

AMERICAN AXLE & MANUFACTURING HOLDINGS INC

Form 10-Q/A

February 23, 2015

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

FORM 10-Q/A

AMENDMENT NO. 1

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

For the quarterly period ended September 30, 2014

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)

38-3161171

(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 ☐

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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 ☒ 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 October 29, 2014, the latest practicable date, the number of shares of the registrant's Common Stock, par value \$0.01 per share, outstanding was 75,757,139 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.

Explanatory Note

We are filing this Amendment No. 1 on Form 10-Q/A (Form 10-Q/A) to our Quarterly Report on Form 10-Q for the period ended September 30, 2014 as filed with the U.S. Securities and Exchange Commission on October 31, 2014, (the Original Filing) to correct the Condensed Consolidated Financial Statements for the three and nine months ended September 2014 and to revise our previous conclusion on the effectiveness of disclosure controls and procedures.

In connection with the preparation of our consolidated financial statements for the year ended December 31, 2014, we determined that entries recorded in the third quarter of 2014 to reduce certain accrued accounts payable balances by \$8.4 million were previously recorded as a reduction of cost of goods sold but should have been recorded as an adjustment to opening accumulated deficit because the amounts giving rise to the correction originated in periods prior to January 1, 2012. See Note 1 - Organization and Basis of Presentation, Item 1. Financial Statements and Notes to Condensed Consolidated Financial Statements, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 4. Controls and Procedures for revisions. This Amendment No. 1 on Form 10-Q/A also includes currently dated certifications of the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

We have amended Part I, Item 4. Controls and Procedures to reflect a material weakness in our internal control over financial reporting that resulted in the restatement of our financial statements on Form 10-Q for the quarter ended September 30, 2014; this material weakness has since been remediated as of February 23, 2015.

Except as described in this Explanatory Note, the Original Filing is unchanged. This Amendment No. 1 should be read in conjunction with the Original Filing, and any of the Company's other filings with the SEC subsequent to the Original Filing.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
FORM 10-Q/A
FOR THE QUARTER ENDED SEPTEMBER 30, 2014
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FORWARD-LOOKING STATEMENTS

In this Quarterly Report on Form 10-Q/A (Quarterly Report), we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. Such statements are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995 and relate to trends and events that may affect our future financial position and operating results. The terms such as “will,” “may,” “could,” “would,” “plan,” “believe,” “expect,” “anticipate,” “intend,” “project,” “target,” and similar words or expressions, as well as statements in future tense, are intended to identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management’s good faith belief as of that time with respect to future events and are subject to risks and may differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- reduced purchases of our products by General Motors Company (GM), Chrysler Group LLC (Chrysler) or other customers;
- reduced demand for our customers' products (particularly light trucks and sport utility vehicles (SUVs) produced by GM and Chrysler);
- 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 develop and produce new products that reflect market demand;
- lower-than-anticipated market acceptance of new or existing products;
- our ability to attract new customers and programs for new products;
- our ability to respond to changes in technology, increased competition or pricing pressures;
- our ability to achieve the level of cost reductions required to sustain global cost competitiveness;
- supply shortages or price increases in raw materials, utilities or other operating supplies for us or our customers as a result of natural disasters or otherwise;
- global economic conditions, including the impact of the continued market weakness in the Euro-zone;
- risks inherent in our international operations (including adverse changes in political stability, taxes and other law changes, potential disruptions of production and supply, and currency rate fluctuations);
- liabilities arising from warranty claims, product recall or field actions, product liability and legal proceedings to which we are or may become a party, or the impact of product recall or field actions on our customers;
- price volatility in, or reduced availability of, fuel;
- our ability to successfully implement upgrades to our enterprise resource planning systems;
- 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;
- our ability to attract and retain key associates;
- availability of financing for working capital, capital expenditures, research and development (R&D) or other general corporate purposes, including our ability to comply with financial covenants;
- our customers' and suppliers' availability of financing for working capital, capital expenditures, R&D or other general corporate purposes;
- changes in liabilities arising from pension and other postretirement benefit obligations;
- risks of noncompliance with environmental laws and regulations or risks of environmental issues that could result in unforeseen costs at our facilities;
- adverse changes in laws, government regulations or market conditions affecting our products or our customers' products (such as the Corporate Average Fuel Economy (CAFE) regulations);

- our ability to consummate and integrate acquisitions and joint ventures;
- our ability or our customers' and suppliers' ability to comply with the Dodd-Frank Act and other regulatory requirements and the potential costs of such compliance; and
- other unanticipated events and conditions that may hinder our ability to compete.

