AMERICAN AXLE & MANUFACTURING INC
Form 424B5
February 26, 2007

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CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
7.875% Senior Notes due 2017	$ 300,000,000	100%	$ 300,000,000	$ 9,210(1)

(1) The filing fee of $9,210 is calculated in accordance with Rule 457(r) of the Securities Act of 1933.

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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-132129-01
Registration No. 333-132129

Prospectus Supplement
(To Prospectus dated March 1, 2006)

American Axle & Manufacturing, Inc.

Guaranteed by
American Axle & Manufacturing Holdings, Inc.

$300,000,000
7 7/8% Senior Notes due 2017

Interest payable March 1 and September 1
Issue Price: 100%

We will pay interest on the notes on March 1 and September 1 of each year, beginning on September 1, 2007. The notes will mature on March 1, 2017, and interest will accrue from February 27, 2007.

We may redeem some or all of the notes at any time prior to March 1, 2012 at a price equal to 100% of the principal amount of the notes plus accrued and unpaid interest plus a make-whole premium. Thereafter, we may redeem the notes, in whole or in part, at the redemption prices set forth in this prospectus supplement under Description of the Notes . If we experience specific kinds of changes in control, we must offer to purchase the notes.

The notes will be our unsecured senior obligations. American Axle & Manufacturing Holdings, Inc., or Holdings, our parent corporation, is guaranteeing our monetary obligations under the notes on an unsecured and unsubordinated basis. The notes, as guaranteed, will rank equally with all of the unsecured and unsubordinated indebtedness of American Axle & Manufacturing, Inc., or AAM Inc., and of Holdings, effectively junior to all of the secured indebtedness of AAM, Inc. and Holdings, to the extent of the assets securing that indebtedness, and effectively junior to all indebtedness and other liabilities of our subsidiaries.

See Risk Factors beginning on page S-5 for a discussion of certain risks that you should consider in connection with an investment in the notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or determined that this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

	Public offering price	**Underwriting discounts & commissions**	**Proceeds, before expenses, to us**
Per Note	100%	1.5%	98.5%
Total	$300,000,000	$4,500,000	$295,500,000

The public offering price above does not include accrued interest. Interest on the notes will accrue from February 27, 2007 and must be paid by purchasers if the notes are delivered to purchasers after that date. The notes will not be listed on any securities exchange. Currently, there is no public market for the notes.

We expect that delivery of the notes will be made to investors in book-entry form through The Depository Trust Company on or about February 27, 2007.

Joint Book-Running Managers

JPMorgan **Banc of America Securities LLC**

Senior Co-Managers

ABN AMRO Incorporated **Wachovia Securities**

Co-Managers

BNP PARIBAS **Comerica Securities** **KeyBanc Capital Markets**

Lazard Capital Markets **Merrill Lynch & Co.** **Mizuho Securities USA Inc.**

Piper Jaffray **SunTrust Robinson Humphrey**

February 22, 2007

In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We and the underwriters have not authorized anyone to provide you with any other information. If you receive any other information, you should not rely on it.

We and the underwriters are offering to sell the notes only in places where offers and sales are permitted.

You should not assume that the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front cover of this prospectus supplement.

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Prospectus Supplement

Prospectus

In this prospectus supplement, except as otherwise indicated or the context otherwise requires, the company , we , us and our refer to collectively (i) American Axle & Manufacturing, Inc., or AAM Inc. or the issuer, a Delaware corporation, and its direct and indirect subsidiaries and (ii) American Axle & Manufacturing Holdings, Inc., or Holdings, a Delaware corporation and the direct parent corporation of the issuer. Holdings has no material operations or assets other than its ownership of 100% of the issued and outstanding common stock of AAM Inc., the issuer of the notes; and underwriters refers to the firms listed in the section entitled Underwriting herein.

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein, are forward-looking in nature and relate to trends and events that may affect our future financial position and operating results. Such statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The terms will, expect, anticipate, intend, project and similar or expressions are intended to identify forward-looking statements. These statements speak only as of their date. The statements are based on our current expectations, are inherently uncertain, are subject to risks and should be viewed with caution. Actual results and experience may differ materially from the forward-looking statements as a result of many factors, including, but not limited to:

- reduced purchases of our products by General Motors Corporation, DaimlerChrysler or other customers;
- reduced demand for our customers products (particularly light trucks and sport utility vehicles produced by General Motors Corporation and DaimlerChrysler);
- our ability and 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 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;
- supply shortages or price increases in raw materials, utilities or other operating supplies;
- our ability and our customers and suppliers ability to successfully launch new product programs on a timely basis;
- our ability to attract new customers and programs for new products;
- our ability to develop and produce new products that reflect the market demand;
- our ability to respond to changes in technology or increased competition;
- adverse changes in laws, government regulations or market conditions including increases in fuel prices affecting our products or our customers products (including 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 legal proceedings to which we are or may become a party or claims against us or our products;

risks of noncompliance with environmental regulations or risks of environmental issues that could result in unforeseen costs at our facilities;

availability of financing for working capital, capital expenditures, research and development or other general corporate purposes, including our ability to comply with financial covenants;

our ability to attract and retain key associates;

other unanticipated events and conditions that may hinder our ability to compete.

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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.

WHERE YOU CAN FIND MORE INFORMATION

Holdings is required to comply with the reporting requirements of the Securities Exchange Act of 1934, and, in accordance with those requirements, Holdings files combined reports, proxy statements and other information with the SEC.

You can call the SEC s toll-free number at 1-800-SEC-0330 for further information. The SEC maintains a website at *www.sec.gov* that contains reports, proxy and information statements and other information regarding companies like Holdings that file with the SEC electronically. The documents can be found by searching the EDGAR archives at the SEC s website or can be inspected and copied at the Public Reference Section of the SEC located at Room 1580, 100 F Street, N.E., Washington, D.C. 20549. Holdings SEC filings and other information about us may also be obtained from our website at *www.aam.com*, although information on our website does not constitute a part of this prospectus supplement and the accompanying prospectus. Material that we have filed may also be inspected at the library of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We have elected to incorporate by reference certain information into this prospectus supplement and the accompanying prospectus, which means we can disclose important information to you by referring you to another document filed with the SEC. The information incorporated by reference is deemed to be part of this prospectus supplement and the accompanying prospectus. See Incorporation by Reference. You should only rely on the information contained in this prospectus supplement and the accompanying prospectus and incorporated by reference in it. We have not authorized anyone to provide you with any additional information.

INCORPORATION BY REFERENCE

We are incorporating by reference into this prospectus supplement and the accompanying prospectus the following documents filed with the SEC (excluding any portions of such documents that have been furnished but not filed for purposes of the Exchange Act, except as specifically incorporated by reference below):

- Holdings annual report on Form 10-K for the fiscal year ended December 31, 2006 filed with the SEC on February 21, 2007;

- Holdings Proxy Statement for our 2006 Annual Meeting of Stockholders, filed with the SEC on March 22, 2006;

- Holdings current reports on Form 8-K filed with the SEC on February 2, 2007 pursuant to Item 5.02(e), with respect to Compensation Arrangements of Certain Officers, and on February 22, 2007; and

- All other documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus supplement and the accompanying prospectus and prior to the termination of the offering.

Any statement contained in this prospectus supplement and the accompanying prospectus or a document incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus will be deemed to be modified or superseded for purposes of this prospectus supplement and the accompanying prospectus to the extent that a statement contained in this prospectus supplement and the accompanying prospectus or in any other subsequently filed document that is deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus modifies or supersedes the statement. Any statement so modified or superseded will not be deemed, except as so

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modified or superseded, to constitute a part of this prospectus supplement and the accompanying prospectus.

The documents incorporated by reference in this prospectus supplement and the accompanying prospectus are available from us upon request. We will provide a copy of any and all of the information that is incorporated by reference in this prospectus supplement and the accompanying prospectus to any person, without charge, upon written or oral request. Requests for such copies should be directed to the following:

American Axle & Manufacturing Holdings, Inc.
Attention: Investor Relations
One Dauch Drive
Detroit, Michigan 48211-1198
Telephone Number: (313) 758-2000

Except as provided above, no other information, including, but not limited to, information on our web sites, is incorporated by reference in this prospectus supplement and the accompanying prospectus.

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SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements (including the notes thereto) appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. Because this is a summary it may not contain all the information that may be important to you. You should read the entire prospectus supplement and the accompanying prospectus, as well as the information incorporated by reference, before making an investment decision. Some of the statements in this Summary are forward-looking statements. Please see Forward-Looking Statements for more information regarding these statements.

Our Business

We are a premier Tier I supplier to the automotive industry and a worldwide leader in the manufacture, engineering, design and validation of driveline and drivetrain systems and related components and chassis modules for light trucks, sport utility vehicles (SUVs), passenger cars and crossover vehicles. Driveline and drivetrain systems include components that transfer power from the transmission and deliver it to the drive wheels. Our driveline, drivetrain and related products include axles, chassis modules, driveshafts, power transfer units, transfer cases, chassis and steering components, driving heads, crankshafts, transmission parts and metal-formed products.

