related to restructuring actions. SG&A in the first nine months of 2010 included a $3.0 million write down of administrative and engineering facilities located in Detroit, Michigan. SG&A in the first nine months of 2009 included special charges of $2.7 million related to salaried workforce reductions. In addition, we incurred $9.6 million of professional fees related to restructuring actions in the first nine months of 2009.

Operating Income (Loss) Operating income (loss) was income of $153.1 million in the first nine months of 2010 as compared to a loss of $232.8 million in the first nine months of 2009. Operating margin was 9.0% in the first nine months of 2010 as compared to negative 22.0% in the first nine months of 2009. The changes in operating income (loss) and operating margin were due to factors discussed in Gross Profit (Loss) and SG&A above.

Interest Expense Interest expense was $67.4 million in the first nine months of 2010 as compared to $60.4 million in the first nine months of 2009. The increase in interest expense primarily reflects higher interest rates in the first nine months of 2010 as compared to the first nine months of 2009.

The weighted-average interest rate of our long-term debt outstanding was 8.2% in the first nine months of 2010 as compared to 6.9% in the first nine months of 2009.

Investment Income Investment income was $1.4 million in the first nine months of 2010 as compared to $2.8 million in the first nine months of 2009. The decrease in investment income is primarily a result of lower average cash balances in the first nine months of 2010 as compared to the first nine months of 2009.

Other Expense, net Other expense, net, which includes the net effect of foreign exchange gains and losses and equity in net income of our unconsolidated affiliate, was $1.7 million in the first nine months of 2010 as compared to $3.6 million in the first nine months of 2009.

Income Tax Expense Income tax expense was $5.2 million in the first nine months of 2010 as compared to $7.8 million in the first nine months of 2009. Our effective income tax rate was 6.1% in the first nine months of 2010 as compared to negative 2.7% in the first nine months of 2009. Our income tax expense and effective tax rate in the first nine months of 2010 and 2009 reflects the effect of recording a valuation allowance against income tax benefits on U.S. losses. In conjunction with the filing of our 2009 federal tax return, under provisions contained in the American Recovery and Reinvestment Act of 2009, we recorded a tax benefit of $1.4 million in the first nine months of 2010 attributable to the monetization of alternative minimum tax and research and development credits. We will receive this tax refund during the fourth quarter of 2010. Our income tax expense and effective tax rate in the first nine months of 2009 reflects the effect of increasing our contingent tax liabilities by $4.8 million as a result of our quarterly analysis of uncertain tax positions.

Net Income (Loss) Attributable to AAM and Earnings (Loss) Per Share (EPS) Net income (loss) attributable to AAM was income of $80.5 million in the first nine months of 2010 as compared to a loss of $301.7 million in the first nine months of 2009. Diluted earnings (loss) per share was $1.08 in the first nine months of 2010 as compared to a loss of $5.83 in the first nine months of 2009. Net income (loss) attributable to AAM and EPS for the first nine months of 2010 and 2009 were primarily impacted by the factors discussed in Net Sales, Gross Profit (Loss), Interest Expense and Income Tax Expense.

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LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund capital expenditures, debt service obligations, pension plan obligations and our working capital investments. 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 2010, net cash provided by operating activities was $193.5 million as compared to net cash used in operating activities of $19.7 million in the first nine months of 2009.

The increase in cash provided by operating activities is primarily related to higher profits related to an increase in sales and production activity in 2010. We estimated the adverse impact of the extended production shutdowns on our cash flow from operating activities in the first nine months of 2009 was approximately $95 million. The following factors also impacted cash provided by (used in) operating activities:

Income tax refund In the fourth quarter of 2009, the U.S. Congress passed the Worker, Homeownership and Business Act of 2009 which, among other things, extended the net operating loss (NOL) carryback period for most taxpayers from two years to up to five years for either 2008 or 2009 NOLs. This law enabled us to carryback our 2008 NOL to 2003. In the first quarter of 2010, we received a $48.8 million refund as a result of this carryback election.

Cash paid for special charges In the first nine months of 2010, we made cash payments of $42.6 million for special charges compared to $120.4 million in the first nine months of 2009. These cash payments primarily related to hourly and salaried workforce reductions initiated prior to 2010, including annual lump-sum Buydown Program (BDP) payments, the acceleration of buydown payments to associates who elected to accelerate their BDP payments and terminate employment and $12.4 million of pension contributions made in the first quarter of 2010 related to special termination benefit payments that were previously paid out of our pension trusts. We expect to make payments of approximately $4 million in the fourth quarter of 2010, $10 million in 2011 and $5 million in 2012 related to the remaining restructuring accrual.

Included in the payments for special charges above are annual lump-sum BDP payments for UAW-represented associates at our original U.S. locations that did not elect to participate in the Special Separation Program in 2008 and have not elected to accelerate their remaining BDP payments and terminate their employment with AAM. We made $19.5 million of annual lump-sum BDP payments in the first nine months of 2010 and $18.8 million of annual lump-sum BDP payments in the first nine months of 2009. The annual lump-sum payment made in 2010 is the third and final payment of the Buydown Program.

Pursuant to the 2008 labor agreements, UAW-represented associates at our original U.S. locations who are indefinitely laid off for 30 days have the option to accelerate their remaining BDP lump-sum payments and terminate their employment with AAM. We made $0.7 million and $42.7 million of accelerated BDP payments in the first nine months of 2010 and 2009, respectively.

Pension and Other Postretirement Benefits (OPEB) We contributed $25.5 million to our pension trusts in the first nine months of 2010 which represents substantially all of our 2010 pension funding requirements. We expect our net cash outlay for other postretirement benefit obligations in 2010, net of GM cost sharing, to be approximately $15 million.

