

AMERICAN AXLE & MANUFACTURING HOLDINGS INC

Form 10-Q

April 27, 2012

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 March 31, 2012

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

(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 ☒ No ☐

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

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

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Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

As of April 25, 2012, the latest practicable date, the number of shares of the registrant's Common Stock, par value \$0.01 per share, outstanding was 74,839,567 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 MARCH 31, 2012
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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 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:

- global economic conditions, including the impact of the current sovereign debt crisis in the Euro-zone;
- reduced purchases of our products by GM, Chrysler or other customers;
- reduced demand for our customers’ products (particularly light trucks and SUVs produced by GM and Chrysler);
- our ability to realize the expected revenues from our new business backlog;
- our ability or our customers’ and suppliers’ ability to successfully launch new product programs on a timely basis;
- our ability to achieve the level of cost reductions required to sustain global cost competitiveness;
- our ability to attract new customers and programs for new products;
 - supply shortages or price increases in raw materials, utilities or other operating supplies for us or our customers as a result of natural disasters or otherwise;
- our ability to respond to changes in technology, increased competition or pricing pressures;
- price volatility in, or reduced availability of, fuel;
- 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;
- risks inherent in our international operations (including adverse changes in political stability, taxes and other law changes, potential disruption of production and supply, and currency rate fluctuations);
- liabilities arising from warranty claims, product recall, product liability and legal proceedings to which we are or may become a party;
 - 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;
- 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 consummate and integrate acquisitions and joint ventures;
- 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);
- 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 March 31, 2012 2011 (in millions, except per share data)	
Net sales	\$751.5	\$645.6
Cost of goods sold	612.3	530.2
Gross profit	139.2	115.4
Selling, general and administrative expenses	61.8	56.7
Operating income	77.4	58.7
Interest expense	(24.0	) (21.3)
Investment income	0.3	0.3
Other income (expense), net	(1.2	) 1.0
Income before income taxes	52.5	38.7
Income tax expense	2.2	2.1
Net income	50.3	36.6
Net loss attributable to the noncontrolling interests	0.9	1.1
Net income attributable to AAM	\$51.2	\$37.7
Basic earnings per share	\$0.68	\$0.51
Diluted earnings per share	\$0.68	\$0.50

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2012	2011
	(in millions)	
Net income	\$50.3	\$36.6
Other comprehensive income (loss), net of tax		
Defined benefit plans	(14.0	) 3.1
Foreign currency translation adjustments	10.7	5.2
Change in derivatives	5.6	1.2
Other comprehensive income	2.3	9.5
Comprehensive income	52.6	46.1
Net loss attributable to noncontrolling interests	0.9	1.1
Foreign currency translation adjustments attributable to noncontrolling interests	(0.2	) (0.8
Comprehensive income attributable to AAM	\$53.3	\$46.4

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 2012 (Unaudited) (in millions)	December 31, 2011	
Assets			
Current assets			
Cash and cash equivalents	\$ 112.8	\$ 169.2	
Accounts receivable, net	501.1	333.3	
Inventories, net	203.0	177.2	
Prepaid expenses and other current assets	89.8	83.4	
Total current assets	906.7	763.1	
Property, plant and equipment, net	998.1	971.2	
Goodwill	156.3	155.9	
GM postretirement cost sharing asset	257.9	260.2	
Other assets and deferred charges	183.3	178.3	
Total assets	\$2,502.3	\$2,328.7	
Liabilities and Stockholders' Deficit			
Current liabilities			
Accounts payable	\$433.8	\$337.1	
Accrued compensation and benefits	98.2	110.6	
Deferred revenue	22.8	32.9	
Accrued expenses and other current liabilities	87.3	95.5	
Total current liabilities	642.1	576.1	
Long-term debt	1,248.7	1,180.2	
Deferred revenue	85.1	88.2	
Postretirement benefits and other long-term liabilities	902.8	903.8	
Total liabilities	2,878.7	2,748.3	
Stockholders' deficit			
Common stock, par value \$0.01 per share	0.8	0.8	
Paid-in capital	598.9	597.2	
Accumulated deficit	(592.3)	(643.5))
Treasury stock at cost, 6.0 million shares as of March 31, 2012 and 5.5 million shares as of December 31, 2011	(182.1)	(176.2))
Accumulated other comprehensive income (loss), net of tax			
Defined benefit plans	(229.6)	(215.6))
Foreign currency translation adjustments	27.8	17.3	
Unrecognized gain (loss) on derivatives	0.1	(5.5))
Total AAM stockholders' deficit	(376.4)	(425.5))
Noncontrolling interest in subsidiaries	—	5.9	
Total stockholders' deficit	(376.4)	(419.6))
Total liabilities and stockholders' deficit	\$2,502.3	\$2,328.7	

