

DANA CORP  
Form 10-Q/A  
December 30, 2005

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-Q/A**  
**(Amendment No. 1)**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the Quarterly Period Ended June 30, 2005**  
**Commission File Number 1-1063**  
**Dana Corporation**

(Exact name of Registrant as Specified in its Charter)

Virginia

34-4361040

(State or other jurisdiction  
of incorporation or organization)

(IRS Employer  
Identification Number)

4500 Dorr Street, Toledo, Ohio

43615

(Address of Principal Executive Offices)

(Zip Code)

(419) 535-4500

(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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 issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 22, 2005
Common stock, \$1 par value	150,378,400

### Explanatory Note

We are filing this Amendment No. 1 on Form 10-Q/A to Dana Corporation's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005, which was originally filed with the Securities and Exchange Commission (the SEC) on July 29, 2005 (the Original Form 10-Q), to reflect the restatements of our condensed consolidated balance sheets at June 30, 2005 and December 31, 2004; our condensed consolidated statements of income for the three months and six months ended June 30, 2005 and 2004 and our condensed consolidated statements of cash flows for the six months ended June 30, 2005 and 2004; and the related notes.

We reported the decision to restate this information in a Current Report on Form 8-K which was filed with the SEC on October 14, 2005. The decision to restate was based on the findings of internal investigations conducted by Dana's management and the Audit Committee of our Board of Directors. Part I of this Form 10-Q/A contains more information about these restatements in Note 2. Restatement of Financial Statements and Financing Update, which accompanies the condensed consolidated financial statements in Item 1, and more information about the investigations in Item 4.

Although this Form 10-Q/A contains the Original Form 10-Q in its entirety, it amends and restates only Items 1, 2 and 4 of Part I and Exhibits 31-A, 31-B and 32, referred to in Item 6 of Part II of the Original Form 10-Q, in each case solely as a result of and to reflect the restatements. Also reflected in this Form 10-Q/A are the change in accounting principle discussed in Note 16 and the items described in the *Financing Update* in Note 2 to the condensed consolidated financial statements included herein. No other information in the Original Form 10-Q is amended hereby. This Form 10-Q/A has been repaginated, and references to Form 10-Q and Form 10-K have been revised to refer to Form 10-Q/A and Form 10-K/A, as applicable.

Except for the amended information referred to above, this Form 10-Q/A continues to speak as of July 29, 2005, and we have not updated or modified the disclosures herein for events that occurred at a later date. Events occurring after the date of the Original Form 10-Q, and other disclosures necessary to reflect subsequent events, have been or will be addressed in our amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004 (2004 Form 10-K/A) and our amended Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2005, which are being filed concurrently with this Form 10-Q/A; and/or in other reports filed with the SEC subsequent to the date of the Original Form 10-Q.

DANA CORPORATION  
INDEX

	<b>Page Number</b>
Cover	1
Explanatory Note	2
Index	3
Part I. Financial Information	4
Item 1. Financial Statements – Restated (Unaudited)	4
Condensed Consolidated Balance Sheet – June 30, 2005 and December 31, 2004	4
Condensed Consolidated Statement of Income – Three Months and Six Months Ended June 30, 2005 and 2004	5
Condensed Consolidated Statement of Cash Flows – Six Months Ended June 30, 2005 and 2004	6
Notes to Condensed Consolidated Financial Statements	7-23
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	24-37
Item 3. Quantitative and Qualitative Disclosures About Market Risk	38
Item 4. Controls and Procedures	38-39
Part II. Other Information	39
Item 1. Legal Proceedings	39
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 6. Exhibits	39
Signature	40
Exhibit Index	41
Exhibits	42-45

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****DANA CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)****(in millions)**

	<b>June 30, 2005</b>		December 31, 2004
	<b>Restated</b>		<b>See Note 2</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 666	\$	634
Accounts receivable			
Trade	1,460		1,254
Other	284		437
Inventories			
Raw materials	355		414
Work in process and finished goods	542		484
Other current assets	383		200
Total current assets	3,690		3,423
Property, plant and equipment, net	2,007		2,171
Investments in leases	246		281
Investments and other assets	3,078		3,144
Total assets	\$ 9,021	\$	9,019
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Notes payable, including current portion of long-term debt	\$ 2,177	\$	155
Accounts payable	1,376		1,330
Other current liabilities	1,155		1,188
Total current liabilities	4,708		2,673
Long-term debt	211		2,054
Deferred employee benefits and other noncurrent liabilities	1,677		1,759
Minority interest in consolidated subsidiaries	130		122
Shareholders' equity	2,295		2,411
Total liabilities and shareholders' equity	\$ 9,021	\$	9,019

