

DANA INC
Form 10-Q
May 02, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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: March 31, 2019
Commission File Number: 1-1063

Dana Incorporated
(Exact name of registrant as specified in its charter)

Delaware 26-1531856
(State of incorporation) (IRS Employer Identification Number)

3939 Technology Drive, Maumee, OH 43537
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (419) 887-3000

Common stock \$0.01 par value New York Stock Exchange DAN
(Title of each class) (Name of exchange on which registered) (Trading Symbol)

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the 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 ☒ Non-accelerated filer ☐ Smaller reporting company ☐
Accelerated filer ☐ 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 Act). Yes ☐ No ☒

There were 143,912,782 shares of the registrant's common stock outstanding at April 19, 2019.

DANA INCORPORATED – FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Dana Incorporated
Consolidated Statement of Operations (Unaudited)
(In millions, except per share amounts)

	Three Months Ended March 31,	
	2019	2018
Net sales	\$2,163	\$2,138
Costs and expenses		
Cost of sales	1,863	1,831
Selling, general and administrative expenses	136	130
Amortization of intangibles	2	2
Restructuring charges, net	9	1
Other expense, net	(13))
Earnings before interest and income taxes	140	174
Interest income	2	3
Interest expense	27	24
Earnings before income taxes	115	153
Income tax expense	20	48
Equity in earnings of affiliates	6	6
Net income	101	111
Less: Noncontrolling interests net income	4	2
Less: Redeemable noncontrolling interests net income (loss)	(1)) 1
Net income attributable to the parent company	\$98	\$108
Net income per share available to common stockholders		
Basic	\$0.68	\$0.74
Diluted	\$0.68	\$0.73
Weighted-average common shares outstanding		
Basic	143.9	145.6
Diluted	144.8	147.5

The accompanying notes are an integral part of the consolidated financial statements.

Dana Incorporated
Consolidated Statement of Comprehensive Income (Unaudited)
(In millions)

	Three Months Ended March 31,	
	2019	2018
Net income	\$101	\$111
Other comprehensive income (loss), net of tax:		
Currency translation adjustments	27	10
Hedging gains and losses	5	(8)
Defined benefit plans	5	7
Other comprehensive income	37	9
Total comprehensive income	138	120
Less: Comprehensive income attributable to noncontrolling interests	(2)	(2)
Less: Comprehensive income attributable to redeemable noncontrolling interests	(4)	(2)
Comprehensive income attributable to the parent company	\$132	\$116

The accompanying notes are an integral part of the consolidated financial statements.

Dana Incorporated
Consolidated Balance Sheet (Unaudited)
(In millions, except share and per share amounts)

	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$383	\$ 510
Marketable securities	20	21
Accounts receivable		
Trade, less allowance for doubtful accounts of \$8 in 2019 and \$9 in 2018	1,416	1,065
Other	202	178
Inventories	1,282	1,031
Other current assets	140	102
Total current assets	3,443	2,907
Goodwill	456	264
Intangibles	185	164
Deferred tax assets	464	445
Other noncurrent assets	87	80
Investments in affiliates	226	208
Operating lease assets	181	
Property, plant and equipment, net	2,242	1,850
Total assets	\$7,284	\$ 5,918
Liabilities and equity		
Current liabilities		
Short-term debt	\$14	\$ 8
Current portion of long-term debt	41	20
Accounts payable	1,448	1,217
Accrued payroll and employee benefits	207	186
Taxes on income	62	47
Current portion of operating lease liabilities	39	
Other accrued liabilities	302	269
Total current liabilities	2,113	1,747
Long-term debt, less debt issuance costs of \$29 in 2019 and \$18 in 2018	2,425	1,755
Noncurrent operating lease liabilities	147	
Pension and postretirement obligations	602	561
Other noncurrent liabilities	353	313
Total liabilities	5,640	4,376
Commitments and contingencies (Note 16)		
Redeemable noncontrolling interests	105	100
Parent company stockholders' equity		
Preferred stock, 50,000,000 shares authorized, \$0.01 par value, no shares outstanding	—	—
Common stock, 450,000,000 shares authorized, \$0.01 par value, 143,901,808 and 144,663,403 shares outstanding	2	2
Additional paid-in capital	2,372	2,368
Retained earnings	538	456
Treasury stock, at cost (10,095,558 and 8,342,185 shares)	(150)	(119)

Accumulated other comprehensive loss	(1,328)	(1,362)
Total parent company stockholders' equity	1,434	1,345
Noncontrolling interests	105	97
Total equity	1,539	1,442
Total liabilities and equity	\$7,284	\$ 5,918

The accompanying notes are an integral part of the consolidated financial statements.

