AMERICAN AXLE & MANUFACTURING HOLDINGS INC
Form 10-Q
November 10, 2008

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

FORM 10-Q

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

For the quarterly period ended September 30, 2008

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 þ No o

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

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

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

As of November 5, 2008, the latest practicable date, the number of shares of the registrant's Common Stock, par value $0.01 per share, outstanding was 54,305,082 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. The Securities and Exchange Commission 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, 2008
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FORWARD-LOOKING STATEMENTS

In this Quarterly Report on Form 10-Q, 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;
- reduced purchases of our products by General Motors Corporation (GM), Chrysler 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;
- 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' ability to maintain satisfactory labor relations and avoid work stoppages;
- our customers' and their suppliers' ability to maintain satisfactory labor relations and avoid work stoppages;
- our ability to improve our U.S. labor cost structure;
- our ability to consummate and integrate acquisitions;
- supply shortages or price increases in raw materials, utilities or other operating supplies;
- 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;
- continued or increased high prices for 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 regulations);
- adverse changes in the economic conditions or political stability of our principal markets (particularly North America, Europe, South America and Asia);
- 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, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
	(in millions, except per share data)			
Net sales	$ 528.1	$ 774.3	$ 1,606.2	$ 2,493.0
Cost of goods sold	906.5	693.1	2,499.8	2,212.8
Gross profit (loss)	(378.4)	81.2	(893.6)	280.2
Selling, general and administrative expenses	43.0	52.0	137.3	155.1
Operating income (loss)	(421.4)	29.2	(1,030.9)	125.1
Interest expense	(18.0)	(14.6)	(48.4)	(46.8)
Investment income (loss)	(3.7)	3.1	0.5	6.0
Other income (expense), net	(1.4)	(1.2)	0.2	(5.4)
Income (loss) before income taxes	(444.5)	16.5	(1,078.6)	78.9
Income tax expense (benefit)	(3.4)	3.0	33.8	15.1
Minority interest	0.2	-	0.2	-
Net income (loss)	$ (440.9)	$ 13.5	$ (1,112.2)	$ 63.8
Basic earnings (loss) per share	$ (8.54)	$ 0.27	$ (21.55)	$ 1.26
Diluted earnings (loss) per share	$ (8.54)	$ 0.25	$ (21.55)	$ 1.21
Dividends declared per share	$ 0.02	$ 0.15	$ 0.32	$ 0.45

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2008	December 31, 2007
	(Unaudited)	
	(in millions)	
Assets		
Current assets		
Cash and cash equivalents	$ 454.2	$ 343.6
Short-term investments	117.2	-
Accounts receivable, net	256.2	264.0
AAM - GM Agreement receivable	60.0	-
Inventories, net	183.8	242.8
Prepaid expenses and other	70.8	73.4
Deferred income taxes	5.3	19.5
Total current assets	1,147.5	943.3
Property, plant and equipment, net	1,093.0	1,696.2
Deferred income taxes	16.0	78.7
Goodwill	147.8	147.8
Other assets and deferred charges	51.5	57.4
Total assets	$ 2,455.8	$ 2,923.4
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable	$ 287.2	$ 313.8
Accrued compensation and benefits	261.7	126.6
Deferred revenue	66.7	10.2
Other accrued expenses	45.9	61.0
Total current liabilities	661.5	511.6
Long-term debt	1,300.8	858.1
Deferred income taxes	5.4	6.6
Deferred revenue	195.8	66.0
Postretirement benefits and other long-term liabilities	429.6	581.7
Total liabilities	2,593.1	2,024.0
Stockholders' equity (deficit)		
Common stock, par value $0.01 per share	0.6	0.6
Paid-in capital	428.0	416.3
Retained earnings (accumulated deficit)	(537.6)	591.9
Treasury stock at cost, 5.2 million shares as of 2008 and 2007	(173.9)	(173.8)
Accumulated other comprehensive income (loss), net of tax		
Defined benefit plans	120.8	33.5
Foreign currency translation adjustments	27.5	34.2
Unrecognized loss on derivatives	(2.7)	(3.3)
Total stockholders' equity (deficit)	(137.3)	899.4

Total liabilities and stockholders' equity (deficit)	$ 2,455.8	$ 2,923.4

See accompanying notes to condensed consolidated financial statements

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

	Nine months ended September 30,	
	2008	2007
	(in millions)	
Operating activities		
Net income (loss)	$ (1,112.2)	$ 63.8
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	165.2	171.0
Asset impairments	541.3	-
Deferred income taxes	22.7	1.9
Stock-based compensation	9.4	16.6
Pensions and other postretirement benefits, net of contributions	25.6	42.1
Loss (gain) on retirement of property, plant and equipment	(1.1)	3.3
Debt refinancing and redemption costs	-	5.5
Changes in operating assets and liabilities		
Accounts receivable	7.5	8.4
Inventories	57.8	(49.6)
Accounts payable and accrued expenses	63.0	58.7
Deferred revenue: AAM - GM Agreement	115.0	-
Other assets and liabilities	8.5	9.9
Net cash provided by (used in) operating activities	(97.3)	331.6
Investing activities		
Purchases of property, plant and equipment	(102.8)	(132.9)
Reclassification of cash equivalents to short-term investments	(117.2)	-
Proceeds from sale of property, plant and equipment	2.3	-
Net cash used in investing activities	(217.7)	(132.9)
Financing activities		
Net borrowings (repayments) under revolving credit facilities	444.4	(132.8)
Payments of long-term debt and capital lease obligations	(10.4)	(0.5)
Proceeds from issuance of long-term debt	8.9	553.1
Debt issuance costs	-	(7.5)
Payment of Term Loan due 2010	-	(252.5)
Repurchase of treasury stock	(0.1)	(1.9)
Employee stock option exercises	0.7	12.5
Tax benefit on stock option exercises	0.2	2.7
Dividends paid	(17.3)	(23.8)
Net cash provided by financing activities	426.4	149.3
Effect of exchange rate changes on cash	(0.8)	0.6
Net increase in cash and cash equivalents	110.6	348.6
Cash and cash equivalents at beginning of period	343.6	13.5
Cash and cash equivalents at end of period	$ 454.2	$ 362.1

Supplemental cash flow information				
Interest paid	$	56.9	$	51.4
Income taxes paid, net of refunds	$	3.1	$	17.4

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, 2008
(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 trucks, sport utility vehicles (SUVs), passenger cars and crossover utility 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. In addition to locations in the United States (U.S.) (Michigan, New York, Ohio and Indiana), 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, 2007 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.