We are the principal supplier of driveline components to General Motors Corporation (GM) for its rear-wheel drive (RWD) light trucks and SUVs manufactured in North America, supplying substantially all of GM s rear axle and front four-wheel drive/all-wheel drive (4WD/AWD) axle requirements for these vehicle platforms. Sales to GM were approximately 76% of our total net sales in 2006, 78% in 2005 and 80% in 2004.

We are the sole-source supplier to GM for certain axles and other driveline products for the life of each GM vehicle program covered by a Lifetime Program Contract (LPC). Substantially all of our sales to GM are made pursuant to the LPCs. The LPCs have terms equal to the lives of the relevant vehicle programs or their respective derivatives, which typically run 6 to 12 years, and require us to remain competitive with respect to technology, design and quality. We have been successful in competing, and we will continue to compete for future GM business upon the expiration of the LPCs.

We are also the principal supplier of driveline system products for the Chrysler Group s heavy-duty Dodge Ram full-size pickup trucks, or Dodge Ram program, and its derivatives. As part of this program, we supply a fully integrated, computer-controlled chassis system for the Dodge Ram Power Wagon. Sales to DaimlerChrysler were approximately 14% of our total net sales in 2006, 13% in 2005 and 11% in 2004.

In addition to GM and DaimlerChrysler, we supply driveline systems and other related components to PACCAR Inc., Ford Motor Company, SsangYong Motor Company, Harley-Davidson and other original equipment manufacturers, or OEMs, and Tier I supplier companies such as Magna International, Inc. and The Timken Company. Our net sales to customers other than GM were $758.5 million in 2006 as compared to $754.4 million in 2005 and $728.0 million in 2004. This marked the fifth consecutive year of growth in non-GM sales for AAM, Inc.

Our executive offices are located at One Dauch Drive, Detroit, Michigan 48211-1198, and our telephone number is (313) 758-2000.

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The Offering

The following is a brief summary of the terms of this offering of the notes and the guarantee. For a more complete description, see Description of the Notes in this prospectus supplement and the accompanying prospectus.

Issuer	American Axle & Manufacturing, Inc.
Notes Offered	\$300.0 million aggregate principal amount of 77/8% senior notes due 2017.
Maturity	The notes will mature on March 1, 2017 unless redeemed earlier by us as described in Description of the Notes Optional Redemption.
Interest Payment Dates	March 1 and September 1 of each year, beginning on September 1, 2007. Interest will accrue from February 27, 2007.
Optional Redemption	Prior to March 1, 2012, we will have the option to redeem some or all of the notes for cash at a redemption price equal to 100% of their principal amount plus an applicable make-whole premium (as described in this prospectus supplement under Description of the Notes Optional Redemption) plus accrued and unpaid interest to the redemption date. Beginning on March 1, 2012, we may redeem some or all of the notes at the redemption prices set forth in this prospectus supplement under Description of the Notes Optional Redemption plus accrued interest on the notes to the date of redemption.
Change of Control	Upon the occurrence of a change of control, you will have the right, as holders of the notes, to require us to repurchase some or all of your notes at 101% of their principal amount, plus accrued and unpaid interest to the repurchase date. See Description of the Notes Change of Control in this prospectus supplement.
Guarantee	Our monetary obligations under the notes will be guaranteed on an unsecured and unsubordinated basis by Holdings, our parent corporation. See Description of the Notes Guarantee. No subsidiaries of AAM Inc. will guarantee the notes.
Ranking	The notes will be our senior unsecured obligations and, as guaranteed, will rank equally with all of the unsecured and unsubordinated indebtedness of AAM Inc. and Holdings, effectively junior to all of the secured indebtedness of AAM Inc. and Holdings, to the extent of the assets securing that indebtedness, and effectively junior to all indebtedness and other liabilities of the subsidiaries of AAM Inc. As of December 31, 2006, Holdings had \$672.2 million of consolidated indebtedness. As of December 31, 2006, after giving effect to this offering and the proceeds therefrom, Holdings would have had \$838.7 million of consolidated indebtedness. Of this amount:

AAM Inc. and Holdings would have had an aggregate of $802.5 million of unsecured, unsubordinated indebtedness outstanding;

AAM Inc. and Holdings, not including our subsidiaries, would have had no secured indebtedness outstanding; and