Dana Incorporated
Consolidated Statement of Cash Flows (Unaudited)
(In millions)

	Three Months Ended March 31, 2019 2018	
Operating activities		
Net income	\$101	\$111
Depreciation	73	64
Amortization	4	3
Amortization of deferred financing charges	1	1
Earnings of affiliates, net of dividends received	(5)	(5)
Stock compensation expense	5	4
Deferred income taxes	(14)	12
Pension contributions, net	4	
Change in working capital	(175)	(216)
Other, net	(10)	(2)
Net cash used in operating activities	(16)	(28)
Investing activities		
Purchases of property, plant and equipment	(98)	(65)
Acquisition of businesses, net of cash acquired	(606)	
Purchases of marketable securities	(5)	(17)
Proceeds from sales of marketable securities		4
Proceeds from maturities of marketable securities	6	11
Settlements of undesignated derivatives	(20)	
Other, net	(1)	
Net cash used in investing activities	(724)	(67)
Financing activities		
Net change in short-term debt	(2)	(7)
Proceeds from long-term debt	675	
Repayment of long-term debt	(9)	(1)
Deferred financing payments	(12)	
Dividends paid to common stockholders	(14)	(15)
Distributions to noncontrolling interests	(1)	(1)
Contributions from noncontrolling interests	1	
Repurchases of common stock	(25)	
Other, net	(3)	(4)
Net cash provided by (used in) financing activities	610	(28)
Net decrease in cash, cash equivalents and restricted cash	(130)	(123)
Cash, cash equivalents and restricted cash – beginning of period	520	610
Effect of exchange rate changes on cash balances	5	14
Less: Cash contributed to disposal group		(10)
Cash, cash equivalents and restricted cash – end of period (Note 6)	\$395	\$491

Non-cash investing activity

Purchases of property, plant and equipment held in accounts payable \$84 \$81

The accompanying notes are an integral part of the consolidated financial statements.

Dana Incorporated
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1. Organization and Summary of Significant Accounting Policies
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Notes to Consolidated Financial Statements (Unaudited)

(In millions, except share and per share amounts)

Note 1. Organization and Summary of Significant Accounting Policies

General

Dana Incorporated (Dana) is headquartered in Maumee, Ohio and was incorporated in Delaware in 2007. As a global provider of high technology driveline (axles, driveshafts and transmissions); sealing and thermal-management products; and motors, power inverters, and control systems for electric vehicles our customer base includes virtually every major vehicle manufacturer in the global light vehicle, medium/heavy vehicle and off-highway markets.

The terms "Dana," "we," "our" and "us," when used in this report, are references to Dana. These references include the subsidiaries of Dana unless otherwise indicated or the context requires otherwise.

Summary of significant accounting policies

Basis of presentation — Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. These statements are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the results for the interim periods. The results reported in these consolidated financial statements should not necessarily be taken as indicative of results that may be expected for the entire year. The financial information included herein should be read in conjunction with the consolidated financial statements in Item 8 of our Annual Report on Form-K for the year ended December 31, 2018 (the "2018 Form 10-K").

Recently adopted accounting pronouncements

On January 1, 2019, we adopted Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), using the modified retrospective approach and an application date of January 1, 2019. Prior period amounts have not been adjusted and continue to be reflected in accordance with our historical accounting. This transition method resulted in the recognition of a right-of-use asset and a lease liability for virtually all leases at the application date with a cumulative-effect adjustment to retained earnings. Short-term leases of less than 12 months have not been recorded on the balance sheet.

We elected the package of practical expedients, which among other things, allowed us to carry forward the historical lease classification. We did not elect the practical expedient that allowed for hindsight to determine the lease term of existing leases. We separated the lease components from the non-lease components of each lease arrangement and, therefore, did not elect the practical expedient that would enable us to not separate them.

