

AUTOLIV INC
Form 10-Q/A
November 09, 2004

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 period ended September 30, 2004

Commission File No.: 1-12933

AUTOLIV, INC.

(Exact name of registrant as
specified in its charter)

Delaware

51-0378542

(State or other jurisdic-
tion of incorporation or
organization)

World Trade Center,
Klarabergsviadukten 70,
Box 70381,
SE-107 24 Stockholm, Sweden

(I.R.S. Employer Identi-
fication No.)

N/A

(Address of principal executive offices)

(Zip Code)

+46 8 587 20 600

(Registrants 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 requirement for the past 90 days.
Yes: No:

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 or 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: There were 92.2 million shares of Common Stock of Autoliv, Inc., par value \$1.00 per share, outstanding as of November 2, 2004.

Explanatory Note

This amendment No. 1 on Form 10-Q/A is being filed solely to correct a typographical error in Part I, Item 2, "Dividend" section, in the Quarterly Report on Form 10-Q of Autoliv, Inc. for the quarterly period ended September 30, 2004, filed with the Securities and Exchange Commission on November 5, 2004. This filing makes no other changes.

PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

AUTOLIV, INC. CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in millions, except per share data)

| | Quarter July - Sept | | First 9 months | |
|--|---------------------|----------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net sales | | | | |
| - Airbag products | \$911.4 | \$814.6 | \$2,924.1 | \$2,623.3 |
| - Seat belt products | <u>471.3</u> | <u>397.9</u> | <u>1,525.0</u> | <u>1,201.4</u> |
| Total net sales | 1,382.7 | 1,212.5 | 4,449.1 | 3,824.7 |
| Cost of sales | <u>(1,119.1)</u> | <u>(990.2)</u> | <u>(3,562.6)</u> | <u>(3,105.9)</u> |
| Gross profit | 263.6 | 222.3 | 886.5 | 718.8 |
| Selling, general & administrative expenses | (72.7) | (63.4) | (217.9) | (194.3) |
| Research, development & engineering expenses | (80.0) | (69.9) | (280.0) | (224.0) |
| Amortization of intangibles | (5.2) | (5.2) | (15.9) | (15.7) |
| Other income (expense), net | <u>(1.4)</u> | <u>2.6</u> | <u>(5.9)</u> | <u>5.8</u> |
| Operating income | 104.3 | 86.4 | 366.8 | 290.6 |

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| | | | | |
|--|--------------|--------------|--------------|--------------|
| Equity in earnings of affiliates | 2.1 | 2.5 | 7.9 | 8.3 |
| Interest income | 0.9 | 0.8 | 2.8 | 2.8 |
| Interest expense | (10.4) | (11.4) | (29.0) | (36.0) |
| Other financial items | <u>(0.3)</u> | <u>(0.4)</u> | <u>(1.8)</u> | <u>2.9</u> |
| Income before income taxes | 96.6 | 77.9 | 346.7 | 268.6 |
| Income taxes | (28.7) | (24.0) | (107.5) | (86.0) |
| Minority interests in subsidiaries | <u>(0.6)</u> | <u>(2.0)</u> | <u>(6.3)</u> | <u>(5.9)</u> |
| Net income | \$67.3 | \$51.9 | \$232.9 | \$176.7 |
| Earnings per share (basic and diluted) | \$.72 | \$.55 | \$ 2.46 | \$ 1.85 |

See "Notes to unaudited consolidated financial statements"

AUTOLIV, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

| | September 30 2004 (Unaudited) | December 31 2003 |
|--------------------------------------|-------------------------------------|---------------------|
| <hr/> | | |
| Assets | | |
| Cash & cash equivalents | \$106.8 | \$93.7 |
| Receivables | 1,228.9 | 1,195.3 |
| Inventories | 454.8 | 452.0 |
| Other current assets | <u>77.8</u> | <u>98.4</u> |
| Total current assets | 1,868.3 | 1,839.4 |
| Property, plant & equipment, net | 1,065.2 | 1,052.2 |
| Goodwill assets, net | 1,529.5 | 1,531.4 |
| Intangible assets, net | 162.1 | 178.9 |
| Other assets | <u>287.1</u> | <u>292.4</u> |
| Total assets | \$4,912.2 | \$4,894.3 |
| Liabilities and shareholders' equity | | |
| Short-term debt | \$176.1 | \$149.4 |
| Accounts payable | 702.5 | 720.5 |
| Other current liabilities | <u>548.2</u> | <u>497.0</u> |
| Total current liabilities | 1,426.8 | 1,366.9 |