Certain amounts in the prior period's financial statements have been reclassified to conform to the current presentation.

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, 2007.

Short-term Investments As of September 30, 2008, we were invested in the Reserve U.S. Government Fund (Government Fund), the Reserve International Liquidity Fund (International Liquidity Fund) and the Reserve Yield Plus Fund (Yield Plus Fund) (collectively the Reserve Funds). The Reserve Funds are a series of money-market and other similar fund investments, which we have previously classified as cash and cash equivalents on our Consolidated Balance Sheet because the funds were readily convertible into known amounts of cash.

In September of 2008, redemptions were temporarily suspended from the Reserve Funds so that an orderly liquidation may be effected for the protection of the Reserve Funds investors. While we expect to receive substantially all of our current holdings in the Reserve Funds, we cannot predict exactly when this will occur or the amount we will receive. Accordingly, we have reclassified the fair value of these funds of $117.2 million from cash and cash equivalents to short-term investments on our Condensed Consolidated Balance Sheet as of September 30, 2008.

Based on the other-than-temporary decline in the net asset value of the International Liquidity and Yield Plus Funds as of September 30, 2008, we recorded a loss of $5.4 million in investment income (loss) on our Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2008.

Change in Accounting Principle On January 1, 2008, we changed the method for costing our U.S. inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. As of December 31, 2007, the U.S. inventories for which the LIFO method of costing inventory was applied represented approximately 25% of total gross inventories. This change enhances the matching of inventory costs with revenues and better reflects the current cost of inventory on our Condensed Consolidated Balance Sheet. Additionally, this change conforms all of our worldwide inventories to a consistent inventory costing method and provides better comparability to our industry peers, most of which use the FIFO method of costing for inventory. In accordance with Statement of Financial Accounting Standards No. 154, “Accounting Changes and Error Corrections,” the change in accounting principle has been retrospectively applied to all prior periods presented herein.

We have presented the effects of the change in accounting for inventory costing to the Condensed Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007, the Condensed Consolidated Statement of Operations for the three months and nine months ended September 30, 2008 and September 30, 2007, and the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2008 and September 30, 2007. We have condensed the comparative financial statements for financial statement line items that were not affected by the change in accounting principle.

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

Condensed Consolidated Statement of Operations
Three months ended September 30, 2007
(in millions)

	As originally reported	Adjustments to change from LIFO to FIFO	As adjusted and reported under FIFO
Net sales	$ 774.3	$ -	$ 774.3
Cost of goods sold	693.6	(0.5)	693.1
Gross profit	80.7	0.5	81.2
Selling general and administrative expenses	52.0	-	52.0
Operating income	28.7	0.5	29.2
Other expense, net	(12.7)	-	(12.7)
Income before income taxes	16.0	0.5	16.5
Income tax expense	2.9	0.1	3.0
Net income	13.1	0.4	13.5
Basic earnings per share	$ 0.26	$ 0.01	$ 0.27
Diluted earnings per share	$ 0.25	$ 0.00	$ 0.25

Condensed Consolidated Statement of Operations
Nine months ended September 30, 2007
(in millions)

	As originally reported	Adjustments to change from LIFO to FIFO	As adjusted and reported under FIFO
Net sales	$ 2,493.0	$ -	$ 2,493.0
Cost of goods sold	2,214.4	(1.6)	2,212.8
Gross profit	278.6	1.6	280.2
Selling general and administrative expenses	155.1	-	155.1
Operating income	123.5	1.6	125.1
Other expense, net	(46.2)	-	(46.2)
Income before income taxes	77.3	1.6	78.9
Income tax expense	14.8	0.3	15.1
Net income	62.5	1.3	63.8
Basic earnings per share	$ 1.23	$ 0.03	$ 1.26
Diluted earnings per share	$ 1.19	$ 0.02	$ 1.21

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

Condensed Consolidated Balance Sheet
December 31, 2007
(in millions)

	As originally reported	Adjustments to change from LIFO to FIFO	As adjusted and reported under FIFO
Assets			
Current assets			
Inventories	$ 229.0	$ 13.8	$ 242.8
Deferred income taxes	24.6	(5.1)	19.5
Other current assets	681.0	-	681.0
Total current assets	934.6	8.7	943.3
Other assets	1,980.1	-	1,980.1
Total assets	$ 2,914.7	$ 8.7	$ 2,923.4
Liabilities and Stockholders' Equity			
Total liabilities	$ 2,024.0	$ -	$ 2,024.0
Stockholders' equity			
Retained earnings	583.2	8.7	591.9
Other stockholders' equity	307.5	-	307.5
Total stockholders' equity	890.7	8.7	899.4
Total liabilities and stockholders' equity	$ 2,914.7	$ 8.7	$ 2,923.4

Condensed Consolidated Statement of Cash Flows
Nine months ended September 30, 2007
(in millions)

	As originally reported	Adjustments to change from LIFO to FIFO	As adjusted and reported under FIFO
Operating Activities			
Net income	$ 62.5	$ 1.3	$ 63.8
Adjustments to reconcile net income to net cash provided by operating activities			
Deferred income taxes	1.6	0.3	1.9
Changes in operating assets and liabilities			
Inventories	(48.0)	(1.6)	(49.6)
Other changes in operating assets and liabilities	77.0	-	77.0
Other adjustments	238.5	-	238.5
Net cash provided by operating activities	331.6	-	331.6
Investing Activities			
Net cash used in investing activities	(132.9)	-	(132.9)