We also adopted the following standards during the first quarter of 2019, none of which had a material impact on our financial statements or financial statement disclosures:

Standard	Effective Date
2017-11 Earnings Per Share, Distinguishing Liabilities from Equity, Derivatives and Hedging – (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception	January 1, 2019

Recently issued accounting pronouncements

In August 2018, the FASB issued ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This guidance allows for capitalization of implementation costs associated with certain cloud computing arrangements. This guidance becomes effective January 1, 2020 and early adoption is permitted. The guidance is to be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We do not expect the adoption of this guidance to impact our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans – General, Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans. The guidance eliminated certain

disclosures about defined benefit plans, added new disclosures, and clarified other requirements. This guidance becomes effective January 1, 2020 and early adoption is permitted. There were no changes to interim disclosure requirements. Adoption of this guidance will not have a material effect on our annual financial statement disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The guidance removed or modified some disclosures while others were added. The removal and amendment of certain disclosures can be adopted immediately with retrospective application. The additional disclosure guidance becomes effective January 1, 2020. Adoption of this guidance will not have a material effect on our financial statement disclosures.

In January 2017, the FASB issued ASU 2017-04, Goodwill – Simplifying the Test for Goodwill Impairment, guidance that simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 of the goodwill impairment test. The new guidance quantifies goodwill impairment as the amount by which the carrying amount of a reporting unit, including goodwill, exceeds its fair value, with the impairment loss limited to the total amount of goodwill allocated to that reporting unit. This guidance becomes effective January 1, 2020 and will be applied on a prospective basis. Early adoption is permitted for impairment tests performed after January 1, 2017. We do not expect the adoption of this guidance to impact our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Credit Losses – Measurement of Credit Losses on Financial Instruments, new guidance for the accounting for credit losses on certain financial instruments. This guidance introduces a new approach to estimating credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. This guidance, which becomes effective January 1, 2020, is not expected to have a material impact on our consolidated financial statements.

Note 2. Acquisitions

Oerlikon Drive Systems — On February 28, 2019, we acquired a 100% ownership interest in the Oerlikon Drive Systems (“ODS”) segment of the Oerlikon Group. ODS is a global manufacturer of high-precision gears, planetary hub drives for wheeled and tracked vehicles, and products, controls, and software that support vehicle electrification across the mobility industry. The acquisition of ODS is expected to deliver significant long-term value by accelerating our commitment to vehicle electrification and strengthening the technology portfolio for each of our end markets while further expanding and balancing the manufacturing presence of our off-highway business in key geographical markets. The business employs approximately 5,900 people and operates 10 manufacturing and engineering facilities in China, India, Italy, the United Kingdom, and the United States, with two additional facilities under construction in China.

We paid \$626 at closing which was funded primarily through debt proceeds. See Note 14 for additional information. The purchase consideration and related provisional allocation to the acquisition date fair values of the assets acquired and liabilities assumed are presented in the following table:

Purchase consideration paid at closing	\$626
Less purchase consideration to be recovered for indemnified matters	(4)
Total purchase consideration	\$622
Cash and cash equivalents	\$76
Accounts receivable - Trade	150
Accounts receivable - Other	15
Inventories	202
Other current assets	16
Goodwill	126
Deferred tax assets	37
Other noncurrent assets	28
Investments in affiliates	7
Property, plant and equipment	345
Current portion of long-term debt	(2)
Accounts payable	(151)
Accrued payroll and employee benefits	(33)
Other accrued liabilities	(48)
Long-term debt	(8)
Pension and postretirement obligations	(47)
Other noncurrent liabilities	(83)
Noncontrolling interests	(8)
Total purchase consideration allocation	\$622

The purchase consideration and the fair value of the assets acquired and liabilities assumed are provisional and could be revised as a result of additional information obtained regarding indemnified matters and liabilities assumed and revisions of provisional estimates of fair values, including but not limited to, the completion of independent appraisals and valuations related to intangibles and the equity method investment.

Goodwill recognized in this transaction is primarily attributable to synergies expected to arise after the acquisition and the assembled workforce and is not deductible for tax purposes. We used a replacement cost method to value fixed assets. Property, plant and equipment is being depreciated on a straight-line basis over useful lives ranging from three to twenty-five years.

The results of operations of ODS are reported in our Off-Highway and Commercial Vehicle operating segments. Transaction related expenses associated with completion of the acquisition totaling \$12 were charged to other expense, net. During the first quarter of 2019, the business contributed sales of \$75.

The following unaudited pro forma information has been prepared as if the ODS acquisition and the related debt financing had occurred on January 1, 2018.

	Three Months	
	Ended March	
	31,	
	2019	2018
Net sales	\$2,308	\$2,360
Net income	\$126	\$89

The unaudited pro forma results include adjustments primarily related to purchase accounting, interest expense related to the proceeds of debt used in connection with the acquisition of ODS, and non-recurring strategic transaction

expense. The unaudited pro forma financial information is not indicative of the operational results that would have been obtained had the transactions actually occurred as of that date, nor is it necessarily indicative of Dana's future operational results.