It is not possible to foresee or identify all such factors and we make no commitment to update any forward-looking statement or to disclose any facts, events or circumstances after the date hereof that may affect the accuracy of any forward-looking statement.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended September 30, 2014		2013		Nine Months Ended September 30, 2014		2013	
	(in millions, except per share data)		(As restated, see Note 1)		(As restated, see Note 1)			
Net sales	\$950.8		\$820.8		\$2,756.5		\$2,376.0	
Cost of goods sold	810.1		695.5		2,344.9		2,024.2	
Gross profit	140.7		125.3		411.6		351.8	
Selling, general and administrative expenses	64.0		57.8		182.6		177.9	
Operating income	76.7		67.5		229.0		173.9	
Interest expense	(25.1	)	(30.0	)	(75.2	)	(87.9)
Investment income	0.7		0.1		1.3		0.4	
Other income (expense)								
Debt refinancing and redemption costs	—		—		—		(11.2)
Other, net	(0.8	)	0.1		0.5		(1.4)
Income before income taxes	51.5		37.7		155.6		73.8	
Income tax expense	7.5		6.1		25.8		9.1	
Net income	\$44.0		\$31.6		\$129.8		\$64.7	
Basic earnings per share	\$0.57		\$0.41		\$1.68		\$0.84	
Diluted earnings per share	\$0.57		\$0.41		\$1.68		\$0.84	

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30, 2014		2013	Nine Months Ended September 30, 2014		2013
	(in millions)			(As restated, see Note 1)		
Net income	\$44.0		\$31.6	\$129.8		\$64.7
Other comprehensive income (loss), net of tax						
Defined benefit plans, net of tax ^(a)	0.6		15.1	6.3		15.7
Foreign currency translation adjustments	(23.3		) 2.5	(11.9		) (14.3
Change in derivatives	(2.5		) (0.6	) (1.1		) (2.2
Other comprehensive income (loss)	(25.2		) 17.0	(6.7		) (0.8
Comprehensive income	\$18.8		\$48.6	\$123.1		\$63.9

Amounts are net of tax of \$(0.3) million and \$(3.2) million for the three and nine months ended September 30, 2014, respectively, and \$(7.9) million and \$(8.0) million for the three and nine months ended September 30, 2013, respectively.

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2014 (Unaudited) (As restated, see Note 1) (in millions)	December 31, 2013 (As restated, see Note 1)
Assets		
Current assets		
Cash and cash equivalents	\$219.0	\$154.0
Accounts receivable, net	600.2	458.5
Inventories, net	249.2	261.8
Prepaid expenses and other current assets	110.8	122.0
Total current assets	1,179.2	996.3
Property, plant and equipment, net	1,066.7	1,058.5
Deferred income taxes	327.7	341.8
Goodwill	155.6	156.4
GM postretirement cost sharing asset	233.9	242.0
Other assets and deferred charges	264.8	232.5
Total assets	\$3,227.9	\$3,027.5
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$17.1	\$—
Accounts payable	496.3	437.4
Accrued compensation and benefits	102.7	110.1
Deferred revenue	22.2	17.0
Accrued expenses and other current liabilities	100.2	94.2
Total current liabilities	738.5	658.7
Long-term debt	1,525.5	1,559.1
Deferred revenue	101.4	76.4
Postretirement benefits and other long-term liabilities	690.9	692.8
Total liabilities	3,056.3	2,987.0
Stockholders' equity		
Common stock, par value \$0.01 per share	0.8	0.8
Paid-in capital	621.1	612.8
Accumulated deficit	(44.6)	) (174.4)
Treasury stock at cost, 6.1 million shares as of September 30, 2014 and 6.0 million shares as of December 31, 2013	(182.8)	) (182.5)
Accumulated other comprehensive income (loss), net of tax		
Defined benefit plans	(191.6)	) (197.9)
Foreign currency translation adjustments	(30.5)	) (18.6)
Unrecognized gain (loss) on derivatives	(0.8)	) 0.3
Total stockholders' equity	171.6	40.5
Total liabilities and stockholders' equity	\$3,227.9	\$3,027.5