Financing Activities						
Net cash provided by financing activities		149.3		-		149.3
Effect of exchange rate changes on cash		0.6		-		0.6
Net increase in cash and cash equivalents	$	348.6	$	-	$	348.6

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

Condensed Consolidated Statement of Operations
Three months ended September 30, 2008
(in millions)

	As calculated using LIFO for U.S. inventories	Difference between LIFO and FIFO	As reported using FIFO
Net sales	$ 528.1	$ -	$ 528.1
Cost of goods sold	904.3	2.2	906.5
Gross loss	(376.2)	(2.2)	(378.4)
Selling general and administrative expenses	43.0	-	43.0
Operating loss	(419.2)	(2.2)	(421.4)
Other expense, net	(23.1)	-	(23.1)
Loss before income taxes	(442.3)	(2.2)	(444.5)
Income tax benefit	(3.4)	-	(3.4)
Minority interest	0.2	-	0.2
Net loss	(438.7)	(2.2)	(440.9)
Basic loss per share	$ (8.50)	$ (0.04)	$ (8.54)
Diluted loss per share	$ (8.50)	$ (0.04)	$ (8.54)

Condensed Consolidated Statement of Operations
Nine months ended September 30, 2008
(in millions)

	As calculated using LIFO for U.S. inventories	Difference between LIFO and FIFO	As reported using FIFO
Net sales	$ 1,606.2	$ -	$ 1,606.2
Cost of goods sold	2,498.1	1.7	2,499.8
Gross loss	(891.9)	(1.7)	(893.6)
Selling general and administrative expenses	137.3	-	137.3
Operating loss	(1,029.2)	(1.7)	(1,030.9)
Other expense, net	(47.7)	-	(47.7)
Loss before income taxes	(1,076.9)	(1.7)	(1,078.6)
Income tax expense	38.9	(5.1)	33.8
Minority interest	0.2	-	0.2
Net loss	(1,115.6)	3.4	(1,112.2)
Basic loss per share	$ (21.62)	$ 0.07	$ (21.55)
Diluted loss per share	$ (21.62)	$ 0.07	$ (21.55)

The Condensed Consolidated Statements of Operations for the nine months ended September 30, 2008 as calculated using LIFO for U.S. inventories includes an adjustment to income tax expense of $5.1 million for additional valuation allowances that would have been recorded against our U.S. deferred tax assets. See Note 9 – Income Taxes for more detail on our valuation allowance.

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

Condensed Consolidated Balance Sheet
September 30, 2008
(in millions)

	As calculated using LIFO for U.S. inventories	Difference between LIFO and FIFO	As reported using FIFO
Assets			
Current Assets			
Inventories	$ 172.2	$ 11.6	$ 183.8
Other current assets	963.7	-	963.7
Total current assets	1,135.9	11.6	1,147.5
Other assets	1,308.3	-	1,308.3
Total assets	$ 2,444.2	$ 11.6	$ 2,455.8
Liabilities and Stockholders' Equity (Deficit)			
Total liabilities	$ 2,593.1	$ -	$ 2,593.1
Stockholders' equity (deficit)			
Accumulated deficit	(549.2)	11.6	(537.6)
Other stockholders' equity	400.3	-	400.3
Total stockholders' equity (deficit)	(148.9)	11.6	(137.3)
Total liabilities and stockholders' equity (deficit)	$ 2,444.2	$ 11.6	$ 2,455.8

Condensed Consolidated Statement of Cash Flows
Nine months ended September 30, 2008
(in millions)

	As calculated using LIFO for U.S. inventories	Difference between LIFO and FIFO	As reported using FIFO
Operating Activities			
Net loss	$ (1,115.6)	$ 3.4	$ (1,112.2)
Adjustments to reconcile net income to net cash provided by operating activities			
Deferred income taxes	27.8	(5.1)	22.7
Changes in operating assets and liabilities			
Inventories	56.1	1.7	57.8
Other changes in operating assets and liabilities	194.0	-	194.0
Other adjustments	740.4	-	740.4
Net cash used in operating activities	(97.3)	-	(97.3)
Investing Activities			

Net cash used in investing activities		(217.7)		-		(217.7)
Financing Activities						
Net cash provided by financing activities		426.4		-		426.4
Effect of exchange rate changes on cash		(0.8)		-		(0.8)
Net increase in cash and cash equivalents	$	110.6	$	-	$	110.6

The application of this change in accounting increased retained earnings by $8.7 million as of January 1, 2007.

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

Effect of New Accounting Standards In September 2006, the FASB issued Statement No. 157 (SFAS 157), "Fair Value Measurements." This statement clarifies the definition of fair value and establishes a fair value hierarchy. SFAS 157, as originally issued, was effective for us on January 1, 2008. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-b, which defers the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis. The effective date for us under this FSP is January 1, 2009. As allowed by FSP FAS 157-b, we partially adopted SFAS 157 on January 1, 2008 and the impact of adoption was not significant. We do not expect the impact of applying SFAS 157 to the remaining assets and liabilities on January 1, 2009 to be material.

SFAS 157 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. SFAS 157 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.

On a recurring basis, we measure our derivatives at fair value, which was a net liability of $4.5 million as of September 30, 2008. In addition, as of September 30, 2008, we recorded our short-term investments at a fair value of $117.2 million. The fair value of these derivatives and short-term investments were determined using Level 2 inputs, as described above.

As allowed by FSP FAS 157-2, we did not apply SFAS 157 to fair value measurements of certain assets and liabilities included in property, plant and equipment, net, accrued compensation and benefits, other accrued expenses, and postretirement benefits and other long-term liabilities on our Condensed Consolidated Balance Sheets.

In February 2007, the FASB issued Statement No. 159 (SFAS 159), "The Fair Value Option for Financial Assets and Financial Liabilities." This statement permits entities to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 was effective for us on January 1, 2008 and we did not elect to measure any additional assets or liabilities at fair value.