2009 Settlement and Commercial Agreement In the third quarter of 2009, we entered into a settlement and commercial agreement with GM upon which we received $110.0 million, $79.7 of which is classified as cash flow from operations.

2008 AAM-GM Agreement In 2008, we entered into an agreement with GM in connection with the resolution of the strike called by the International UAW (AAM-GM Agreement), that among other things, required GM to provide us with $175 million of cash payments through April 1, 2009 to support the transition of our UAW represented legacy labor at our original U.S. locations. We collected the final $60.0 million payment from GM related to this agreement in the first quarter of 2009.

Investing Activities Capital expenditures were $61.7 million in the first nine months of 2010 as compared to $115.5 million in the first nine months of 2009. We expect our capital spending in 2010 to be approximately $100 million. Capital expenditures in 2010 include support for our significant global program launches in 2010 and 2011 within our new business backlog.

In 2008, certain money-market and other similar funds that we invest in temporarily suspended redemptions. We received $1.6 million and $66.0 million of redemptions in the first nine months of 2010 and 2009, respectively.

In the first nine months of 2010, we bought out $7.8 million of previously leased machinery and equipment.

On October 1, 2010, we formed a joint venture with Saab Automobile AB (Saab). The new company, e-AAM Driveline Systems AB (e-AAM), will engineer, develop and commercialize electric all-wheel-drive and hybrid driveline systems for passenger cars and crossover vehicles. e-AAM systems will be designed to improve fuel efficiency, reduce CO2 emissions and provide all-wheel-drive capability utilizing torque vectoring for vehicle stability. AAM is the majority owner, owning 67% of the shares in this joint venture while Saab owns the remaining 33%. We expect to make contributions of approximately $5 million in the fourth quarter of 2010 related to this joint venture.

In the first quarter of 2009, we formed a joint venture (JV) with Hefei Automobile Axle Co, Ltd., (HAAC), a subsidiary of the JAC Group (Anhui Jianghuai Automobile Group Co, Ltd). We made an investment of $10.2 million related to the formation of this JV.

Financing Activities In the first nine months of 2010, net cash used in financing activities was $64.3 million as compared to net cash provided by financing activities of $45.6 million in the first nine months of 2009. Total long-term debt outstanding decreased $60.4 million in the first nine months of 2010 to $1,011.0 million as compared to $1,071.4 million at year-end 2009, primarily as a result of using cash flow from operations to pay down the amount outstanding under our Revolving Credit Facility as of December 31, 2009.

At September 30, 2010, we had $267.8 million available under the Revolving Credit Facility. This availability reflects a reduction of $28.5 million for standby letters of credit issued against the facility. We also utilize foreign credit facilities and uncommitted lines of credit to finance working capital needs. At September 30, 2010, $33.7 million was outstanding and $0.5 million was available under such agreements.

As part of the 2009 Settlement and Commercial Agreement, we issued to GM five year warrants, which entitles GM to purchase 4.1 million shares of AAM's common stock at an exercise price of $2.76 per share. In the first nine months of 2009, we classified $30.3 million of the payment received from GM as part of the 2009 Settlement and Commercial Agreement as cash flow from financing activities, which represents the fair value of these warrants issued to GM on September 16, 2009.

We paid debt issuance costs of $2.2 million and $18.2 million in the first nine months of 2010 and 2009, respectively, related to the amendments and restatements of our debt agreements in 2009.

In the first nine months of 2010, we repurchased 0.1 million shares of AAM common stock for $1.3 million to satisfy employee tax withholding obligations due upon the vesting of our restricted stock grants.

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 a two-week shutdown of operations in July and an approximate one-week shutdown in December. In addition, our OEM customers have historically incurred lower production rates in the third quarter as model changes enter production. Accordingly, our quarterly results may reflect these trends.

In July 2010, GM continued to operate seven of their nine assembly plants for the major products we support in North America during the traditional two-week shutdown period.

In 2009, GM had an extended summer production shutdown and Chrysler temporarily idled manufacturing operations during its bankruptcy.

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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 first nine months of 2010, and we do not expect such expenditures to be significant for the remainder of 2010.

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. At September 30, 2010, we had currency forward contracts with a notional amount of $23.9 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 $2.2 million at September 30, 2010.

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

Interest Rate Risk We are exposed to variable interest rates on certain credit facilities. From time to time, we use interest rate hedging to reduce the effects of fluctuations in market interest rates. As of September 30, 2010, there are no interest rate hedges in place. The pre-tax earnings and cash flow impact of a one-percentage-point increase in interest rates (approximately 12% of our weighted-average interest rate at September 30, 2010) on our long-term debt outstanding at September 30, 2010 would be approximately $0.3 million on an annualized basis.

Item 4. 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 (1) 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, 2010, and (2) no change in internal control over financial reporting occurred during the quarter ended September 30, 2010 that has materially affected, or is 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, 2009 Form 10-K.

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/ Michael K. Simonte
Michael K. Simonte
Executive Vice President - Finance & Chief Financial Officer
(also in the capacity of Chief Accounting Officer)
October 29, 2010

EXHIBIT INDEX

Number	Description of Exhibit
*10.51	Confidential Settlement Agreement and General Release dated July 2, 2010 between American Axle & Manufacturing, Inc. and Patrick S. Lancaster
*31.1	Certification of Richard E. Dauch, Co-Founder, Chairman of the Board & Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act
*31.2	Certification of Michael K. Simonte, Executive Vice President – Finance & Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act
*32	Certifications of Richard E. Dauch, Co-Founder, Chairman of the Board & Chief Executive Officer and Michael K. Simonte, Executive Vice President – Finance & Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith

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