	Our subsidiaries would have had an aggregate of $36.2 million of indebtedness outstanding.
	In addition, as of December 31, 2006, our subsidiaries had additional liabilities of approximately $228 million.
Covenants	The terms of the notes contain covenants for your benefit. These covenants restrict our ability, with certain exceptions, to:
	engage in consolidations and mergers or sell or transfer assets;
	incur debt secured by liens; and
	engage in sale and leaseback transactions.
	See Description of the Notes Material Covenants in this prospectus supplement and the accompanying prospectus.
Use of Proceeds	We intend to use the net proceeds from this offering for general corporate purposes, including to repay indebtedness under our Revolving Credit Facility. See Use of Proceeds.
Form and Denomination	The notes will be issued in minimum denominations of $1,000 and any integral multiple of $1,000.
Risk Factors	See Risk Factors and other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of certain factors you should carefully consider before deciding to invest in the notes.

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Summary Consolidated Financial Data

The selected consolidated financial data for Holdings for each of the years ended December 31, 2006, 2005, and 2004 have been derived from our audited consolidated financial statements included in our Form 10-K for the year ended December 31, 2006, which is incorporated by reference herein. This data should be read in conjunction with the consolidated financial statements and related notes incorporated by reference in this prospectus supplement and the accompanying prospectus. See Where You Can Find More Information.

	2006	2005	2004
	(In millions, except per share data)		
Statements of income data:			
Net sales	$ 3,191.7	$ 3,387.3	$ 3,599.6
Gross profit	(128.6)	304.7	474.5
Operating income	(326.0)	105.1	284.8
Net income	(222.5)	56.0	159.5
Diluted earnings per share	$ (4.42)	$ 1.10	$ 2.98
Balance sheet data:			
Cash and cash equivalents	$ 13.5	$ 3.7	$ 14.4
Total assets	2,597.5	2,666.6	2,538.8
Total debt	672.2	489.2	448.0
Stockholders equity	813.7	994.8	955.5
Other data:			
EBITDA(1)	$ (110.5)	$ 293.0	$ 432.7
Cash flow from operations	185.7	280.4	453.2
Capital expenditures	286.6	305.7	240.2

(1) EBITDA is a non-GAAP financial measure. The following financial data presented for the year ended December 31, 2006, 2005 and 2004 are reconciliations of EBITDA, which are intended to facilitate analysis of our business and our operating performance. This information is not and should not be viewed as a substitute for financial measures determined under GAAP. Other companies may calculate EBITDA financial measures differently.

	2006	2005	2004
	(In millions, except per share data)		
Net income (loss)	$ (222.5)	$ 56.0	$ 159.5
Interest expense	39.0	27.9	25.8
Income taxes	(133.0)	24.0	76.3
Depreciation and amortization	206.0	185.1	171.1
EBITDA	$ (110.5)	$ 293.0	$ 432.7

We believe EBITDA is a meaningful measure of performance as it is commonly utilized by management and investors to analyze operating performance and entity valuation. Our management, the investment community and the banking institutions routinely use EBITDA, together with other measures, to measure our operating performance relative to other Tier 1 automotive suppliers. EBITDA should not be construed as income from operations, net income or cash flow from operating activities as determined under GAAP.

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RISK FACTORS

You should carefully consider the specific risk factors set forth below as well as the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding to invest in the notes. Some factors in this section are forward-looking statements. For a discussion of those statements and of other factors for investors to consider, see Forward-Looking Statements.

Risks Relating to Our Business

Our business is significantly dependent on sales to GM and DaimlerChrysler.

We are the principal supplier of driveline components to GM for its RWD light trucks and SUVs manufactured in North America, supplying substantially all of GM s rear axle and front 4WD/AWD axle requirements for these vehicle platforms. We sell products to GM under LPCs, which have terms equal to the lives of the relevant vehicle programs or their respective derivatives of typically 6 to 12 years. The LPCs establish pricing for products sold to GM and require us to remain competitive with respect to technology, design and quality. Substantially all of our sales to GM are made pursuant to the LPCs. Sales to GM were approximately 76% of our total sales in 2006, 78% in 2005 and 80% in 2003. We will compete for future GM business upon the termination of the LPCs with GM. There can be no assurance that we will remain competitive with respect to technology, design and quality to GM s reasonable satisfaction. Pricing negotiated with GM in future agreements may be more or less favorable than the LPCs and other currently applicable agreements. A significant reduction in our sales to GM or a significant reduction by GM of its production of RWD light trucks or SUVs could have a material adverse effect on our results of operations and financial condition. Disputes arising from any current or future agreements with GM could have a material adverse impact on our relations and our results of operations and financial condition.