In December 2007, the FASB issued Statement No. 160 (SFAS 160), "Noncontrolling Interests in Consolidated Financial Statements — An Amendment of ARB No. 51." SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary. SFAS 160 is effective for us on January 1, 2009. We are currently assessing the impact of adopting this statement.

In December 2007, the FASB issued Statement No. 141 (Revised) (SFAS 141R), "Business Combinations." This statement replaces FASB Statement No. 141 and establishes principles and requirements for how the acquirer:

a. Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree
b. Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase
c. Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

SFAS 141R is effective for us prospectively for any acquisitions made on or after January 1, 2009.

In March 2008, the FASB issued Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133.” This statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for us prospectively on January 1, 2009.

In June 2008, the FASB issued FSP No. EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” This staff position notes that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and shall be included in the computation of EPS pursuant to the two-class method. FSP No. EITF 03-6-1 is effective for us retrospectively on January 1, 2009 and we are currently assessing the impact of this FSP.

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

2. LABOR RELATIONS

On February 25, 2008, the four-year master labor agreement between AAM and the International United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) that covered approximately 3,650 associates at our original five facilities in Michigan and New York expired. The International UAW called a strike at these facilities upon expiration of this agreement. On May 23, 2008, the International UAW ratified new labor agreements with AAM. The new labor agreements establish a new wage and benefit package for eligible current and newly hired UAW represented associates at these locations.

As part of these new agreements, we paid a lump-sum ratification bonus to each eligible associate at these locations in the second quarter of 2008. During the second quarter of 2008 we expensed and paid $19.1 million for these signing bonuses.

In addition, as part of the new labor agreements, we offered the Special Separation Program (SSP) to all hourly associates represented by the International UAW at the original U.S. locations. This voluntary separation program offered a range of retirement or buyout incentives to eligible associates. In the second quarter, we also announced the closing of our Buffalo Gear, Axle & Linkage facility (Buffalo) and Tonawanda and Detroit forging facilities within the next six to twelve months. The costs recorded in the three and nine months ended September 30, 2008 for the SSP and related plant closures are discussed in more detail in Note 3 – Restructuring Actions.

The new labor agreements also have a significant impact on our pension and other postretirement employee benefit (OPEB) obligations, including the freezing, reducing or eliminating of current and future benefits for certain associates. See Note 7 – Employee Benefit Plans for more detail on the impact of the new agreements on our pension and OPEB liabilities, expense and accumulated other comprehensive income.

An involuntary Buydown Program (BDP) was initiated for approximately 1,525 associates that did not elect to participate in the SSP and continued employment with AAM. Under the BDP, we will make three annual lump-sum payments to associates in connection with, among other things, a base wage decrease. The total buydown payments are expected to average approximately $91,000 per associate and will not exceed $105,000 per associate. In the third quarter of 2008, we paid $50.8 million for the first lump-sum buydown payment.

We recorded expense of $51.9 million in the three and nine months ended September 30, 2008 for the estimated amount of total BDP payments related to permanently idled associates throughout the new labor agreements. This represents management's best estimate of the portion of the total BDP payment that will not result in a future benefit to the Company.

We recorded $5.8 million of expense in the three and nine months ended September 30, 2008 for the amortization of the BDP payments that are expected to provide a benefit to the Company through the end of the new labor agreements. In addition, the lower base wage rate went into effect for all associates participating in the BDP on July 28, 2008.

As of September 30, 2008, we recorded $27.7 million in prepaid expenses and other on our Condensed Consolidated Balance Sheet for BDP payments made in the third quarter of 2008 that we estimate will provide a benefit to the Company in the future. We also recorded a liability of $17.3 million in accrued compensation and benefits and a liability of $17.3 million in postretirement and other long-term liabilities on our Condensed Consolidated Balance Sheet for the estimated amount of future BDP payments to be paid to permanently idled associates throughout the new labor agreements.

In the second quarter of 2008, we expensed $18.0 million relating to supplemental unemployment benefits (SUB) to be payable to current UAW represented associates during the new labor agreements that expire in February 2012. The new labor agreements between AAM and the International UAW contain a SUB provision, pursuant to which we are required to pay eligible idled workers certain benefits. Under the new agreements, our obligation for SUB payments is limited to $18.0 million. Once this limit is reached, the SUB program will be terminated. As of September 30, 2008, it was probable and estimable that we will pay the full amount during the contract period. From the beginning of the new labor agreements through September 30, 2008, we paid $5.9 million of SUB, and our remaining liability was $12.1 million as of September 30, 2008.

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

3. RESTRUCTURING ACTIONS

In the first nine months of 2008, we have incurred restructuring charges related to the SSP, asset impairments, plant closure agreements and other ongoing restructuring actions. In addition, we continue to make payments related to charges incurred in 2007 and 2006.

A summary of the restructuring related activity for the nine months ended September 30, 2008 is shown below (in millions):

	One-time Termination Benefits	Asset Impairments	Indirect Inventory Obsolescence	Environmental Obligations	Contract Related Costs	Redeployment of Assets	Total
Accrual as of December 31, 2007	$ 20.3	$ -	$ -	$ 2.2	$ -	$ -	$ 22.5
Charges	231.2	541.3	39.8	1.0	9.7	12.9	835.9
Cash utilization	(104.9)	-	-	(0.2)	(2.1)	(12.9)	(120.1)
Non-cash utilization	-	(541.3)	(39.8)	-	(0.8)	-	(581.9)
Accrual adjustments	(7.5)	-	-	-	(1.0)	-	(8.5)
Accrual as of September 30, 2008	$ 139.1	$ -	$ -	$ 3.0	$ 5.8	$ -	$ 147.9

One-time Termination Benefits We offered the SSP to all UAW represented associates at the original U.S. locations in the second quarter of 2008. Under this voluntary separation program, we offered retirement and buyout incentives to approximately 3,650 eligible hourly associates. Approximately 2,125 associates elected to participate in this program. We recorded expense of $215.7 million in the nine months ended September 30, 2008 for the postemployment benefits related to this program, $99.6 million of which was recorded in the third quarter of 2008. The amount expensed in the third quarter of 2008 represents associates that elected to participate in this program subsequent to June 30, 2008. We paid $91.0 million in the nine months ended September 30, 2008 related to this program.