SME — On January 11, 2019, we acquired a 100% ownership interest in the S.M.E. S.p.A. (SME). SME designs, engineers, and manufactures low-voltage AC induction and synchronous reluctance motors, inverters, and controls for a wide range of off-highway electric vehicle applications, including material handling, agriculture, construction, and automated-guided vehicles. The addition of SME's low-voltage motors and inverters, which are primarily designed to meet the evolution of electrification in off-highway equipment, significantly expands Dana's electrified product portfolio.

We paid \$88 at closing, consisting of \$62 in cash on hand and a note payable of \$26 which allows for net settlement of potential contingencies as defined in the purchase agreement. The note is payable in five years and bears annual interest of 5%. The purchase consideration and the related provisional allocation to the acquisition date fair values of the assets acquired and liabilities assumed are presented in the following table:

Total purchase consideration	\$88
Accounts receivable - Trade	4
Accounts receivable - Other	1
Inventories	8
Goodwill	68
Intangibles	24
Other noncurrent assets	1
Property, plant and equipment	5
Short-term debt	(8)
Accounts payable	(6)
Accrued payroll and employee benefits	(1)
Other accrued liabilities	(1)
Other noncurrent liabilities	(7)
Total purchase consideration allocation	\$88

The fair value of the assets acquired and liabilities assumed are provisional and could be revised as a result of additional information obtained regarding liabilities assumed and revisions of provisional estimates of fair values including but not limited to, the completion of independent appraisals and valuations related to intangibles.

Goodwill recognized in this transaction is primarily attributable to synergies expected to arise after the acquisition and the assembled workforce and is not deductible for tax purposes. The provisional fair values assigned to intangibles include \$15 allocated to developed technology and \$9 allocated to customer relationships. We used the relief from royalty method, an income approach, to value developed technology. We used the multi-period excess earnings method, an income approach, to value customer relationships. We used a replacement cost method to value fixed assets. The developed technology and customer relationship intangible assets are being amortized on a straight-line basis over twelve and ten years, respectively, and property, plant and equipment is being depreciated on a straight-line basis over useful lives ranging from one to twenty years.

The results of operations of the business are reported in our Off-Highway operating segment from the date of acquisition. The pro forma effects of this acquisition would not materially impact our reported results for any period presented, and as a result no pro forma financial statements were presented. During the first quarter of 2019, the business contributed sales of \$6.

TM4 — On June 22, 2018, we acquired a 55% ownership interest in TM4 Inc. (TM4) from Hydro-Québec. TM4 designs and manufactures motors, power inverters, and control systems for electric vehicles, offering a complementary portfolio to Dana's electric gearboxes and thermal-management technologies for batteries, motors, and inverters. The transaction establishes Dana as the only supplier with full e-Drive design, engineering, and manufacturing capabilities – offering electro-mechanical propulsion solutions to each of its end markets. The transaction further strengthens Dana's position in China, the world's fastest-growing market for electric vehicles. TM4 owns a 50% interest in Prestolite E-Propulsion Systems Limited (PEPS), a joint venture in China with Prestolite Electric Beijing Limited, which offers electric mobility solutions throughout China and Asia. The terms of the agreement provide Hydro-Québec with the right to put all, and not less than all, of its shares in TM4 to Dana at fair value any time after June 22, 2021.

We paid \$125 at closing, using cash on hand. The purchase consideration and the related allocation to the acquisition date fair values of the assets acquired and liabilities assumed are presented in the following table:

Total purchase consideration	\$ 125
Cash and cash equivalents	\$3
Accounts receivable - Trade	3
Accounts receivable - Other	1
Inventories	4
Goodwill	148
Intangibles	24
Investments in affiliates	49
Property, plant and equipment	5
Accounts payable	(2)
Accrued payroll and employee benefits	(1)
Other accrued liabilities	(7)
Redeemable noncontrolling interest	(102)
Total purchase consideration allocation	\$ 125

Goodwill recognized in this transaction is primarily attributable to synergies expected to arise after the acquisition and the assembled workforce and is not deductible for tax purposes. The provisional fair values assigned to intangibles include \$14 allocated to developed technology and \$10 allocated to trademarks and trade names. We used the relief from royalty method, an income approach, to value developed technology and the trademarks and trade names. We used a replacement cost method to value fixed assets. We used a combination of the discounted cash flow, an income approach, and the guideline public company method, a market approach, to value the equity method investment in PEPS. The developed technology intangible assets are being amortized on a straight-line basis over ten years, and property, plant and equipment is being depreciated on a straight-line basis over useful lives ranging from five to six years. The trademarks and trade names are considered indefinite-lived intangible assets.

