AUTOLIV INC
Form 10-Q
July 21, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2017

Commission File No.: 001-12933

AUTOLIV, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	51-0378542 (I.R.S. Employer Identification No.)
Klarabergsviadukten 70, Section B, 7th Floor, Box 70381, SE-107 24 Stockholm, Sweden (Address of principal executive offices)	N/A (Zip Code)

+46 8 587 20 600

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes: No:

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer
	Non-accelerated filer (do not check if smaller reporting company)	Smaller reporting company
Emerging Growth Company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: As of July 17, 2017, there were 86,913,622 shares of common stock of Autoliv, Inc., par value $1.00 per share, outstanding.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements that are not historical facts but rather forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include those that address activities, events or developments that Autoliv, Inc. ("Autoliv," the "Company" or "we") or its management believes or anticipates may occur in the future. All forward-looking statements, including without limitation, management's examination of historical operating trends and data as well as estimates of future sales, operating margin, cash flow, effective tax rate or other future operating performance or financial results are based upon our current expectations, various assumptions and/or data available from third parties. Our expectations and assumptions are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that such forward-looking statements will materialize or prove to be correct as forward-looking statements are inherently subject to known and unknown risks, uncertainties and other factors which may cause actual future results, performance or achievements to differ materially from the future results, performance or achievements expressed in or implied by such forward-looking statements.

In some cases, you can identify these statements by forward-looking words such as "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes," "may," "likely," "might," "would," "should," "could," or the negative of these terms comparable terminology, although not all forward-looking statements contain such words.

Because these forward-looking statements involve risks and uncertainties, the outcome could differ materially from those set out in the forward-looking statements for a variety of reasons, including without limitation: changes in light vehicle production; fluctuation in vehicle production schedules for which the Company is a supplier; changes in general industry and market conditions or regional growth or decline; changes in and the successful execution of our capacity alignment, restructuring and cost reduction initiatives and the market reaction thereto; loss of business from increased competition; higher raw material, fuel and energy costs; changes in consumer and customer preferences for end products; customer losses; changes in regulatory conditions; customer bankruptcies; consolidations, restructuring or divestiture of customer brands; unfavorable fluctuations in currencies or interest rates among the various jurisdictions in which we operate; component shortages; market acceptance of our new products; costs or difficulties related to the integration of any new or acquired businesses and technologies; continued uncertainty in pricing negotiations with customers; successful integration of acquisitions and operations of joint ventures; successful implementation of strategic partnerships and collaborations; our ability to be awarded new business; product liability, warranty and recall claims and investigations and other litigation and customer reactions thereto (including the resolution of the Toyota Recall (defined below)); higher expenses for our pension and other postretirement benefits including higher funding requirements for our pension plans; work stoppages or other labor issues; possible adverse results of pending or future litigation or infringement claims; our ability to protect our intellectual property rights; negative impacts of antitrust investigations or other governmental investigations and associated litigation relating to the conduct of our business; tax assessments by governmental authorities and changes in our effective tax rate; dependence on key personnel; legislative or regulatory changes impacting or limiting our business; political conditions; dependence on and relationships with customers and suppliers; and other risks and uncertainties identified in Item 1A "Risk Factors" in our Form 10-K and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report for the year ended December 31, 2016 filed with the SEC on February 23, 2017.

For any forward-looking statements contained in this or any other document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we assume no obligation to update publicly or revise any forward-looking statements in light of new information or future events, except as required by law.

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CONSOLIDATED STATEMENTS OF NET INCOME (UNAUDITED)

(Dollars in millions, except per share data)

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net sales	$2,544.9	$2,578.5	$5,153.0	$5,008.5
Cost of sales	(2,009.4)	(2,052.0)	(4,075.0)	(3,981.0)
Gross profit	535.5	526.5	1,078.0	1,027.5
Selling, general and administrative expenses	(124.7)	(120.3)	(245.0)	(233.4)
Research, development and engineering expenses, net	(195.5)	(176.4)	(388.2)	(335.2)
Amortization of intangibles	(7.4)	(11.9)	(29.2)	(19.8)
Other income (expense), net	8.5	(5.2)	18.4	(21.2)
Operating income	216.4	212.7	434.0	417.9
(Loss) income from equity method investments	(7.6)	0.1	(7.1)	0.7
Interest income	1.8	0.9	3.8	2.1
Interest expense	(15.1)	(15.6)	(31.3)	(31.1)
Other non-operating items, net	(5.3)	2.3	(14.8)	1.1
Income before income taxes	190.2	200.4	384.6	390.7
Income tax expense	(61.9)	(52.0)	(114.2)	(108.8)
Net income	$128.3	$148.4	$270.4	$281.9
Less: Net (loss) income attributable to non-controlling interest	(1.5)	0.0	(3.3)	0.3
Net income attributable to controlling interest	$129.8	$148.4	$273.7	$281.6
Net earnings per share – basic[1)]	$1.48	$1.68	$3.11	$3.19
Net earnings per share – diluted[1)]	$1.47	$1.68	$3.10	$3.19
Weighted average number of shares outstanding, net of treasury shares (in millions)	87.9	88.2	88.1	88.2
Weighted average number of shares outstanding, assuming dilution and net of treasury shares (in millions)	88.1	88.4	88.3	88.4
Cash dividend per share – declared	$0.60	$0.58	$1.20	$1.16
Cash dividend per share – paid	$0.60	$0.58	$1.18	$1.14