We recorded expense of $4.2 million in the second quarter of 2008 for the estimated postemployment costs for associates represented by the International Association of Machinists (IAM) at our Tonawanda forging facility.

In the second quarter of 2008, we approved a plan to reduce our salaried workforce by approximately 350 associates in the U.S. As part of this plan, we offered a voluntary salaried retirement incentive program (SRIP) to eligible salaried associates in the U.S. We recorded expense of $8.7 million for the acceptances of the SRIP and the estimated postemployment benefits related to the Layoff Severance Program (LSP) for the nine months ended September 30, 2008. We paid $0.3 million in the nine months ended September 30, 2008 related to this program.

In the second quarter of 2008, we approved and communicated a plan to provide future transition payments to certain associates who will remain active through the operation of facilities under plant closure agreements. We recorded expense of $0.6 million and $1.0 million for the proportional amount of expense for service related to these future payments for the three and nine months ended September 30, 2008, respectively.

In the third quarter of 2008, we recorded a charge of $1.6 million related to postemployment benefits payable to associates in our European operations.

In the nine months ended September 30, 2008, we made payments of $13.6 million for hourly and salary attrition programs initiated in 2007 and 2006.

We recorded $7.5 million in accrual adjustments related to one-time termination benefits in the nine months ended September 30, 2008, of which $7.3 million were recorded in the third quarter of 2008. These adjustments primarily relate to the reclassification of certain termination benefits from the restructuring accrual to the pension liability for associates who will be paid under our pension plans. This adjustment also reflects changes in previous estimates in order to record our best estimate of our remaining one-time termination benefit payments as of September 30, 2008.

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

Asset Impairments In the second quarter of 2008, we identified the following impairment indicators:

- a significant decline in current and projected market demand and future customer production schedules for the major North American light truck programs we currently support and
- changes in the extent to which assets at our original U.S. locations will be used as a result of management's long-term plant loading decisions made subsequent to the new labor agreements with the International UAW.

We recorded asset impairment charges of $294.8 million in the second quarter of 2008 associated with the permanent idling of certain assets and an impairment analysis of certain assets that were "held for use" as of June 30, 2008.

In the third quarter of 2008, we identified these additional impairment indicators:

- the general decline in consumer spending as a result of the deteriorating global economic conditions and uncertain credit markets, which further negatively affected our projected future production requirements;
- the announcement of accelerated customer production capacity reductions for programs that we support; and
- future sourcing and product planning decisions that were announced and communicated by some of our customers in the third quarter of 2008, which adversely affected our Colfor Manufacturing subsidiary.

We recorded asset impairment charges of $246.5 million and $541.3 million in the three and nine months ended September 30, 2008, respectively, associated with the permanent idling of certain assets and an impairment analysis of certain assets that were "held for use" as of September 30, 2008. Recoverability of each "held for use" asset group affected by these impairment indicators was determined by comparing the forecasted undiscounted cash flows of the operations to which the assets relate to their carrying amount. When the carrying amount of an asset group exceeded the undiscounted cash flows and was therefore nonrecoverable, the assets in this group were written down to their estimated fair value. We estimated fair value based on a discounted cash flow analysis. We also reduced the remaining useful lives of certain "held for use" assets as part of this analysis.

Indirect Inventory Obsolescence As a result of the reduction in the projected usage of machinery and equipment due to the impairment indicators discussed above, certain machine repair parts and other materials classified as indirect inventory were determined to be obsolete. We recorded a charge of $9.4 million and $39.8 million for the three and nine months ended September 30, 2008, respectively, related to the write down of the net book value of these assets to their estimated net realizable value at September 30, 2008.

Environmental Obligations As a result of the announced plant closures, the methods and timing of certain environmental liabilities related to these facilities became reasonably estimable. Based on management's best estimate of the costs, methods and timing of the settlement of these obligations, we recorded a charge of $0.2 million and $1.0 million in the three and nine months ended September 30, 2008, respectively.

Contract Related Costs Contract related costs recorded in the second quarter of 2008 of $9.7 million primarily include the fair value of future payments related to leased assets that were idled in the second quarter of 2008 and cancellation costs for long-term purchase commitments related to certain facilities under our plant closure agreements. In the third quarter of 2008, we reached a settlement on certain of these cancellation costs and reduced the accrual by $1.0 million based on this agreement.

Redeployment of Assets We incurred $7.6 million and $12.9 million of charges related to the redeployment of assets to support capacity utilization initiatives in the three and nine months ended September 30, 2008, respectively.

We expect a majority of the remaining restructuring accrual to be paid in the fourth quarter of 2008 and the remainder to be paid through 2012.

4. INVENTORIES

We state our inventories at the lower of cost or market. In the first quarter of 2008, we changed the method of accounting for our U.S. inventories from the LIFO method to the FIFO method as discussed in Note 1 – Organization and Basis of Presentation. The cost of worldwide inventories is determined using the FIFO method. We classify indirect inventories, which include perishable tooling, machine repair parts and other materials consumed in the manufacturing process but not incorporated into our finished products, as raw materials. 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, 2008	December 31, 2007
	(in millions)	
Raw materials and work-in-progress	$ 231.1	$ 230.5
Finished goods	32.0	52.6
Gross inventories	263.1	283.1
Other inventory valuation reserves	(79.3)	(40.3)
Inventories, net	$ 183.8	$ 242.8

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

5. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2008	December 31, 2007
	(in millions)	
Revolving Credit Facility	$ 450.0	$ -
7.875% Notes	300.0	300.0
5.25% Notes, net of discount	249.8	249.8
2.00% Convertible Notes	0.4	2.7
Term Loan due 2012	250.0	250.0
Foreign credit facilities	42.4	46.7
Capital lease obligations	8.2	8.9
Long-term debt	$ 1,300.8	$ 858.1

The Revolving Credit Facility, as of September 30, 2008, provided up to $600.0 million of revolving bank financing commitments through April 2010 and bears interest at rates based on LIBOR or an alternate base rate, plus an applicable margin. At September 30, 2008, we had $105.2 million available under the Revolving Credit Facility. This availability reflected a reduction of $44.8 million for standby letters of credit issued against the facility.