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

**DANA CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)**  
(in millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	Restated	See Note 2	Restated	See Note 2
<b>Net sales</b>	\$ 2,625	\$ 2,330	\$ 5,109	\$ 4,641
Revenue from lease financing and other income	22	21	56	35
	<b>2,647</b>	2,351	<b>5,165</b>	4,676
<b>Costs and expenses</b>				
Cost of sales	2,445	2,113	4,782	4,222
Selling, general and administrative expenses	139	123	277	254
Interest expense	41	52	83	104
	<b>2,625</b>	2,288	<b>5,142</b>	4,580
Income before income taxes	22	63	23	96
Income tax benefit (expense)	(1)	(2)	4	2
Minority interest	(3)	(3)	(6)	(6)
Equity in earnings of affiliates	12	4	21	20
Income from continuing operations	30	62	42	112
Income from discontinued operations, net of tax		38		46
Income before effect of change in accounting	30	100	42	158
Effect of change in accounting See Note 16			4	
<b>Net Income</b>	\$ 30	\$ 100	\$ 46	\$ 158
<b>Basic earnings per common share</b>				
Income from continuing operations	\$ 0.20	\$ 0.42	\$ 0.28	\$ 0.75
Income from discontinued operations		0.25		0.31
Effect of change in accounting			0.03	
Net income	\$ 0.20	\$ 0.67	\$ 0.31	\$ 1.06
<b>Diluted earnings per common share</b>				
Income from continuing operations	\$ 0.20	\$ 0.41	\$ 0.28	\$ 0.74
Income from discontinued operations		0.25		0.31
Effect of change in accounting			0.02	
Net income	\$ 0.20	\$ 0.66	\$ 0.30	\$ 1.05

<b>Cash dividends declared and paid per common share</b>	<b>\$ 0.12</b>	\$ 0.12	<b>\$ 0.24</b>	\$ 0.24
<b>Average shares outstanding Basic</b>	<b>150</b>	149	<b>150</b>	148
<b>Average shares outstanding Diluted</b>	<b>151</b>	151	<b>151</b>	150

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

**DANA CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)**  
(in millions)

	Six Months Ended June 30,	
	2005	2004
	Restated - See Note 2	
Net income	\$ 46	\$ 158
Depreciation and amortization	163	183
Gain on divestitures and asset sales	(5)	(25)
Working capital increase	(219)	(129)
Deferred taxes	(35)	(41)
Other	(99)	(93)
Net cash flows operating activities	(149)	53
Purchases of property, plant and equipment	(124)	(141)
Asset sales	137	152
Payments received from partnerships	38	16
Other	(11)	(47)
Net cash flows investing activities	40	(20)
Net change in short-term debt	225	153
Payments on long-term debt	(45)	(304)
Proceeds from long-term debt		5
Dividends paid	(36)	(36)
Other	(3)	13
Net cash flows financing activities	141	(169)
Net change in cash and cash equivalents	32	(136)
Net change in cash discontinued operations		2
Cash and cash equivalents beginning of period	634	731
Cash and cash equivalents end of period	\$ 666	\$ 597

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



**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**(in millions, except per share amounts)**

**Note 1. Basis of Presentation**

In our opinion, the accompanying condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of financial condition, results of operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of full-year results. We have reclassified certain amounts in 2004 to conform to the 2005 presentation. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2004 Form 10-K/A .

As indicated in the Original Form 10-Q, the results of operations for the three months and six months ended June 30, 2004, were restated, as required, in connection with the adoption in the third quarter of 2004 of Staff Position FAS No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The adoption resulted in a \$68 decrease in our accumulated postretirement benefit obligation and a corresponding actuarial gain, which we deferred in accordance with our accounting policy related to postretirement benefit plans. Amortization of the actuarial gain, along with a reduction in service and interest costs, increased net income for the three months and six months ended June 30, 2004 by \$2 and \$4, respectively, and diluted earnings per share by \$0.01 and \$0.02, respectively.