We are also the principal supplier of driveline system products for the Dodge Ram program and their derivatives. In total, sales to DaimlerChrysler accounted for approximately 14% of our sales in 2006, 13% in 2005 and 11% in 2004. A significant reduction in our sales to DaimlerChrysler or a significant reduction by DaimlerChrysler of its production of the Dodge Ram program could have a material adverse effect on our results of operations and financial condition.

Our business is dependent on the rear-wheel drive light truck and SUV market segments in North America.

A substantial portion of our revenue is derived from products supporting RWD light truck and SUV platforms in North America. Sales and production of light trucks and SUVs could be affected by many factors, including changes in consumer demand; product mix shifts favoring other types of light vehicles, such as front-wheel drive based crossover vehicles and passenger cars; fuel prices; and government regulation, such as the Corporate Average Fuel Economy (CAFE) regulations. A reduction in this market segment could have a material adverse impact on our results of operations and financial condition.

Our business could be adversely affected by work stoppages at GM or DaimlerChrysler.

A substantial number of employees of our largest two customers, GM and DaimlerChrysler, and their key suppliers are represented by trade unions, including the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). GM and DaimlerChrysler each have agreements with the UAW that expire in September 2007. Because sales to GM and DaimlerChrysler account for approximately 90% of our sales, work stoppages at GM, DaimlerChrysler or any of their key suppliers could adversely affect our results of operations and financial condition.

Our business could be adversely affected if we fail to maintain satisfactory labor relations.

Substantially all of our hourly associates worldwide are members of industrial trade unions employed under the terms of collective bargaining agreements. There can be no assurance that future negotiations with our labor unions will be resolved favorably or that we will not experience a work stoppage that could have a material adverse impact on our results of operations and financial condition. In addition, there can be no assurance that such future negotiations will not result in labor cost increases or other terms and conditions that could adversely affect our results of operations and financial condition or our ability to compete for future business.

Our business could be adversely affected if we fail to improve our U.S. cost structure.

We may not be able to achieve the level of cost reductions required to sustain global cost competitiveness in our industry segment, particularly in the U.S. A significant portion of our U.S. operations have labor agreements that are not globally cost competitive. Substantially all of our hourly associates in the U.S. are represented by the UAW. Approximately 80% of our union represented associates are covered by a national collective bargaining agreement with the UAW that expires in February 2008. This agreement provides guaranteed wage and benefit levels throughout its term and ensures significant income and employment security for our UAW represented associates. This agreement limits our ability to close plants and divest businesses. This agreement may also limit our ability to change local work rules and practices to encourage flexible manufacturing and other efficiency-related improvements. Our ability to compete for future business may be adversely impacted by this agreement with the UAW and we may be unsuccessful in other cost reduction efforts related to material costs, health care, energy and other cost drivers.

We may incur additional special charges and asset impairment charges.

We incurred special charges and asset impairments totaling $377.9 million in 2006. We may incur additional special charges and asset impairments in the future as a result of our continued efforts to achieve cost reductions through restructuring actions. See Exhibit 13 to our Form 10-K, Annual Report, section entitled Financials Management s Discussion and Analysis Results of Operations incorporated by reference herein.

Our business could be adversely affected by an increase in the price of raw materials.

Worldwide commodity market conditions have resulted in ongoing increases in the cost of steel and other metallic materials. Accordingly, the cost of such steel and metallic materials needed for our products may continue to increase. If we are unable to pass these cost increases on to our customers, it could have a material adverse effect on our results of operations and financial condition.

Our business could be adversely affected by disruptions in our supply chain.

We depend on a limited number of suppliers for certain key components and materials needed for our products. We rely upon, and expect to continue to rely upon, certain suppliers for critical components and materials that are not readily available in sufficient volume from other sources. These supply chain characteristics make us susceptible to supply shortages, price increases or work stoppages at a supplier. There can be no assurance that the suppliers of these materials will be able or willing to meet our future needs on a timely basis. A significant disruption in the supply of these materials could have a material adverse effect on our results of operations and financial condition.

Our company and our customers may not be able to successfully launch new product programs on a timely basis.