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| | | |
|--|----------------|----------------|
| Long-term debt | 754.0 | 846.2 |
| Pension liability | 65.9 | 64.5 |
| Other non-current liabilities | 166.2 | 173.8 |
| Minority interests in subsidiaries | 48.6 | 40.9 |
| Shareholders' equity | <u>2,450.7</u> | <u>2,402.0</u> |
| Total liabilities and shareholders' equity | \$4,912.2 | \$4,894.3 |

See "Notes to unaudited consolidated financial statements"

AUTOLIV, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)

| | Quarter Jul - Sept | | First 9 months | |
|---|-----------------------|---------------|----------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income | \$67.3 | \$51.9 | \$232.9 | \$176.7 |
| Depreciation and amortization | 71.6 | 67.5 | 218.0 | 203.8 |
| Deferred taxes and other | (2.8) | 7.1 | 0.5 | 4.3 |
| Change in working capital | <u>(9.7)</u> | <u>(52.1)</u> | <u>3.1</u> | <u>(85.3)</u> |
| Net cash provided by operating activities | 126.4 | 74.4 | 454.5 | 299.5 |
| Capital expenditures | (65.5) | (74.7) | (227.8) | (197.7) |
| Proceeds from sale of property, plant and equipment | 3.1 | 1.0 | 5.9 | 6.7 |
| Acquisitions of businesses and other, net | <u>4.4</u> | <u>(0.9)</u> | <u>8.2</u> | <u>(28.7)</u> |
| Net cash before financing | 68.4 | (0.2) | 240.8 | 79.8 |
| Net increase (decrease) in short-term debt | (25.2) | 20.6 | (56.6) | (33.9) |
| Issuance of long-term debt | 43.0 | 13.5 | 94.4 | 118.3 |
| Repayments & other changes in long-term debt | (0.2) | (39.0) | (92.8) | (83.0) |
| Dividends paid | (18.7) | (12.3) | (51.9) | (37.1) |
| Shares repurchased | (70.6) | - | (129.5) | (43.0) |
| Stock options exercised | 0.8 | 2.5 | 8.2 | 3.5 |
| Other, net | (5.6) | (10.1) | 0.7 | (8.8) |
| Effect of exchange rate changes on cash | <u>2.2</u> | <u>(0.4)</u> | <u>(0.2)</u> | <u>7.1</u> |
| Increase (decrease) in cash and cash equivalents | (5.9) | (25.4) | 13.1 | 2.9 |
| Cash and cash equivalents at period-start | <u>112.7</u> | <u>129.8</u> | <u>93.7</u> | <u>101.5</u> |
| Cash and cash equivalents at period-end | \$106.8 | \$104.4 | \$106.8 | \$104.4 |

See "Notes to unaudited consolidated financial statements"

AUTOLIV, INC.
KEY RATIOS (UNAUDITED)

| | Quarter July - Sept | | First 9 months | |
|---|---------------------|--------|----------------|--------|
| | 2004 | 2003 | 2004 | 2003 |
| Earnings per share ¹⁾ | \$.72 | \$.55 | \$2.46 | \$1.85 |
| Equity per share | 26.58 | 23.83 | 26.58 | 23.83 |
| Cash dividend declared per share | .20 | .15 | .60 | .41 |
| Working capital, \$ in millions | 515 | 531 | 515 | 531 |
| Capital employed, \$ in millions | 3,164 | 3,183 | 3,164 | 3,183 |
| Net debt, \$ in millions ²⁾ | 713 | 932 | 713 | 932 |
| Net debt to capitalization, % ³⁾ | 22 | 29 | 22 | 29 |
| Gross margin, % ⁴⁾ | 19.1 | 18.3 | 19.9 | 18.8 |
| Operating margin, % ⁵⁾ | 7.5 | 7.1 | 8.2 | 7.6 |
| Return on shareholders' equity, % | 11.0 | 9.3 | 12.8 | 11.0 |
| Return on capital employed, % | 13.5 | 11.3 | 15.8 | 13.1 |
| Average no. of shares in millions ¹⁾ | 93.7 | 95.2 | 94.7 | 95.5 |
| No. of shares at period-end in millions ⁶⁾ | 92.2 | 94.5 | 92.2 | 94.5 |
| No. of employees at period-end | 34,000 | 31,600 | 34,000 | 31,600 |
| Headcount at period-end | 39,900 | 36,500 | 39,900 | 36,500 |
| Days receivables outstanding ⁷⁾ | 82 | 82 | 77 | 78 |
| Days inventory outstanding ⁸⁾ | 32 | 33 | 30 | 32 |

1) Assuming dilution and net of treasury shares

2) Short- and long-term interest bearing liabilities and related derivatives, less cash and cash equivalents.