On November 7, 2008, we amended our existing Revolving Credit Facility. See Note 13 - Subsequent Event for more information on this amendment.

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 respective markets. Accordingly, we classified $27.5 million of current maturities as long-term debt.

We utilize local currency credit facilities to finance the operations of certain foreign subsidiaries. At September 30, 2008, $42.4 million was outstanding under these facilities and an additional $95.3 million was available.

The weighted-average interest rate of our long-term debt outstanding at September 30, 2008 was 6.8% and 7.8% as of December 31, 2007.

6. DEFERRED REVENUE

In the second quarter of 2008, we entered into an agreement with GM in connection with the resolution of the strike called by the International UAW (AAM – GM Agreement). Pursuant to this agreement, GM agreed to provide us with $175.0 million of cash payments through April 2009. As of September 30, 2008, we received $115.0 million and have recorded a receivable for $60.0 million for the remaining payment, which is disclosed as AAM – GM Agreement receivable on our Condensed Consolidated Balance Sheet.

The AAM – GM Agreement also amended the Asset Purchase Agreement, dated February 18, 1994, between GM and AAM. The amendment provides that we shall have no liability to GM for postretirement healthcare and life insurance coverage provided to UAW represented transition associates with earned credited service from AAM that have or will retire under plans operated by GM. The value of this liability was estimated at $38.7 million. See Footnote 7 – Employee Benefits Plans for more detail on the settlement of this liability.

In the second quarter of 2008, we recorded $213.7 million of deferred revenue related to the AAM – GM Agreement. As of September 30, 2008, our deferred revenue related to the AAM – GM Agreement is $194.7 million, $57.0 million of which is classified as current and $137.7 million of which is recorded as noncurrent on our Condensed Consolidated Balance Sheet. We will continue to amortize this deferred revenue into revenue on a straight-line basis over a 45 month period beginning on June 1, 2008. This amortization period is consistent with the period that GM will benefit from the payments provided to us under the AAM – GM Agreement. We recorded revenue of $14.2 million and $19.0 million for the three and nine months ended September 30, 2008, respectively, related to this agreement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost consist of the following:

	Pension Benefits			
	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Service cost	$ 2.8	$ 5.4	$ 10.9	$ 16.1
Interest cost	9.5	8.6	28.4	25.9
Expected asset return	(9.7)	(9.5)	(30.1)	(28.5)
Amortized loss	0.1	0.4	0.6	1.1
Amortized prior service cost	-	0.6	0.8	1.8
Curtailment	(5.0)	-	1.0	-
Special and contractual termination benefits	26.3	0.3	53.4	0.7
Net periodic benefit cost	$ 24.0	$ 5.8	$ 65.0	$ 17.1

	Other Postretirement Benefits			
	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Service cost	$ 0.9	$ 6.5	$ 8.9	$ 19.4
Interest cost	4.6	7.0	18.4	21.0
Amortized prior service credit	(2.8)	(0.8)	(5.2)	(2.3)
Settlement	-	-	(9.4)	-
Curtailment	(34.9)	-	(51.0)	-
Special and contractual termination benefits	1.1	0.4	10.9	0.4
Net periodic benefit cost (credit)	$ (31.1)	$ 13.1	$ (27.4)	$ 38.5

In the nine months ended September 30, 2008, we completed multiple valuations of the assets and liabilities of our U.S. pension and other postretirement benefit (OPEB) plans. This was required due to plan amendments, attrition programs and plant closure agreements, which resulted from the new labor agreements ratified with UAW represented associates at our original U.S. locations on May 23, 2008, as well as salaried workforce reductions. We recorded adjustments associated with the completion of these valuations. The components of these adjustments are discussed below.

Certain changes in the new labor agreements reduced the postretirement benefit obligation attributed to employee services already rendered. These changes are classified as negative plan amendments and reduced postretirement benefits and other long-term liabilities on our Condensed Consolidated Balance Sheet by $96.8 million. In addition, we reduced postretirement benefits and other long-term liabilities by $40.4 million for changes in actuarial assumptions since the January 1, 2008 valuation of our U.S. pension and OPEB plans. These adjustments were recorded to accumulated other comprehensive income (AOCI) and will be amortized over future periods.

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

We also reduced postretirement benefits and other long-term liabilities and recorded a net gain of $39.9 million and $50.0 million to cost of sales for the curtailment of certain pension and OPEB in the three and nine months ended September 30, 2008, respectively. This resulted primarily from the reduction in the expected future pension and OPEB related to those hourly associates who have accepted the SSP and terminated employment from AAM. In addition, we reduced postretirement benefits and other long-term liabilities and recorded an estimated curtailment gain to AOCI of $32.8 million related to the expected curtailment of OPEB for associates who are part of the hourly and salary workforce reductions but have not yet terminated employment. The remaining portion of the total curtailment gain will be recognized as these remaining associates terminate employment.

In addition, we increased postretirement benefits and other long-term liabilities and recorded expense of $27.4 million and $64.3 million for special and contractual termination benefits in the three and nine months ended September 30, 2008, respectively. This charge includes lump-sum SSP benefits to be paid under our pension plans, contractual pension and OPEB to be provided to certain eligible associates at the facilities operating under our plant closure agreements and future postretirement benefits to be provided to certain eligible associates who have accepted the SSP. This charge also includes special and contractual pension and OPEB benefits related to certain eligible IAM associates at our forging facilities and lump-sum SRIP benefits to be paid under our pension plans.