1) Participating share awards with the right to receive dividend equivalents are (under the two class method) excluded from the earnings per share calculation (see Note 15).

See "Notes to unaudited condensed consolidated financial statements."

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in millions)

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income	$ 128.3	$ 148.4	$ 270.4	$ 281.9
Other comprehensive income (loss) before tax:				
Change in cumulative translation adjustments	85.5	(21.2)	174.0	38.6
Net change in cash flow hedges	(3.9)	5.0	(6.6)	3.5
Net change in unrealized components of defined benefit plans	1.9	0.9	3.6	2.0
Other comprehensive income (loss), before tax	83.5	(15.3)	171.0	44.1
Tax effect allocated to other comprehensive income (loss)	(0.6)	(1.4)	(1.1)	(1.4)
Other comprehensive income (loss), net of tax	82.9	(16.7)	169.9	42.7
Comprehensive income	$ 211.2	$ 131.7	$ 440.3	$ 324.6
Less: Comprehensive (loss) income attributable to non-controlling interest	(0.6)	9.5	(3.3)	10.0
Comprehensive income attributable to controlling interest	$ 211.8	$ 122.2	$ 443.6	$ 314.6

See “Notes to unaudited condensed consolidated financial statements.”

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	As of June 30, 2017 (unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	$922.5	$ 1,226.7
Receivables, net	2,106.1	1,960.1
Inventories, net	798.5	773.4
Other current assets	220.4	180.7
Total current assets	4,047.5	4,140.9
Property, plant and equipment, net	1,812.4	1,658.1
Investments and other non-current assets	506.7	352.2
Goodwill	1,901.1	1,870.7
Intangible assets, net	176.0	212.5
Total assets	$8,443.7	$ 8,234.4
Liabilities and equity		
Short-term debt	$189.1	$ 219.8
Accounts payable	1,193.4	1,196.5
Accrued expenses	951.5	921.0
Other current liabilities	288.6	260.3
Total current liabilities	2,622.6	2,597.6
Long-term debt	1,323.1	1,323.6
Pension liability	250.0	237.5
Other non-current liabilities	135.7	149.3
Total non-current liabilities	1,708.8	1,710.4
Common stock	102.8	102.8
Additional paid-in capital	1,329.3	1,329.3
Retained earnings	4,029.9	3,861.8
Accumulated other comprehensive loss	(402.3)	(565.5)
Treasury stock	(1,200.0)	(1,051.2)
Total controlling interest	3,859.7	3,677.2
Non-controlling interest	252.6	249.2
Total equity	4,112.3	3,926.4
Total liabilities and equity	$8,443.7	$ 8,234.4

See “Notes to unaudited condensed consolidated financial statements.”

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)

	Six months ended	
	June 30, 2017	June 30, 2016
Operating activities		
Net income	$270.4	$281.9
Depreciation and amortization	214.4	181.8
Other, net	(16.4)	3.5
Changes in operating assets and liabilities	(139.8)	(164.1)
Net cash provided by operating activities	328.6	303.1
Investing activities		
Expenditures for property, plant and equipment	(270.6)	(223.5)
Proceeds from sale of property, plant and equipment	10.8	2.4
Acquisitions/divestitures of businesses and interest in affiliates, net	(111.5)	(227.8)
Net cash used in investing activities	(371.3)	(448.9)
Financing activities		
Net increase (decrease) in short-term debt	(36.7)	16.4
Dividends paid to non-controlling interest	—	(1.7)
Dividends paid	(104.2)	(100.5)
Shares repurchased	(157.0)	—
Common stock options exercised	2.6	4.6
Other, net	—	0.5
Net cash used in financing activities	(295.3)	(80.7)
Effect of exchange rate changes on cash and cash equivalents	33.8	6.1
Decrease in cash and cash equivalents	(304.2)	(220.4)
Cash and cash equivalents at beginning of period	1,226.7	1,333.5
Cash and cash equivalents at end of period	$922.5	$1,113.1

See “Notes to unaudited condensed consolidated financial statements.”