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2012	2011
	(in millions)	
Operating activities		
Net income	\$50.3	\$36.6
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	36.7	33.9
Deferred income taxes	(0.5)	(0.3)
Stock-based compensation	0.4	2.1
Pensions and other postretirement benefits, net of contributions	(16.7)	5.2
Loss (gain) on disposal of property, plant and equipment, net	0.6	(0.7)
Changes in operating assets and liabilities		
Accounts receivable	(166.3)	(62.4)
Inventories	(24.7)	(2.8)
Accounts payable and accrued expenses	73.0	12.8
Deferred revenue	(13.3)	(19.3)
Other assets and liabilities	(11.0)	(4.1)
Net cash provided by (used in) operating activities	(71.5)	1.0
Investing activities		
Purchases of property, plant and equipment	(44.5)	(31.5)
Proceeds from sale of property, plant and equipment	0.9	1.5
Net cash used in investing activities	(43.6)	(30.0)
Financing activities		
Net short-term borrowings under credit facilities	59.1	—
Payments of long-term debt and capital lease obligations	(2.4)	(5.1)
Proceeds from issuance of long-term debt	10.1	1.8
Purchase of noncontrolling interest	(4.0)	—
Purchase of treasury stock	(5.9)	(0.1)
Employee stock option exercises	0.1	4.6
Net cash provided by financing activities	57.0	1.2
Effect of exchange rate changes on cash	1.7	0.6
Net decrease in cash and cash equivalents	(56.4)	(27.2)
Cash and cash equivalents at beginning of period	169.2	244.6
Cash and cash equivalents at end of period	\$112.8	\$217.4
Supplemental cash flow information		
Interest paid	\$35.3	\$37.6
Income taxes paid, net of refunds	\$5.2	\$2.5

See accompanying notes to condensed consolidated financial statements.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012
(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization American Axle & Manufacturing Holdings, Inc. (Holdings) and its subsidiaries (collectively, we, our, us or AAM) is a Tier I supplier to the automotive industry. We manufacture, engineer, design and validate driveline and drivetrain systems and related components and chassis modules for light trucks, sport utility vehicles (SUVs), passenger cars, crossover vehicles and commercial vehicles. Driveline and drivetrain systems include components that transfer power from the transmission and deliver it to the drive wheels. Our driveline, drivetrain and related products include axles, chassis modules, driveshafts, power transfer units, transfer cases, chassis and steering components, driveheads, transmission parts and metal-formed products. In addition to locations in the United States (U.S.) (Michigan, Ohio, Indiana and Pennsylvania), we also have offices or facilities in Brazil, China, Germany, India, Japan, Luxembourg, Mexico, Poland, Scotland, South Korea, Sweden and Thailand.

Basis of Presentation We have prepared the accompanying interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q under the Securities Exchange Act of 1934. These condensed consolidated financial statements are unaudited but include all normal recurring adjustments, which we consider necessary for a fair presentation of the information set forth herein. Results of operations for the periods presented are not necessarily indicative of the results for the full fiscal year.

The balance sheet at December 31, 2011 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, 2011.