Certain of our customers are preparing to launch new product programs for which we will supply newly developed driveline system products and related components. Some of these new product program launches have required, and will continue to require, substantial capital investment by us. We may not be able to install and certify the equipment needed to produce products for these new product programs in time for the start of production. There can be no assurance that we will successfully complete the transition of our manufacturing facilities and resources to support these new product programs or any other future product programs. Accordingly, the launch of new product programs may adversely affect production rates

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or other operational efficiency and profitability measures at our facilities. In addition, our customers may not successfully execute the launch of these product programs, or any additional future product program for which we will supply products, on schedule.

Our company may not realize all of the revenue expected from our new and incremental business backlog.

The realization of incremental revenues from awarded business is inherently subject to a number of risks and uncertainties, including the accuracy of customer estimates relating to the number of vehicles to be produced in new and existing product programs and the timing of such production. It is also possible that our customers may choose to delay or cancel a product program for which we have been awarded new business. Our revenues, operating results, and financial position could be adversely affected relative to our current financial plans if we do not realize substantially all the revenue from our new and incremental business backlog.

We are under continuing pressure from our customers to reduce our prices.

Annual price reductions are a common practice in the automotive industry. The majority of our products are sold under long-term contracts with prices scheduled at the time the contracts are established. Certain of our contracts require us to reduce our prices in subsequent years and most of our contracts allow us to adjust prices for engineering changes. If we must accommodate a customer s demand for higher annual price reductions and are unable to offset the impact of any such price reductions through continued technology improvements, cost reductions and other productivity initiatives, our results of operations and financial condition could be adversely affected.

Our business faces substantial competition.

The automotive industry is highly competitive. Our competitors include the driveline component manufacturing facilities of certain existing OEMs, as well as many other domestic and foreign companies possessing the capability to produce some or all of the products we supply. Some of our competitors are affiliated with OEMs and others have economic advantages as compared to our business, such as lower labor and benefit costs. Technology, design, quality, delivery and cost are the primary elements of competition in our industry segment. As a result of these competitive pressures and other industry trends, OEMs and suppliers are developing strategies to reduce cost. These strategies include supply base consolidation and global sourcing. Our business may be adversely affected by increased competition from suppliers benefiting from OEM affiliate relationships or financial and other resources that we do not have, including governmental assistance. Our business may also be adversely affected if we do not sustain our ability to meet customer requirements relative to technology, design, quality, delivery and cost.

Our company s global operations are subject to political and other economic risks and uncertainties.

International operations are subject to certain risks inherent in conducting business outside the U.S., such as changes in currency exchange rates, tax laws, price and currency exchange controls, import restrictions, nationalization, expropriation and other governmental action.

In addition, the U.S. economy may also be adversely affected by political events and domestic or international terrorist events and hostilities. These uncertainties could have a material adverse effect on the continuity of our business and our results of operations and financial condition. As we continue to expand our business globally, our success will depend, in part, on our ability to anticipate and effectively manage these and other risks.

Our business could be adversely affected by the cyclical nature of the automotive industry.

Our operations are cyclical because they are directly related to worldwide automotive production, which is itself cyclical and dependent on general economic conditions and other factors, such as interest rates, fuel prices and consumer confidence. Our business may be adversely affected by an economic decline that results in a reduction of automotive production and sales by our largest customers. Our business may also be adversely affected by reduced demand for the product programs we currently support, or if we fail to obtain sales orders for new or redesigned products that replace our current product programs.

Our company faces rising costs for pension and other postretirement benefit obligations.

We have significant pension and other postretirement benefit obligations to our employees and retirees. Our ability to satisfy these funding requirements will depend on our cash flow from operations and our ability to access credit and the capital markets. The funding requirement of these benefit plans, and the related expense reflected in our financial statements, is affected by several factors that are subject to an inherent degree of uncertainty, including governmental regulation. Key assumptions used to value these benefit obligations, funding requirements and expense recognition include the discount rate, the expected long-term rate of return on pension assets and the health care cost trend rate. If the actual trends in these factors are less favorable than our assumptions, it could have an adverse affect on our results of operations and financial condition.

We may incur material losses and costs as a result of product liability and warranty claims and litigation.

We are exposed to warranty and product liability claims in the event that our products fail to perform as expected, and we may be required to participate in a recall of such products. Our largest customer, GM, has recently extended their warranty protection for new and used vehicles to 5 years or 100,000 miles. Other OEMs have also similarly extended their warranty programs. This trend will put additional pressure on the supply base to improve quality systems. This trend may also result in higher cost recovery claims by OEMs to suppliers whose products incur a higher rate of warranty claims. Historically, we have experienced negligible warranty-related expenditures due to contractual agreements with our customers and ongoing improvements in the quality, reliability and