3) Net debt in relation to net debt and equity (including minority)

4) Gross profit relative to sales

5) Operating income relative to sales

6) Excluding dilution and net of treasury shares

7) Outstanding receivables at average exchange rates relative to average daily sales

8) Outstanding inventory at average exchange rates relative to average daily sales

See "Notes to unaudited consolidated financial statements".

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains statements that are not historical facts but forward- looking statements that involve risks and uncertainties that could cause the Company's results to differ materially from what is projected, including the following: Higher raw material costs or other expenses; a major loss of customers; increased competitive pricing pressure on the Company's business; failure to develop or commercialize successfully new products or technologies; the outcome of pending an future litigation and changes in governmental procedures, laws or regulations, including environmental regulations; plant disruptions or shutdowns due to accidents, natural acts or Governmental action; product liability and recall issues; and other difficulties in improving margin or financial performance. In addition, the Company's forward-looking statements could be affected by general industry and market conditions and growth rates, general domestic and international economic conditions including currency exchange rate fluctuations and other factors. Except for the Company's ongoing obligation to disclose material information under the federal securities laws, the Company undertakes no obligations to update publicity and forward-looking statements whether as a result of new information or future events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

AUTOLIV, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Unless otherwise noted, all amounts are dollars in millions, except for per share amounts)
September 30, 2004

1. Basis of Presentation

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles for complete financial statements. In the opinion of management 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 consolidated balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Statements in this report that are not of historical fact are forward-looking statements, which involve risks and uncertainties that could affect the actual results of Autoliv Inc. ("Autoliv" or 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 Autoliv's 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 Autoliv, Inc. annual report on Form 10-K for the year ended December 31, 2003.

The filings with the SEC of Autoliv's annual report, annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements, management certifications, current reports on Form 8-K and other documents can also be obtained free of charge from Autoliv at the Company's address. These documents are also available at the SEC's website at www.sec.gov and at the Company's corporate website www.autoliv.com.

Certain amounts in the Condensed consolidated statements of cash flows from prior periods have been reclassified to conform to current period presentation.

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2. Inventories

Inventories are stated at lower of cost (principally FIFO) or market. The components of inventories were as follows:

| | Sept. 30, 2004 | Dec. 31, 2003 |
|-------------------|----------------|---------------|
| Raw material | \$178.3 | \$186.7 |
| Work in progress | 182.6 | 157.0 |
| Finished products | <u>93.9</u> | <u>108.3</u> |
| | \$454.8 | \$452.0 |

3. Restructuring

2003

In 2003, employee related restructuring provisions of \$5.9 million were made for severance costs related to plant consolidation in Europe. The provision has been charged against "Other income and expense" in the income statement in the fourth quarter of 2003. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2002 to December 31, 2003.

| | Dec 31 2002 | Cash payments | Change in reserve | Translation difference | Dec 31 2003 |
|-------------------------------------|----------------|------------------|-------------------------|---------------------------|----------------|
| Restructuring - employee related | \$12.5 | \$(10.2) | \$3.2 | \$0.6 | \$6.1 |
| Contractual losses | 0.3 | - | (0.3) | - | - |
| Liability | 18.4 | - | 0.5 | 0.5 | 19.4 |
| Total reserve | \$31.2 | \$(10.2) | \$3.4 | \$1.1 | \$25.5 |

During 2003, 1,038 employees were terminated or left voluntarily. As part of the restructuring activities in Europe, for which provisions were made in the fourth quarter of 2003, 110 employees are expected to be severed. Therefore, at December 31, 2003, a decrease of 112 employees remained as part of the restructuring activities covered by the reserves.

**2004
Q1**

In the first quarter of 2004, restructuring provisions of \$1 million were made for severance costs for 48 employees expected to be severed in connection with a plant closure in the Netherlands. These severance provisions have been charged against "Other income and expense" in the income statement in the first quarter of 2004. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2003 to March 31, 2004.

| | Dec 31 | Cash | Change in | Translation | March 31 |
|--|--------|------|--------------|-------------|----------|
|--|--------|------|--------------|-------------|----------|

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| | 2003 | payments | reserve | difference | 2004 |
|-------------------------------------|--------|----------|---------|------------|--------|
| Restructuring - employee related | \$6.1 | \$(0.3) | \$1.0 | \$(0.2) | \$6.6 |
| Liability | 19.4 | - | 1.4 | (0.2) | 20.6 |
| Total reserve | \$25.5 | \$(0.3) | \$2.4 | \$(0.4) | \$27.2 |

During the first quarter 2004, five employees left the Company. As of March 31, 2004 a decrease of 155 employees remained to be covered by the restructuring reserves.