The special and contractual termination benefits consist of the following (in millions):

	Three months ended September 30, 2008	Nine months ended September 30, 2008
SSP	$ 24.1	$ 58.7
IAM related	1.0	2.9
SRIP	2.3	2.7

As part of the AAM – GM Agreement, we will no longer have a liability to GM for postretirement healthcare and life insurance coverage provided to UAW represented transition associates with earned credited service from AAM who retire under the plans administered by GM. In the second quarter of 2008, we recorded a reduction of our OPEB liability of $38.7 million to reflect the settlement of this portion of the liability. We will record this transaction as deferred revenue and amortize it over future periods. See Note 6 – Deferred Revenue for more detail on this agreement with GM. The forgiveness of this obligation has been accounted for as a settlement. Accordingly, the related amount of unamortized gain previously recorded to AOCI has been recorded as a credit of $9.4 million to cost of sales in the nine months ended September 30, 2008.

In the first quarter of 2008, we recorded an adjustment related to the completion of our valuation for pension and OPEB assets and obligations as of January 1, 2008. This adjustment resulted in a decrease in postretirement benefits and other long-term liabilities of $11.8 million, an increase in AOCI of $7.4 million and a decrease in deferred income taxes of $4.4 million.

We adopted the measurement date provisions of FASB Statement No. 158, “Employers Accounting for Defined Benefit Pension and Other Postretirement Plans,” as of January 1, 2007, which requires companies to measure a plan’s assets and obligations that determine its funded status as of the end of the fiscal year. As a result of this adoption, we recorded a net transition adjustment of $12.0 million to the opening retained earnings balance related to the net periodic benefit cost for the period between September 30, 2006 and January 1, 2007.

Our regulatory pension funding requirements in 2008 are less than $5 million. We expect our cash outlay for other postretirement benefit obligations in 2008 to be between $5 million and $10 million.

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

8. PRODUCT WARRANTIES

The following table provides a reconciliation of changes in the product warranty liability as of September 30, 2008 (in millions):

Beginning balance as of January 1, 2008	$	6.8
Accruals		0.4
Settlements		(0.4)
Adjustment to prior period accruals		(0.5)
Currency translation adjustment		(0.1)
Ending balance as of September 30, 2008	$	6.2

9. INCOME TAXES

We estimate whether recoverability of our deferred tax assets is “more likely than not,” based on forecasts of taxable income in the related tax jurisdictions. In this estimate, we use historical results, projected future operating results based upon approved business plans, eligible carry forward periods, tax planning opportunities and other relevant considerations. We review the likelihood that we will be able to realize the benefit of our deferred tax assets on a quarterly basis or whenever events indicate that a review is required.

In the second quarter of 2008, several events occurred that led us to significantly revise the near-term projected future operating results of our U.S. operations. These events included:

- a significant decline in current and projected market demand and future customer production schedules for the major North American light truck programs we currently support;
- management’s long-term plant loading decisions made subsequent to the new labor agreements with the International UAW; and
- the impact of significant charges resulting from our restructuring actions in the second quarter of 2008.

We reviewed the likelihood that we would be able to realize the benefit of our U.S. deferred tax assets as of June 30, 2008, based on the revised near-term projected future operating results of our U.S. operations. We concluded that it is no longer “more likely than not” that we will realize our net deferred tax assets in the U.S. and recorded a charge to income tax expense in the second quarter of 2008 of $54.4 million to establish a full valuation allowance against these assets. We recorded an additional valuation allowance of $366.7 million as of September 30, 2008 to offset the deferred tax benefits resulting from U.S. losses incurred in the second and third quarters of 2008.

If, in the future, we generate taxable income in the U.S. on a sustained basis, our current estimate of the recoverability of our deferred tax assets could change and result in the future reversal of some or all of the valuation allowance.

Income tax expense (benefit) was a benefit of $3.4 million in the third quarter of 2008 and an expense of $33.8 million in the first nine months of 2008 as compared to expense of $3.0 million in the third quarter of 2007 and $15.1 million in the first nine months of 2007. Our effective income tax rate was 0.8% in the third quarter of 2008 and negative 3.1% in the first nine months of 2008 as compared to 18.2% in the third quarter of 2007 and 19.1% in the first nine months of 2007. Our income tax expense (benefit) and effective tax rate for the three and nine months ended September 30, 2008 reflects the effect of the valuation allowance that was recorded in the second quarter of 2008 and the ongoing impact of this allowance in third quarter of 2008.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows (in millions):

Balance at January 1, 2008	$	33.0
Increase in prior year tax positions		8.2
Decrease in prior year tax positions		(7.3)
Increase in current year tax positions		2.6
Settlement		(1.2)
Balance at September 30, 2008	$	35.3

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

10. STOCK-BASED COMPENSATION

In the third quarter of 2008, we recorded $1.0 million of expense for the accelerated vesting of restricted stock as a result of our salaried workforce reductions.

On June 25, 2008, we granted approximately 0.3 million stock options under our 1999 Stock Incentive Plan. These options will be expensed over the vesting period, which is approximately three years.

We estimated the fair value of our employee stock options on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2008	2007
Expected volatility	46.10%	44.26%
Risk-free interest rate	3.78%	4.46%
Dividend yield	6.20%	2.30%
Expected life of options	8 years	8 years
Weighted-average grant-date fair value	$ 2.67	$ 11.13

On June 25, 2008, we granted 0.2 million shares of restricted stock with a grant-date fair value of $10.08. The unearned compensation related to this grant will be expensed over the vesting period of approximately three years.

On March 14, 2008, we granted 0.7 million shares of restricted stock with a grant-date fair value of $21.37. The unearned compensation related to this grant will be expensed over the vesting period of three years.

In the first quarter of 2008, we made cash payments of $2.0 million related to vested restricted stock units.

11. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Net income (loss)	$ (440.9)	$ 13.5	$ (1,112.2)	$ 63.8
Defined benefit plans, net of tax	6.2	0.2	87.3	(9.6)
Foreign currency translation adjustments, net of tax	(20.2)	5.8	(6.7)	16.2
Gain (loss) on derivatives, net of tax	(0.9)	(1.5)	0.6	(0.7)
Comprehensive income (loss)	$ (455.8)	$ 18.0	$ (1,031.0)	$ 69.7

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

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,	
	2008	2007	2008	2007
	(in millions, except per share data)			
Numerator				
Net income (loss)	$ (440.9)	$ 13.5	$ (1,112.2)	$ 63.8
Denominator				
Basic shares outstanding -				
Weighted-average shares outstanding	51.6	51.3	51.6	51.0
Effect of dilutive securities				
Dilutive stock-based compensation	-	1.7	-	1.6
Diluted shares outstanding -				
Adjusted weighted-average shares after assumed conversions	51.6	53.0	51.6	52.6
Basic EPS	$ (8.54)	$ 0.27	$ (21.55)	$ 1.26
Diluted EPS	$ (8.54)	$ 0.25	$ (21.55)	$ 1.21

Basic and diluted loss per share for the three and nine months ended September 30, 2008 are the same because the effect of 0.5 million and 1.2 million potentially dilutive shares would have been antidilutive for the three and nine months ended September 30, 2008, respectively.

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 5.2 million at September 30, 2008 and 1.9 million at September 30, 2007. The ranges of exercise prices related to the excluded exercisable stock options were $15.00 - $40.83 at September 30, 2008 and $26.02 - $40.83 at September 30, 2007.

13. SUBSEQUENT EVENT

On November 7, 2008, we amended our existing Revolving Credit Facility to extend certain of the revolving credit commitments thereunder from April 2010 to December 2011, among other things. After giving effect to a 25% commitment reduction for lenders consenting to the amendment, the amended Revolving Credit Facility will provide up to $476.9 million of revolving bank financing commitments through April 2010 and $369.4 million of such revolving bank financing commitments through December 2011.

Under the amended Revolving Credit Facility, we will be required to comply with revised financial covenants related to secured indebtedness leverage and interest coverage. The amended Revolving Credit Facility imposes limitations on our ability to make certain investments, declare or pay dividends or distributions on capital stock, redeem or repurchase capital stock and certain debt obligations, incur liens, incur indebtedness, or merge, make acquisitions or sell assets. Borrowings under the amended Revolving Credit Facility will continue to bear interest at rates based on LIBOR or an alternate base rate, plus an applicable margin. The applicable margin for a LIBOR based loan for lenders who have consented to the amendment is currently 500 basis points. The applicable margin did not change for lenders who have not consented. All borrowings under the amended Revolving Credit Facility are subject to a collateral coverage test.

The amended Revolving Credit Facility is secured by a pledge of all or a portion of the capital stock of certain of our subsidiaries, including substantially all of our first-tier subsidiaries, and is partially secured by a security interest in our assets and the assets of our domestic subsidiaries. In addition, obligations under the amended Revolving Credit Facility are guaranteed by our U.S. subsidiaries, all of which are directly owned by the borrower.

The Term Loan due 2012 will share in the guarantees and the collateral package offered in exchange for the amendment equally and ratably, in accordance with the terms of the agreement. The amendment had no effect on the maturity of the Term Loan due 2012.

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
2008					
Net sales					
External	$ -	$ 278.7	$ 249.4	$ -	$ 528.1
Intercompany	-	9.8	16.8	(26.6)	-
Total net sales	-	288.5	266.2	(26.6)	528.1
Cost of goods sold	-	612.2	320.9	(26.6)	906.5
Gross loss	-	(323.7)	(54.7)	-	(378.4)
Selling, general and administrative expenses	-	41.6	1.4	-	43.0
Operating loss	-	(365.3)	(56.1)	-	(421.4)
Interest expense	-	(17.8)	(0.2)	-	(18.0)
Investment loss	-	-	(3.7)	-	(3.7)
Other income (expense), net	-	0.1	(1.5)	-	(1.4)
Loss before income taxes	-	(383.0)	(61.5)	-	(444.5)
Income tax expense (benefit)	-	(4.3)	0.9	-	(3.4)
Minority interest	-	-	0.2	-	0.2
Loss from equity in subsidiaries	(440.9)	(71.9)	-	512.8	-
Net loss before royalties and dividends	(440.9)	(450.6)	(62.2)	512.8	(440.9)
Royalties and dividends	-	9.7	(9.7)	-	-
Net loss after royalties and dividends	$ (440.9)	$ (440.9)	$ (71.9)	$ 512.8	$ (440.9)
2007					
Net sales					
External	$ -	$ 511.4	$ 262.9	$ -	$ 774.3
Intercompany	-	16.4	23.3	(39.7)	-
Total net sales	-	527.8	286.2	(39.7)	774.3
Cost of goods sold	-	484.0	246.8	(37.7)	693.1
Gross profit	-	43.8	39.4	(2.0)	81.2

Selling, general and administrative expenses	-	50.0	4.0	(2.0)	52.0
Operating income (loss)	-	(6.2)	35.4	-	29.2
Interest expense	-	(13.7)	(0.9)	-	(14.6)
Investment income	-	2.9	0.2	-	3.1
Other expense, net	-	-	(1.2)	-	(1.2)
Income (loss) before income taxes	-	(17.0)	33.5	-	16.5
Income tax expense (benefit)	-	(0.5)	3.5	-	3.0
Earnings from equity in subsidiaries	13.5	19.1	-	(32.6)	-
Net income before royalties and dividends	13.5	2.6	30.0	(32.6)	13.5
Royalties and dividends	-	10.9	(10.9)	-	-
Net income after royalties and dividends	$ 13.5	$ 13.5	$ 19.1	$ (32.6)	$ 13.5

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

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