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2014 2013 (in millions) (As restated, see Note 1)	
Operating activities		
Net income	\$ 129.8	\$ 64.7
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	146.1	129.4
Deferred income taxes	6.8	(1.3)
Stock-based compensation	7.1	9.8
Pensions and other postretirement benefits, net of contributions	0.6	11.0
Gain on disposal of property, plant and equipment, net	(4.0)	(3.7)
Debt refinancing and redemption costs	—	2.5
Changes in operating assets and liabilities		
Accounts receivable	(142.5)	(135.7)
Inventories	12.3	(30.1)
Accounts payable and accrued expenses	68.4	111.0
Deferred revenue	31.1	(7.8)
Other assets and liabilities	(24.1)	(47.5)
Net cash provided by operating activities	231.6	102.3
Investing activities		
Purchases of property, plant and equipment	(156.2)	(178.2)
Proceeds from sale of property, plant and equipment	8.5	5.8
Proceeds from sale-leaseback of equipment	—	23.5
Net cash used in investing activities	(147.7)	(148.9)
Financing activities		
Net short-term repayments under credit facilities	(3.1)	(8.0)
Payments of long-term debt and capital lease obligations	(16.4)	(308.6)
Proceeds from issuance of long-term debt	2.8	432.4
Debt issuance costs	(0.3)	(12.9)
Purchase of treasury stock	(0.3)	(0.4)
Employee stock option exercises	1.2	0.8
Net cash provided by (used in) financing activities	(16.1)	103.3
Effect of exchange rate changes on cash	(2.8)	(0.5)
Net increase in cash and cash equivalents	65.0	56.2
Cash and cash equivalents at beginning of period	154.0	62.4
Cash and cash equivalents at end of period	\$219.0	\$118.6

Supplemental cash flow information

Interest paid	\$63.7	\$85.8
Income taxes paid, net of refunds	\$9.0	\$9.5

See accompanying notes to condensed consolidated financial statements.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2014
(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, 2013 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, 2013.

Restatement of Prior Period Financial Statements In connection with the preparation of our consolidated financial statements for the year ended December 31, 2014, we determined that entries recorded in the third quarter of 2014 to reduce certain accrued accounts payable balances by \$8.4 million were originally recorded as a reduction of cost of goods sold but should have been recorded as an adjustment to opening accumulated deficit because the amounts giving rise to the correction originated in periods prior to January 1, 2012. While management determined that it was necessary to restate the September 30, 2014 interim period, the effect of correcting these errors was not material to opening accumulated deficit as of January 1, 2012.

As shown in the tables below, the effect of the correction of this error was a decrease of \$6.9 million in opening accumulated deficit as of January 1, 2012, which resulted from a reduction in accounts payable of \$8.4 million and a decrease in deferred tax assets of \$1.5 million. The impact of the correction of this error for the three and nine months ended September 30, 2014 was an increase in cost of goods sold of \$8.4 million, a decrease in income tax expense of \$3.8 million and a decrease in net income of \$4.6 million.

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following tables present the effects of the restatement on the previously issued financial statements presented herein.

	Three Months Ended September 30, 2014 (in millions, except per share data)			Nine Months Ended September 30, 2014		
	As previously reported	Adjustment	As restated	As previously reported	Adjustment	As restated
Condensed Consolidated Statements of Income (Unaudited)						
Cost of goods sold	\$801.7	\$8.4	\$810.1	\$2,336.5	\$8.4	\$2,344.9
Gross profit	149.1	(8.4)	140.7	420.0	(8.4)	411.6
Operating income	85.1	(8.4)	76.7	237.4	(8.4)	229.0
Income before income taxes	59.9	(8.4)	51.5	164.0	(8.4)	