Q2

In the second quarter of 2004, restructuring provisions of \$1.4 million were made for severance costs associated with plant closure in the Netherlands and for plant consolidation costs in Europe. These severance provisions have been charged against "Other income and expense" in the income statement in the second quarter of 2004. The change in liability is mainly related to release of customer dispute provisions. The table below summarizes the change in the balance sheet position of the restructuring reserves from March 31, 2004 to June 30, 2004.

| | March 31 | Cash | Change | Translation | June 30 |
|-------------------------------------|----------|----------|---------|-------------|---------|
| | 2004 | payments | in | difference | 2004 |
| | | | reserve | | |
| Restructuring - employee related | \$6.6 | \$(0.7) | \$1.4 | - | \$7.3 |
| Liability | 20.6 | - | (4.0) | - | 16.6 |
| Total reserve | \$27.2 | \$(0.7) | (\$2.6) | - | \$23.9 |

During the second quarter 2004, 18 employees left the Company. As of June 30, 2004 a decrease of 137 employees remains to be covered by the restructuring reserves.

Q3

In the third quarter of 2004, restructuring provisions of \$0.4 million were made for severance costs associated with plant closure in the Netherlands and for plant consolidation costs in Europe. These severance provisions have been charged against "Other income and expense" in the income statement in the third quarter of 2004. The table below summarizes the change in the balance sheet position of the restructuring reserves from June 30, 2004 to September 30, 2004.

| | June 30 | Cash | Change | Translation | Sept 30 |
|--|---------|----------|---------|-------------|---------|
| | 2004 | payments | in | difference | 2004 |
| | | | reserve | | |

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| | | | | | |
|-------------------------------------|--------|---------|-------|-------|--------|
| Restructuring - employee related | \$7.3 | \$(1.1) | \$0.4 | - | \$6.6 |
| Liability | 16.6 | - | - | 0.2 | 16.8 |
| Total reserve | \$23.9 | \$(1.1) | \$0.4 | \$0.2 | \$23.4 |

During the third quarter 2004, 29 employees left the Company. As of September 30, 2004, a decrease of 108 employees remains to be covered by the restructuring reserves.

4. Comprehensive income

Comprehensive income includes net income for the year and items charged directly to equity.

| | Quarter July - Sept, | | First 9 months, | |
|--|----------------------|------------|-----------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income | \$67.3 | \$51.9 | \$232.9 | \$176.7 |
| Minimum pension liability | - | - | (0.1) | - |
| Fair value of derivatives | (1.0) | 3.6 | 2.7 | 12.7 |
| <u>Translation of foreign operations</u> | <u>18.3</u> | <u>8.6</u> | <u>(13.6)</u> | <u>78.8</u> |
| Other Comprehensive income | 17.3 | 12.2 | (11.0) | 91.5 |
| Comprehensive income | \$84.6 | \$64.1 | \$221.9 | \$268.2 |

5. Stock Repurchase Program

During the 3rd quarter of 2004, Autoliv has repurchased 1,689,100 shares at an average price of 41.73 USD. Since the repurchasing program was adopted in 2000, Autoliv has repurchased 11.2 million shares at an average price of \$27.15. Under the existing authorizations, another 8.8 million shares could be repurchased.

| Stockholm Stock Exchange ("SSE") | | New York Stock Exchange ("NYSE") | | SSE + NYSE | | |
|-------------------------------------|----------------------------|-------------------------------------|----------------------------|--------------------------------|----------------------------|-----------------------------------|
| (a)Total No. of | (b)Average Price in USD | (a)Total No. of | (b)Average Price in USD | (c)Total No. of | (b)Average Price in USD | (d)Maximum No. of Shares |
| Shares Purchased | Paid per Share | Shares Purchased | Paid per Share | Shares Purchased | Paid per Share | that may yet be Purchased |
| | | | | Announced Plans or Programs | | under the Plans or Programs |
| Date | | | | | | |

| | | | | | | | |
|--------------------------|-----------|---------|---------|---------|-----------|---------|------------|
| July 1- July 31 | | | | | | | |
| Total | 35,000 | 40.8004 | 37,600 | 40.9877 | 72,600 | 40.8974 | 10,368,762 |
| Aug 1- Aug 31 | | | | | | | |
| Total | 532,400 | 41.4773 | 348,200 | 41.5970 | 880,600 | 41.5246 | 9,488,162 |
| Sept 1- Sept 30 | | | | | | | |
| Total | 449,600 | 42.0047 | 286,300 | 42.1126 | 735,900 | 42.0467 | 8,752,262 |
| Total | 1,017,000 | 41.6872 | 672,100 | 41.7825 | 1,689,100 | 41.7251 | 8,752,262 |

1) Announcement of share buy back program with authorization to buy back 10 million shares made on the 9th May of 2000.