**Note 2. Restatement of Financial Statements and Financing Update**

In the second quarter of 2005, senior management at our corporate office identified an unsupported asset sale transaction in our Commercial Vehicle business unit and recorded the necessary adjustments to correct for the accounting related to this matter before the accounting and reporting was completed for the quarter. During the third quarter, management initiated an investigation into the matter, found other incorrect accounting entries related to a customer agreement within the same business unit, and informed the Audit Committee of the Board of Directors of its findings. In September 2005, the Audit Committee engaged outside counsel to conduct an independent investigation of the situation. The independent investigation included interviews with nearly one hundred present and former employees with operational and financial management responsibilities for each of the company's business units. The investigations also included a review and assessment of accounting transactions identified through the interviews noted above, and through other work performed by the company and the independent investigators engaged by the Audit Committee. The independent investigators also reviewed and assessed certain items identified as part of the annual audit performed by our independent public registered accounting firm. In announcements during October and November 2005, we reported on the preliminary findings of the ongoing management and Audit Committee investigations, including the determination that we would restate our consolidated financial statements for the first and second quarters of 2005 and for years 2002 through 2004.

Summarized below are other restatement effects that are unrelated to the above investigations. The years prior to 2004 required restatement as a result of amounts that were recorded in 2004 that were attributable to earlier periods. Other restatement effects in the following table also include differences that were identified during audits of the company and stand alone audits of businesses to be sold. We had determined that these items were individually and in the aggregate immaterial to the financial statements. In conjunction with the restatements, we corrected these items by recording them in the periods to which they were attributable. These other restatement items affected the timing of reported income, but, since they had previously been recorded, did not significantly affect the cumulative income over the periods restated.

As a result of the restatement, originally reported net income was reduced by \$21 (\$.14 per share) and \$23 (\$.16 per share) for the three and six months ended June 30, 2005 respectively. Net income for the three and six months ended June 30, 2004, were reduced by \$10 (\$.07 per share) and \$17 (\$.11 per share), respectively.

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The following table reconciles the net income and earnings per share as originally reported to amounts as restated for the applicable periods.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
	Amount	EPS	Amount	EPS
Net income, as originally reported	\$51	\$0.34	\$110	\$0.73
Accounting corrections relating to 2005 investigation, before tax:				
Customer pricing (1)				
(11) (0.07) (1) (0.01) (14) (0.09) (1) (0.01)				
Cost deferrals (2)				
(6) (0.04) (9) (0.06)				
Payments from suppliers (3)				
1 0.01 (3) (0.02) (1) (0.01) (5) (0.03)				
Supplier pricing and charges (4)				
(2) (0.01) (1) (4) (0.03) (1) (0.01)				
Steel surcharges (5)				
(4) (0.03) (7) (0.05)				
Other, net				
(4) (0.03) (1) (0.01) (5) (0.03) (2) (0.01)				
			(26) (0.17) (6) (0.04) (40) (0.27) (9) (0.06)	
Income tax effects on the above				
9 0.06 3 0.02 14 0.09 4 0.03				
			(17) (0.11) (3) (0.02) (26) (0.18) (5) (0.03)	
Other restatement items, before tax:				
Interest expense (6)				
(1) (0.01) (2) (0.01)				
Inventory reserves (7)				
(9) (0.06) (9) (0.06)				
Insurance recoveries (8)				
2 0.01 3 0.02				
Other, net				
3 0.02 (5) (0.03)				
			(8) (0.06) 3 0.02 (13) (0.08)	
Income tax effects on the above				
3 0.02 5 0.03				
Income tax effects (9)				
(2) (0.01) (4) (0.03)				
			(7) (0.05) 3 0.02 (12) (0.08)	
Warranty expenses, after-tax (10)				
(4) (0.03)				

Net income, as restated

\$30 \$0.20 \$100 \$0.66 \$46 \$0.30 \$158 \$1.05

- (1) Primarily, the company inappropriately recognized revenue during the period based on an oral agreement with a customer. This adjustment reverses that revenue and reflects revenue in accordance with contractual terms and company performance. The impact was to reduce net income by \$7 and \$8 and earnings per share by \$.05 and \$.06 for the three and six months ended June 30, 2005, respectively.
- (2) The company inappropriately capitalized cost overruns at certain plants in anticipation of recovery from customers or suppliers. However, these claims were not supported by contractual arrangements so this adjustment expenses the costs in the

period incurred.  
The impact was to reduce net income by \$4 and \$5 and earnings per share by \$.03 and \$.03 for the three and six months ended June 30, 2005, respectively.

- (3) In 2004, primarily, the company recorded income for cash received on asset sales before the title to the assets transferred and did not defer a portion of the revenue for other asset sales with a leaseback. This adjustment defers gain recognition until the asset is transferred and defers income for the related leaseback of an asset over the life of the lease.
- (4) This adjustment increases cost of sales to accrue our liability for contractual obligations to suppliers which were not previously recorded.