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise noted, all amounts are presented in millions of dollars, except for per share amounts)

June 30, 2017

1 Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the prior year audited financial statements and all adjustments considered necessary for a fair presentation have been included in the financial statements. All such adjustments are of a normal recurring nature. The result for the interim period is not necessarily indicative of the results to be expected for any future period or for the fiscal year ending December 31, 2017.

The Condensed Consolidated Balance Sheet at December 31, 2016 has been derived from the audited financial statements at that date, but does not include all the information and footnotes required by U.S. GAAP for complete financial statements.

Statements in this report that are not of historical fact are forward-looking statements that involve risks and uncertainties that could affect the actual results of the Company. A description of the important factors that could cause Autoliv's actual results to differ materially from the forward-looking statements contained in this report may be found in this report and Autoliv's other reports filed with the Securities and Exchange Commission (the “SEC”). For further information, refer to the consolidated financial statements, footnotes and definitions thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 23, 2017.

2 Recently Issued Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-09, Compensation-Stock Compensation (Topic 718) – Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless (a) the fair value of the modified award is the same as the fair value of the original award, (b) the vesting conditions of the modified award are the same as the vesting conditions of the original award and (c) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in ASU 2017-09 are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not been issued. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. The Company early adopted ASU 2017-09 in the second quarter beginning April 1, 2017. As this standard is prospective in nature, the impact to our financial statements will depend on the nature of our future award modifications.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires the service cost component to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the consolidated statements of net income separately from the service cost component and outside operating income. The amendments in ASU 2017-07 are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The amendments in ASU 2017-07 should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the consolidated statements of net income. At the expected adoption as of January 1, 2018, the Company estimates that approximately $5-7 million of the net benefit cost will be reclassified from Operating Income to Other non-operating items, net in the consolidated statements of net income.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment, which simplifies how an entity is required to test goodwill for impairment by eliminating step 2 from the goodwill impairment test, which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount. Instead, entities should perform annual or interim goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the excess of carrying amount over the fair value of the respective reporting unit. The amendments in ASU 2017-04 are effective for public business entities for annual or interim goodwill impairment tests in annual periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted ASU 2017-04 effective January 1, 2017. As this standard is prospective in nature, the impact to our financial statements by not performing step 2 to measure the amount of any potential goodwill impairment will depend on various factors. However, the elimination of step 2 will reduce the complexity and cost of the subsequent measurement of goodwill.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805) – Clarifying the Definition of a Business, which provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The amendments in ASU 2017-01 are effective for public business entities for annual periods beginning after December 15, 2017, and interim periods within those periods. ASU 2017-01 should be applied prospectively. Early adoption is permitted. The Company early adopted ASU 2017-01 effective January 1, 2017 for new transactions that have not been reported in financial statements that have been issued or made available for issuance. As this standard is prospective in nature, the impact to our financial statements will depend on the nature of our future acquisitions. This new standard was applied in conjunction with the Zenuity AB joint venture as discussed in Note 7.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in ASU 2016-18 are effective for public business entities for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. The amendments in ASU 2016-18 should be applied using a retrospective transition method to each period presented. The Company early adopted ASU 2016-18 effective January 1, 2017. The adoption of ASU 2016-18 did not have a material impact on our consolidated financial statements for any period presented.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) – Intra-Entity Transfers of Assets Other Than Inventory, which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. Consequently, the amendments in this ASU 2016-16 eliminate the exception for an intra-entity transfer of an asset other than inventory. Two common examples of assets included in the scope of ASU 2016-16 are intellectual property and property, plant, and equipment. The amendments in ASU 2016-16 are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. The amendments in ASU 2016-16 should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of our pending adoption of ASU 2016-16 on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments, which provides guidance on reducing the diversity in practice on eight cash flow classification issues and how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in ASU 2016-15 are effective for public business entities for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the annual period that includes that interim period. The amendments in ASU 2016-15 should be applied using a retrospective transition method to each period presented. The Company early adopted ASU 2016-15 effective January 1, 2017. The adoption of ASU 2016-15 did not have a material impact on our consolidated financial statements for any period presented.