2) Announcement of expansion of existing share buy back program from 10 million shares to 20 million shares made on the 30th of April 2003.

3) The share buy back program does not have an expiration date.

6. Stock Incentive Plan

Had compensation costs for all of the Company's stock-based compensation awards been determined based on the fair value of such awards at the grant date, consistent with the methods of FAS-123 Accounting for Stock-Based Compensation, the Company's total and per share net income would have been as follows:

| | Quarter July - Sept | | First 9 months | |
|--|---------------------|--------------|----------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income as reported | \$67.3 | \$51.9 | \$232.9 | \$176.7 |
| Add: Compensation under fair value method included in Net income, net of tax | 0.4 | 0.3 | 1.2 | 1.0 |
| Deduct: Compensation under fair value method for all awards, net of tax | <u>(1.2)</u> | <u>(0.8)</u> | <u>(3.6)</u> | <u>(2.5)</u> |
| Net income pro-forma | \$66.5 | \$51.4 | \$230.5 | \$175.2 |

Earnings per share:

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| | | | | |
|-------------|-------|-------|--------|--------|
| As reported | \$.72 | \$.55 | \$2.46 | \$1.85 |
| Pro-forma | \$.71 | \$.54 | \$2.43 | \$1.83 |

7. New Accounting Pronouncements

Statement No.132 *Employers' Disclosures about Pensions and Other Post-retirement Benefits* was issued in December 2003. FAS-132 has been revised to improve financial statement disclosures for defined-benefit plans. FAS-132 is effective for financial statements issued for fiscal years or interim periods ending after December 15, 2003. Disclosure of information about foreign plans and estimated future benefit payments is effective for fiscal years ending after June 15, 2004.

8. Retirement Plans

Effective December 31, 2003 Autoliv adopted SFAS No.132 *Employers' Disclosures about Pensions and Other Post-retirement Benefits*. This standard requires the disclosure of the components of net periodic benefit cost recognized during interim periods.

The Company has non-contributory defined benefit pension plans covering most U.S. employees. Benefits are based on an average of the employee's earnings in the years proceeding retirement and on credited service. Certain supplemental unfunded plan arrangements also provide retirement benefits to specified groups of participants. The funding policy for U.S plans is to contribute amounts sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended, plus any additional amounts which may be determined to be appropriate. The Company has frozen participation in the ASP, Inc., non-contributory defined benefit pension plan for all employees hired after December 31, 2003.

The projected contributions in the 2003 Annual Report were \$13.7 million in 2004 but the actual contributions to be paid due to some accelerated payment requirements are \$16.6 million. The projected funding level for the years thereafter has not been significantly altered since the Annual Report for the year ended December 31, 2003.

The Company's main non-U.S. defined benefit plan is the U.K. plan. The Company has frozen participation in the U.K. defined benefit plan for all employees hired after April 30, 2003.

The Net Periodic Benefit Costs related to Other Post-retirement Benefits were not significant to the Unaudited Consolidated Financial Statements of the Company for the three months ended September 30, 2004.

For further information on Pension Plans and Other Post-retirement Benefits, see Note 17 to the Consolidated Financial Statements of the Company included in the Company's Annual Report for the year ended December 31, 2003.

The components of net benefit cost associated with defined benefit retirement plans in U.S. and U.K. are as follows:

Pension Benefits

| | Quarter July - Sept | | First 9 months | |
|--|---------------------|------------|----------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Service cost | \$3.5 | \$3.1 | \$10.4 | \$9.4 |
| Interest cost | 2.1 | 1.9 | 6.3 | 5.7 |
| Expected return on plan assets | (1.6) | (1.2) | (4.9) | (3.6) |
| Amortization of prior service cost | 0.2 | 0.1 | 0.7 | 0.3 |
| <u>Amortization of net (gain) loss</u> | <u>0.1</u> | <u>0.3</u> | <u>0.2</u> | <u>0.9</u> |
| Net periodic benefit cost | \$4.3 | \$4.2 | \$12.7 | \$12.7 |

9. Contingent Liabilities

Legal Proceedings

Various claims, lawsuits and proceedings are pending or threatened against the Company or its subsidiaries, covering a range of matters that arise in the ordinary course of its business activities with respect to commercial, product liability and other matters.