Effect of New Accounting Standards On January 1, 2012, we adopted new accounting guidance on the presentation of comprehensive income. The new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. We have elected to present the components of other comprehensive income in a separate statement immediately following the statement of operations. The guidance eliminates the previous option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. Other than the change in presentation, the adoption of this new guidance has had no impact on our condensed consolidated financial statements.

On January 1, 2012, we also adopted new accounting guidance on testing goodwill for impairment. This new guidance allows us the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this amendment, we are not required to calculate the fair value of a reporting unit unless we determine, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendment includes a number of events and circumstances to consider in

conducting the qualitative assessment. We do not believe that the adoption of this new accounting guidance will have a significant effect on our goodwill impairment assessments in the future.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. RESTRUCTURING ACTIONS

A summary of the restructuring related activity for the three months ended March 31, 2012 is shown below (in millions):

	One-time Termination Benefits	Asset Retirement Obligations	Other Restructuring Actions	Total
Accrual as of December 31, 2011	\$0.3	\$0.6	\$—	\$0.9
Charges	1.7	—	12.2	13.9
Cash utilization	(0.5	) —	(12.2	) (12.7
Accrual as of March 31, 2012	\$1.5	\$0.6	\$—	\$2.1

In the first quarter of 2012, we incurred charges related to the redeployment of assets and other related costs associated with the closure of our Detroit Manufacturing Complex (DMC) and Cheektowaga Manufacturing Facility (CKMF). We expensed and paid \$12.2 million in the first quarter of 2012, related to these actions.

We expect to make payments of \$2.1 million during the remainder of 2012 related to the remaining restructuring accrual.

3. INVENTORIES

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

Inventories consist of the following:

	March 31, 2012 (in millions)	December 31, 2011
Raw materials and work-in-progress	\$204.5	\$177.0
Finished goods	25.6	26.9
Gross inventories	230.1	203.9
Inventory valuation reserves	(27.1	) (26.7
Inventories, net	\$203.0	\$177.2

4. LONG-TERM DEBT

Long-term debt consists of the following:

	March 31, 2012 (in millions)	December 31, 2011
Revolving credit facility	\$60.0	\$—
9.25% Notes, net of discount	379.2	379.0

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7.875% Notes	300.0	300.0
7.75% Notes	200.0	200.0
5.25% Notes, net of discount	249.9	249.9
Foreign credit facilities	53.6	45.2
Capital lease obligations	6.0	6.1
Long-term debt	\$1,248.7	\$1,180.2

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of March 31, 2012, the Revolving Credit Facility provided up to \$86.8 million of revolving bank financing commitments through June 30, 2013 and \$235.0 million of such revolving bank financing commitments through June 30, 2016. At March 31, 2012, we had \$233.6 million available under the Revolving Credit Facility. This availability reflects a reduction of \$28.2 million for standby letters of credit issued against the facility.

The Revolving Credit Facility provides back-up liquidity for our foreign credit facilities. We intend to use the availability of long-term financing under the Revolving Credit Facility to refinance any current maturities related to such debt agreements that are not otherwise refinanced on a long-term basis in their local markets.

We utilize local currency credit facilities to finance the operations of certain foreign subsidiaries. At March 31, 2012, \$53.6 million was outstanding under these facilities and an additional \$14.2 million was available.

The weighted-average interest rate of our long-term debt outstanding was 7.9% at March 31, 2012 and 8.0% at December 31, 2011.