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, which requires measurement and recognition of expected credit losses for financial assets held and requires enhanced disclosures regarding significant estimates and judgments used in estimating credit losses. ASU 2016-13 is effective for public business entities for annual periods beginning after December 15, 2019, and early adoption is permitted for annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of our pending adoption of ASU 2016-13 on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718), which simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the amendments in ASU 2016-09 are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. The Company adopted ASU 2016-09 effective January 1, 2017 and has elected to recognize forfeitures as they occur. The adoption of ASU 2016-09 did not have a material impact on the consolidated financial statements for any period presented.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 affects any entity that enters into a lease, with some specified scope exceptions. For public business entities, the amendments in ASU 2016-02 are effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2016-02 on its consolidated financial statements, which will require right of use assets and lease liabilities to be recorded in the consolidated balance sheet for finance and operating leases.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330), which requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. For public business entities, ASU 2015-11 is effective for interim and annual periods beginning after December 15, 2016 and should be applied prospectively. The adoption of ASU 2015-11 did not have a material impact on the consolidated financial statements for any periods presented.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance issued by the FASB, including industry specific guidance. In 2016, the FASB issued accounting standard updates to address implementation issues and to clarify guidance on identifying performance obligations, licenses and determining if a company is a principal or an agent. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to receive in exchange for those goods or services. In addition, ASU 2014-09 requires certain additional disclosure around the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company intends to adopt ASU 2014-09 in the annual period beginning January 1, 2018. The standard permits the use of either the retrospective or modified retrospective (cumulative effect) transition method. The Company intends to apply the modified retrospective transition method. The Company is currently evaluating the impact of this standard on its operations, consolidated financial statements and footnote disclosures and is finalizing the overall assessment of the impact of the standard to the Company. The Company’s implementation of this standard includes a project management framework that includes a dedicated lead project manager and a cross-functional project steering committee responsible for assessing the impact that the new standard will have on the Company's accounting, financial statement presentation and disclosure for contracts with customers. The assessment phase of the project has included the identification of the key revenue streams and the comparison of historical accounting policies and practices to the requirements of the new standard by revenue stream. The assessment has resulted in the identification of potential accounting differences that may arise from the application of the new standard. The implementation team has also made substantial progress in the contract review phase of the project which includes identifying the population of contracts for a deeper analysis of the potential accounting impacts due to the new standard for individual contracts. During the second quarter, the team continued to identify changes to business processes, systems and controls to support recognition, presentation and disclosure under the new standard. A detailed implementation plan for the second half of 2017 has been developed and includes tasks around data gathering, identification of the new journal entries, training, design of new processes and controls as well as testing of the controls. The Company anticipates that the adoption of ASU 2014-09 will primarily impact the timing of revenue recognition for certain production parts contracts and will result in some changes to revenue related disclosures and financial statement presentation. For certain contracts, the production parts are highly customized products with no alternative use and the Company has an enforceable right to payment (with a reasonable margin) for performance completed to date. As a result, for these contracts, the Company will recognize revenue over time as the parts are being produced against firm orders received from the customer. Consistent with current treatment, shipping and handling costs associated with outbound shipments, after control of the product has transferred to a customer, will be accounted for as a fulfillment cost and included in cost of sales. In addition, certain payments made to customers in connection with future contracts may be deferred and amortized over future periods. While the Company has made substantial progress in identifying the likely impacts of the new standard, it has not yet determined a range of the potential quantitative impact.

3 Business Combinations

Autoliv-Nissin Brake Systems

On March 31, 2016, the Company acquired a 51% interest in the entities that formed Autoliv-Nissin Brake Systems (ANBS) for $262.5 million in cash. ANBS designs, manufactures and sells products in the brake control and actuation systems business. Nissin Kogyo retained a 49% interest in the entities that formed ANBS. The Company has management and operational control of ANBS and has consolidated the results of operations and balance sheet from ANBS from the date of the acquisition forward. The transaction was accounted for as a business combination (for further information, see the Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 23, 2017).

Total ANBS acquisition related costs were approximately $0.1 million for the first six months ended June 30, 2017 and approximately $2.0 million for the year ended December 31, 2016. These costs were reflected in Selling, general and administrative expenses in the Consolidated Statements of Net Income.

The acquisition date fair value of the consideration transferred for the Company's 51% interest in the entities that formed ANBS was $262.5 million in a cash transaction.