Litigation is subject to many uncertainties, and the outcome of any litigation cannot be assured. After discussions with counsel, it is the opinion of management that the litigation to which the Company is currently a party will not have a material adverse impact on the consolidated financial position of Autoliv, but the Company cannot provide assurance that Autoliv will not experience any material product liability or other losses in the future.

In December 2003, a U.S. Federal District Court awarded a supplier of Autoliv ASP, Inc. approximately \$27 million plus interest of \$5.8 million in connection with a commercial dispute. Autoliv filed its notice of appeal on March 1, 2004, which was followed by a cross-appeal by the counterpart. The appeal and cross-appeal are pending before the United States Court of Appeal for the Federal Circuit. Briefing should end in late December, 2004. Oral arguments have not yet been scheduled. While legal proceedings are subject to inherent uncertainty, Autoliv believes that it has valid grounds for appeal which would result in a new trial and that it is possible that the judgment could be eliminated or substantially altered. Consequently, in the opinion of the Company's management, it is not possible to determine the final outcome of this litigation at this time. It cannot be assured that the final outcome of this litigation will not result in a loss that will have to be recorded by the Company.

The Company believes that it is currently adequately insured against product and other liability risks, at levels sufficient to cover potential claims, but Autoliv cannot be assured that the level of coverage will be sufficient in the future or that such coverage will be available on the market.

Product Warranty and Recalls

Autoliv is exposed to product liability and warranty claims in the event that our products fail to perform as expected and such failure results, or is alleged to result, in bodily injury and/or property damage. We cannot assure that we will not experience any material warranty or product liability losses in the future or that we will not incur significant costs to defend such claims. In addition, if any of our products are or are alleged to be defective, we may be required to participate in a recall involving such products. Each vehicle manufacturer has its own practices regarding product recalls and other product liability actions relating to its suppliers. As suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contribution when faced with recalls and product liability claims. A recall claim or a product liability claim brought against us in excess of our available insurance may have a material adverse effect on our business. Vehicle manufacturers are also increasingly requiring their outside suppliers to guarantee or warrant their products and bear the costs of repair and replacement of such products under new vehicle warranties. A vehicle manufacturer may attempt to hold us responsible for some or all of the repair or replacement costs of products under new vehicle warranties, when the product supplied has to be repaired or replaced. Accordingly the future costs of warranty claims by our customers may be material, however, we believe our established reserves are adequate to cover potential warranty settlements. The Company's warranty reserves are based upon our best estimates of amounts necessary to settle future and existing claims. The Company regularly evaluate the appropriateness of these reserves, and adjust them when appropriate. However, the final amounts determined to be due related to these matters could differ materially from our recorded estimates.

At december 31, 2003, the reserve for product related performance issues (recall, warranties and product liability), amounted to \$52.0 million. The reserve as of March 31, 2004, June 30, 2004 and September 30, 2004, amounted to \$51.5 million, \$51.7 million and \$49.3 million, respectively.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Unaudited Consolidated Financial Statements and accompanying Notes thereto included elsewhere herein and with our 2003 Annual Report on Form 10-K filed with the SEC on March 11, 2004. Unless otherwise noted, all dollar amounts are in millions.

Autoliv is one of the world's leading suppliers of automotive occupant safety restraint

systems with a broad range of product offerings including modules and components for passenger and driver-side airbags, side-impact airbag protection systems, seat belts, steering wheels, safety seats and other safety systems and products. Autoliv has production facilities in 29 countries and has as customers almost all of the world's largest car manufacturers.

Autoliv is a Delaware holding corporation with principal executive offices in Stockholm, Sweden, which owns two principal subsidiaries, Autoliv AB ("AAB") and Autoliv ASP, Inc. ("ASP"). AAB, a Swedish corporation, is a leading developer, manufacturer and supplier to the automotive industry of car occupant restraint systems. Starting with seat belts in 1956, AAB expanded its product lines to include seat belt pretensioners (1989), frontal airbags (1991), side-impact airbags (1994), steering wheels (1995) and seat sub-systems (1996). ASP, an Indiana corporation, pioneered airbag technology in 1968 and has since grown into one of the world's leading producers of airbag modules and inflators. ASP designs, develops and manufactures airbag inflators, modules and airbag cushions, seat belts and steering wheels. It sells inflators and modules for use in driver, passenger, side-impact and knee bolster airbag systems for worldwide automotive markets.