5. 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 March 31, 2012, are as follows:

Balance Sheet Classification	March 31, 2012		December 31, 2011		Input
	Carrying Amount (in millions)	Fair Value	Carrying Amount (in millions)	Fair Value	
Cash equivalents	\$4.1	\$4.1	\$36.0	\$36.0	Level 1
Prepaid expenses and other current assets					
Currency forward contracts	1.4	1.4	0.1	0.1	Level 2
Other assets and deferred charges					
Currency forward contracts	—	—	0.1	0.1	Level 2
Other accrued expenses					
Currency forward contracts	1.3	1.3	5.6	5.6	Level 2

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:

	March 31, 2012		December 31, 2011		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Input
	(in millions)		(in millions)		
Revolving Credit Facility	\$60.0	\$55.8	\$—	\$—	Level 2
9.25% Notes	379.2	424.6	379.0	415.0	Level 2
7.875% Notes	300.0	309.8	300.0	295.5	Level 2
7.75% Notes	200.0	212.0	200.0	195.0	Level 2
5.25% Notes	249.9	255.0	249.9	243.8	Level 2

6. DERIVATIVES

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

Currency forward contracts From time to time, we use foreign currency forward contracts to reduce the effects of fluctuations in exchange rates, primarily relating to the Mexican Peso, Euro, Pound Sterling and Brazilian Real. As of March 31, 2012, we have currency forward contracts outstanding with a notional amount of \$54.0 million that hedge our exposure to changes in foreign currency exchange rates for our payroll expenses.

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

	Location of Gain (Loss) Reclassified into Net Income	Gain (Loss) Reclassified During Three Months Ended		Gain Expected to be Reclassified During the Next 12 Months
		March 31, 2012 (in millions)	2011	
Currency forward contracts	Cost of Goods Sold	\$(0.2	) \$0.7	\$0.1

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost are as follows:

	Pension Benefits Three Months Ended March 31, 2012 2011 (in millions)	
Service cost	\$0.8	\$1.1
Interest cost	8.8	9.2
Expected asset return	(8.0	) (7.9
Amortized loss	1.8	1.1
Net periodic benefit cost	\$3.4	\$3.5
	Other Postretirement Benefits Three Months Ended March 31, 2012 2011 (in millions)	
Service cost	\$0.1	\$0.2
Interest cost	3.9	4.3
Amortized loss	0.2	0.1
Amortized prior service credit	(0.5	) (0.8
Curtailment gain	(21.8) —
Net periodic benefit cost (credit)	\$(18.1	) \$3.8

We recorded a gain of \$21.8 million to cost of goods sold for the curtailment of certain other postretirement benefits (OPEB) in the three months ended March 31, 2012. This resulted primarily from the reduction in the expected future OPEB related to the DMC and CKMF hourly associates who have terminated employment from AAM as a result of our plant closures. These curtailment gains resulted in an increase in our accumulated other comprehensive loss of \$21.8 million.

Our regulatory pension funding requirements in 2012 are approximately \$35 million. We expect our cash outlay for other postretirement benefit obligations in 2012, net of GM cost sharing, to be approximately \$16 million.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. 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.

As part of the 2009 Settlement and Commercial Agreement, AAM agreed to expanded warranty cost sharing with GM, which began on January 1, 2011.

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

	Three Months Ended March 31, 2012		2011
	(in millions)		
Beginning balance	\$ 13.4		\$ 2.3
Accruals	3.6		3.0
Settlements	(0.2	)	(0.2
Adjustment to prior period accruals	(0.1	)	0.1
Foreign currency translation and other	0.1		0.1
Ending balance	\$ 16.8		\$ 5.3

9. 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 \$2.2 million in the first quarter of 2012 as compared to \$2.1 million in the first quarter of 2011. Our effective income tax rate was 4.3% in the first quarter of 2012 as compared to 5.4% in the first quarter of 2011. Our income tax expense and effective tax rate for the three months ended March 31, 2012 and 2011 reflect the effect of recognizing a net operating loss benefit against our taxable income in the U.S. Our income tax expense and effective tax rate for the three months ended March 31, 2012 reflect the effect of recognizing a tax benefit of \$1.1 million relating to the release of a prior year unrecognized tax benefit, due to the expiration of the statute of limitations for the year in which the uncertain tax position was established. Our income tax expense for the three months ended March 31, 2012 also reflects tax expense of \$0.7 million relating to foreign withholding taxes paid for which a foreign tax credit cannot currently be realized.