The following table summarizes the finalized fair values of identifiable assets acquired and liabilities assumed as of March 31, 2016:

Amounts recognized as of acquisition date of March 31, 2016 (in millions)

Assets:	
Cash and cash equivalents	$37.7
Receivables	1.5
Inventories	33.0
Other current assets	7.9
Property, plant and equipment	138.5
Other non-current assets	0.3
Intangibles	112.1
Goodwill	234.7
Total assets	$565.7
Liabilities:	
Accounts payable	$6.0
Other current liabilities	23.1
Pension liabilities	9.1
Other non-current liabilities	12.7
Total liabilities	$50.9
Net assets acquired	$514.8
Less: Non-controlling interest	$(252.3)
Controlling interest	$262.5

Acquired Intangibles primarily consist of the fair value of customer contracts of $50.7 million and certain technology of $61.4 million. The customer contracts will be amortized straight-line over 7 years and the technology will be amortized straight-line over 10 years.

The recognized goodwill of $234.7 million reflects expected synergies from combining Autoliv's global reach and customer base with Nissin Kogyo's world leading expertise (including workforce) and technology in brake control and actuation systems. A significant portion of the goodwill is deductible for tax purposes.

The allocation of the purchase price consideration to the assets acquired and the liabilities assumed as of the acquisition date was finalized in the first quarter of 2017.

4 Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, other current liabilities and short-term debt approximate their fair value because of the short term maturity of these instruments.

The fair value of the contingent consideration relating to the M/A-COM acquisition is re-measured on a recurring basis (for further information, see the Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 23, 2017). The Company has determined that this contingent consideration resides within Level 3 of the fair value hierarchy. The Company adjusted the fair value of the earn-out liability to $14 million in the first quarter of 2017 based on actual revenue levels as well as changes in the estimated probability of different revenue scenarios for the remaining contractual earn-out period. An income of $13 million was recognized within Other income (expense), net in the Consolidated Statements of Net Income in the first quarter of 2017 due to the decrease in the contingent consideration liability. The reduced earn-out liability was largely offset by the impairment charge for a customer contract related to the M/A-COM acquisition as discussed below. The fair value of the earn-out liability remains unchanged at $14 million as of June 30, 2017.

The Company uses derivative financial instruments, “derivatives”, as part of its debt management to mitigate the market risk that occurs from its exposure to changes in interest and foreign exchange rates. The Company does not enter into derivatives for trading or other speculative purposes. The Company’s use of derivatives is in accordance with the strategies contained in the Company’s overall financial risk policy. The derivatives outstanding at June 30, 2017 were foreign exchange swaps and forward contracts. All swaps principally match the terms and maturity of the underlying debt and no swaps have a maturity beyond six months. The forward contracts are designated as cash flow hedges of certain external purchases. All derivatives are recognized in the consolidated financial statements at fair value. Certain derivatives are from time to time designated either as fair value hedges or cash flow hedges in line with the hedge accounting criteria. For certain other derivatives, hedge accounting is not applied either because non-hedge accounting treatment creates the same accounting result or the hedge does not meet the hedge accounting requirements, although entered into applying the same rationale concerning mitigating market risk that occurs from changes in interest and foreign exchange rates.

When a hedge is classified as a fair value hedge, the change in the fair value of the hedge is recognized in the Consolidated Statements of Net Income along with the off-setting change in the fair value of the hedged item. When a hedge is classified as a cash flow hedge, any change in the fair value of the hedge is initially recorded in equity as a component of Other comprehensive income (OCI) and reclassified into the Consolidated Statements of Net Income when the hedge transaction affects net earnings. The Company uses the forward rate with respect to the measurement of changes in fair value of cash flow hedges when revaluing foreign exchange forward contracts.

The Company’s derivatives are all classified as Level 2 of the fair value hierarchy and there have been no transfers between the levels during this or comparable periods (for further information, see Annual Report on Form 10-K for the year ended December 31, 2016).

The tables below present information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016. The carrying value is the same as the fair value as these instruments are recognized in the consolidated financial statements at fair value. Although the Company is party to close-out netting agreements (ISDA agreements) with all derivative counterparties, the fair values in the tables below and in the Condensed Consolidated Balance Sheet at June 30, 2017 and in the Consolidated Balance Sheet at December 31, 2016, have been presented on a gross basis. The amounts subject to netting agreements that the Company chose not to offset are presented below. According to the close-out netting agreements, transaction amounts payable to a counterparty on the same date and in the same currency can be netted.

	June 30, 2017			
		Fair Value Measurements		
Description	Nominal volume	Derivative asset	Derivative liability	Balance sheet location
Derivatives designated as hedging instruments [1)]				
Foreign exchange forward contracts, less than 1 year (cash flow hedge)	$43.7	$ 2.1	$ 1.0	Other current assets/ Other current liabilities