Shares of Autoliv common stock are traded on the New York Stock Exchange under the symbol "ALV" and Swedish Depositary Receipts representing shares of Autoliv common stock trade on the OM Stockholm Stock Exchange under the symbol "ALIV". Options in Autoliv shares are listed on the Chicago Board Options Exchange under the symbol "ALIV".

THREE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2003

Market overview

Autoliv's market, i.e. the global automotive safety market, is driven not only by vehicle production but also by the fact that new vehicle models are being equipped with more airbags and other safety systems. For Autoliv's short-term performance the changes in vehicle production are more important than the relatively steady growth in the supply value per vehicle.

During the third quarter 2004, light vehicle production in the Triad (i.e. Western Europe, North America and Japan) remained - as expected - on the same level as in the corresponding quarter last year.

In **Western Europe**, where Autoliv generates more than half of its revenues, light vehicle production stood unchanged despite an expected increase of 1% at the beginning of the quarter. Most of the deviation, however, did not affect Autoliv's most important customers and vehicle models. Instead, customers such as BMW, Renault and Volvo continued to increase their production. As a result, the vehicle mix was more favorable than anticipated.

In **North America**, which accounts for slightly more than a quarter of Autoliv's revenues, light vehicle production decreased by a half of one percent, as expected. However, the Asian and European vehicle manufacturers increased their production in North America by 6%. Since Autoliv has a higher sales value per vehicle to these manufacturers than to an average vehicle from GM, Ford or Chrysler, Autoliv benefited from the change in mix from manufacturers in North America.

In **Japan**, which accounts for nearly one tenth of consolidated sales, light vehicle production increased by 1%.

Consolidated Sales

Autoliv's consolidated net sales during the third quarter 2004 rose by 14% to \$1,383 million compared to the

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corresponding period in 2003. Currency translation effects impacted sales by 6%. The effect from acquisitions or divestitures was insignificant. Consequently, sales grew organically (sales excluding translation currency effects and acquisitions/divestitures) by 8% compared to an expected rate of 5% at the beginning of the quarter. The stronger-than-expected sales performance was due to the aforementioned favorable vehicle mix changes, especially in Western Europe.

Since Autoliv's organic sales grew by 8% despite the flat light vehicle production and the continued pricing pressure from the vehicle manufacturers, the Company continued to increase its market share.

Autoliv's substantial organic sales growth reflects primarily two significant trends: 1) the Company's increasing share of the seat belt market and 2) the introduction of head curtain airbags in an increasing number of new vehicle models. Autoliv's sales of such side airbags for head protection grew organically by 40% during the quarter. In addition, strong performance in steering wheels (up 20%, organically) and side airbags for chest protection (up 16%) contributed to the healthy top-line expansion.

Sales by Product

Sales of **airbag products** (incl. steering wheels) increased by 12% to \$911 million. Excluding currency effects of 5%, the organic growth was 7%. This compares with essentially flat vehicle production. The superior growth was mainly due to the market penetration of side airbags for head protection and side airbags for chest protection in addition to market share gains in steering wheels and the favorable vehicle mix. Sales of knee airbags have also started to take off, partly due to new business for Chrysler's Town & Country Caravan, BMW's 6-series and the new Peugeot 407.

Sales of **seat belt products** (incl. seat sub-systems) expanded by 18% to \$471 million. Organic growth added 11%, currency effects 6% and acquisitions 1%. Autoliv gained market shares in all regions. In Europe, sales were mainly driven by the Renault Mégane/Scénic, the Ford C-Max, the Audi A6, the Peugeot 407, the Opel Astra and the Volkswagen Golf. In North America, sales were driven by new business for the Ford Freestyle and Escape/Mariner, and for the Chevrolet Theta Equinox and Malibu. In Japan, sales were driven by new business for the Mazda 3 and the Honda Edix and the Honda Life.

Sales by Region

Sales from Autoliv's **European companies** rose by 19% to \$773 million. Excluding currency effects of 9%, organic sales increased by 10% while the European vehicle production was flat. The increase reflects the strong demand for curtain airbags and Autoliv's market share gains in seat belts and steering wheels. Sales of the *Inflatable Curtain* were driven by several new models, such as Citroën's C4, Land Rover's Discovery, Peugeot's 407, Volvo's S40/V50 and Seat's Altea, and also by the ramp-up of Ford's C-Max, Honda's CR-V, Volkswagen's Golf, Opel's Astra, Renault's Mégane and Toyota's Corolla Verso, which all have Autoliv's side-curtain airbag as standard.