Dana is consolidating TM4 as the governing documents provide Dana with a controlling financial interest. The results of operations of the business are reported in our Commercial Vehicle operating segment from the date of acquisition. Transaction related expenses associated with completion of the acquisition totaling \$5 were charged to other expense, net in 2018. The pro forma effects of this acquisition would not materially impact our reported results for any period presented, and as a result no pro forma financial statements are presented. During 2018, the business contributed sales of \$11.

BFP and BPT — On February 1, 2017, we acquired 80% ownership interests in Brevini Fluid Power S.p.A. (BFP) and Brevini Power Transmission S.p.A. (BPT) from Brevini Group S.p.A. (Brevini). The acquisition expands our Off-Highway operating segment product portfolio to include technologies for tracked vehicles, doubling our addressable market for off-highway driveline systems and establishing Dana as the only off-highway solutions provider that can manage the power to both move the equipment and perform its critical work functions. This acquisition also brings a platform of technologies that can be leveraged in our light and commercial-vehicle end markets, helping to accelerate our hybridization and electrification initiatives.

We paid \$181 at closing, using cash on hand, and refinanced a significant portion of the debt assumed in the transaction during the first half of 2017. In December 2017, a purchase price reduction of \$9 was agreed under the sale and purchase agreement provisions for determination of the net indebtedness and net working capital levels of BFP and BPT as of the closing date. In connection with the acquisition of BFP and BPT, Dana agreed to purchase certain real estate being leased by BPT from a Brevini affiliate for €25. Completion of the real estate purchase and receipt of the purchase price adjustment occurred in the second quarter of 2018 with a net cash payment of \$20.

On August 8, 2018, we entered into an agreement to acquire Interfind S.p.A.'s, formerly Brevini Group S.p.A., remaining 20% ownership interests in BFP and BPT and to settle all claims between the parties. We paid \$43 to acquire Interfind S.p.A.'s remaining ownership interests and received \$10 in settlement of all pending and future claims. See Note 9 for additional information.

Note 3. Disposal Groups and Divestitures

Disposal group held for sale — In December 2017, we entered into an agreement to divest our Brazil suspension components business (the disposal group) for no consideration to an unaffiliated company. The results of operations of the Brazil suspension components business were reported within our Commercial Vehicle operating segment. To effectuate the sale, Dana was

obligated to contribute \$10 of additional cash to the business prior to closing. We classified the disposal group as held for sale at December 31, 2017, recognizing a \$27 loss to adjust the carrying value of the net assets to fair value and to recognize the liability for the additional cash required to be contributed to the business prior to closing. During the first quarter of 2018, we made the required cash contribution to the disposal group. After being unable to complete the transaction with the counterparty to the December 2017 agreement, we entered into an agreement with another third party in June 2018. The transaction with the new counterparty closed in July 2018 and we received cash proceeds of \$2. We reversed \$3 of the previously recognized \$27 pre-tax loss, inclusive of the proceeds received in July 2018, during the second quarter of 2018.

Note 4. Goodwill and Other Intangible Assets

Goodwill — The change in the carrying amount of goodwill in 2019 is due to currency fluctuation and the acquisitions of SME and ODS. See Note 2 for additional information on recent acquisitions.

Changes in the carrying amount of goodwill by segment —

	Light Vehicle	Commercial Vehicle	Off-Highway	Power Technologies	Total
Balance, December 31, 2018	\$ 3	\$ 150	\$ 105	\$ 6	\$264
Acquisitions			194		194
Currency impact		3	(5)		(2)
Balance, March 31, 2019	\$ 3	\$ 153	\$ 294	\$ 6	\$456

Components of other intangible assets —

		March 31, 2019			December 31, 2018		
	Weighted Average Useful Life (years)	Gross Carrying Amount	Accumulated Impairment and Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Impairment and Amortization	Net Carrying Amount
Amortizable intangible assets							
Core technology	9	\$121	\$ (89)	\$ 32	\$107	\$ (89)	\$ 18
Trademarks and trade names	16	16	(4)	12			