Sales from Autoliv's **North American companies** increased by 3% to \$378 million, mainly due to the introduction of head curtain airbags, market share gains in seat belts and the favorable customer mix. Sales were negatively effected by the expiration of frontal airbag contracts and by the on-going phase-out of low-margin inflators for airbag systems. These negative effects were offset by new business for the *Inflatable Curtain* (up 45%) to, for instance, the Ford Freestyle and Freestar, the Nissan Infiniti and Pathfinder, the Honda Odyssey and the Toyota Sienna. Sales were also driven by strong demand for knee airbags, partly due to the Chrysler Town & Country Caravan and the Chrysler Pacifica. A 26% growth in seat belt sales was spear-headed by a 36% increase in the pretensioner product area.

Sales from Autoliv's companies in **Japan** rose by 20% to \$122 million including currency effects of 7%. The organic growth of 13% occurred in almost all product areas. The introduction of Mazda's 3-series, Honda's CR-V and Edix and Toyota's Corolla helped Autoliv to outperform vehicle production also in Japan.

Sales from Autoliv companies in the **Rest of the World (RoW)** increased by 18% to \$109 million. Excluding currency effects and acquisitions of 5% each, organic growth amounted to 8%. The organic growth occurred in almost all product areas, and was especially strong in Korea.

Earnings

Earnings increased on all lines in the income statement and the return on shareholders' equity improved for the 15th consecutive quarter (when compared to the previous year's quarter). The return on equity rose to 11% from 9% and the return on capital employed improved to 14% from 11%.

The improvements are due to the sales performance generated by new products (e.g. the *Inflatable Curtain*), higher market shares (mainly for seat belts), growth in Asia, a favorable customer mix and currency effects. The fact that Autoliv so far has managed to cope with both pricing pressure from customers and higher raw material prices is also a result of a number of internal actions such as plant consolidations, moving production to low-cost countries, consolidation of the supplier base and re-designing of products.

Gross profit increased by 19% to \$264 million. Currency translation effects contributed 6% or \$13 million to the

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increase. Gross profit margin improved from 18.3% to 19.1%, the best margin for a third quarter since year 2000 despite higher prices for raw materials. The margin improvement was due to the strong sales performance and the cost-reduction actions.

Operating income rose by 21% to \$104 million and operating margin improved to 7.5% from 7.1%. Selling, General and Administration (S,G&A) expense as well as the expense for Research, Development and Engineering (R,D&E) rose in line with sales. Consequently, the improvement in operating margin was driven by the same components as the improvement in gross margin. The higher S,G&A expense was partly due to costs driven by the Sarbanes-Oxley Act.

Income before taxes grew by 24% to \$97 million. In addition to the better operating income, this improvement was due to a \$1 million reduction in net interest expense primarily as a result of a lower net debt.

The effective tax rate has been reduced to 29.7% from 30.8%. Previously, the effective tax rate for the full year 2004 was expected to be 31.5%, but it is now expected to be 31%. This reduction is primarily due to relatively higher income in countries with lower tax rates. In the third quarter of 2003, the tax rate expected for the full year was 32%.

Net income rose by 30% to \$67 million and earnings per share by 31% to 72 cents, respectively. Of the 17 cents improvement in earnings per share, 6 cents was due to currency exchange effects and 1 cent each to the stock repurchase program and the lower tax rate.

NINE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2003

Market Overview

During the nine-month period January through September 2004, light vehicle production in the Triad remained almost unchanged compared to the same period 2003.

In **Western Europe**, light vehicle production increased by 1%, with a favorable mix for Autoliv.

In **North America**, light vehicle production was flat. However, Asian and European vehicle manufacturers increased their North American production by 8%, while GM, Ford and Chrysler reduced their production by almost 3%. Therefore, the vehicle and customer mix was favorable for Autoliv.

In **Japan**, light vehicle production increased by 3% primarily due to a strong second quarter.

Consolidated Sales

For the first nine months, sales rose by 16% to \$4,449 million. Organic growth was 8% despite the flat vehicle production. Currency effects added 7% to Autoliv's sales and acquisitions 1%. Approximately 60% of the organic sales growth was due to higher market shares in seat belts. The second most important growth driver was the *Inflatable Curtain*. Higher market shares in steering wheels and electronics also contributed to the sales increase.

Sales of **airbag products** increased by 11% to \$2,924 million. Excluding 6% currency effect, the organic increase was 5%, which was achieved despite the fact that several low-margin contracts for airbag inflators were phased out and old frontal airbag contracts expired.

Sales of **seat belt products** rose by 27% to \$1,525 million including currency effects of 9% and acquisitions of 5%. The organic growth of 13% was mainly the result of market share gains in the Triad and increased vehicle production in Asia.

Sales from Autoliv's **European companies** rose by 20% to \$2,548 millio