The following is a comparison of the restated condensed consolidated balance sheet, statement of income, and statement of cash flows in this Form 10-Q/A with the corresponding information in the Original Form 10-Q.

**CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)**

(in millions)

	June 30, 2005		December 31, 2004	
	As Originally Reported	As Restated	As Originally Reported	As Restated
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 666	\$ 666	\$ 634	\$ 634
Accounts receivable				
Trade	1,478	1,460	1,266	1,254
Other	295	284	444	437
Inventories				
Raw materials	360	355	416	414
Work in process and finished goods	560	542	491	484
Other current assets	276	383	217	200
Total current assets	3,635	3,690	3,468	3,423
Property, plant and equipment, net	1,998	2,007	2,153	2,171
Investments in leases	246	246	281	281
Investments and other assets	3,037	3,078	3,145	3,144
Total assets	\$8,916	\$9,021	\$9,047	\$9,019
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities				
Notes payable, including current portion of long-term debt	\$ 409	\$2,177	\$ 155	\$ 155
Accounts payable	1,356	1,376	1,317	1,330
Other current liabilities	1,006	1,155	1,217	1,188
Total current liabilities	2,771	4,708	2,689	2,673
Long-term debt	1,979	211	2,054	2,054
Deferred employee benefits and other noncurrent liabilities	1,677	1,677	1,746	1,759
Minority interest in consolidated subsidiaries	131	130	123	122
Shareholders' equity	2,358	2,295	2,435	2,411
Total liabilities and shareholders' equity	\$8,916	\$9,021	\$9,047	\$9,019

**CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)**  
**(in millions, except per share amounts)**

	Three Months Ended June 30, 2005		Six Months Ended June 30, 2005	
	As Originally Reported	As Restated	As Originally Reported	As Restated
<b>Net sales</b>	<b>\$ 2,632</b>	\$ 2,625	<b>\$ 5,120</b>	\$ 5,109
Revenue from lease financing and other income	25	22	57	56
	<b>2,657</b>	2,647	<b>5,177</b>	5,165
Costs and expenses				
Cost of sales	<b>2,428</b>	2,445	<b>4,753</b>	4,782
Selling, general and administrative expenses	<b>136</b>	139	<b>274</b>	277
Interest expense	<b>40</b>	41	<b>83</b>	83
	<b>2,604</b>	2,625	<b>5,110</b>	5,142
Income before income taxes	<b>53</b>	22	<b>67</b>	23
Income tax benefit (expense)	<b>(10)</b>	(1)	<b>(10)</b>	4
Minority interest	<b>(3)</b>	(3)	<b>(6)</b>	(6)
Equity in earnings of affiliates	<b>11</b>	12	<b>18</b>	21
Income before effect of change in accounting	<b>51</b>	30	<b>69</b>	42
Effect of change in accounting				4
<b>Net income</b>	<b>\$ 51</b>	\$ 30	<b>\$ 69</b>	\$ 46
<b>Basic earnings per common share</b>				
Income from continuing operations	<b>\$ 0.34</b>	\$ 0.20	<b>\$ 0.46</b>	\$ 0.28
Effect of change in accounting				0.03
Net income	<b>\$ 0.34</b>	\$ 0.20	<b>\$ 0.46</b>	\$ 0.31
<b>Diluted earnings per common share</b>				
Income from continuing operations	<b>\$ 0.34</b>	\$ 0.20	<b>\$ 0.46</b>	\$ 0.28
Effect of change in accounting				0.02
Net income	<b>\$ 0.34</b>	\$ 0.20	<b>\$ 0.46</b>	\$ 0.30
<b>Cash dividends declared and paid per common share</b>	<b>\$ 0.12</b>	\$ 0.12	<b>\$ 0.24</b>	\$ 0.24

<b>Average shares outstanding</b>	<b>Basic</b>	<b>150</b>	150	<b>150</b>	150
<b>Average shares outstanding</b>	<b>Diluted</b>	<b>151</b>	151	<b>151</b>	151



**CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)**  
**(in millions, except per share amounts)**

	<b>Three Months Ended June 30, 2004</b>		<b>Six Months Ended June 30, 2004</b>	
	<b>As Originally Reported</b>	<b>As Restated</b>	<b>As Originally Reported</b>	<b>As Restated</b>
<b>Net sales</b>	<b>\$ 2,331</b>	<b>\$ 2,330</b>	<b>\$ 4,642</b>	<b>\$ 4,641</b>
Revenue from lease financing and other income	25	21	39	35
	2,356	2,351	4,681	4,676
<b>Costs and expenses</b>				
Cost of sales	2,101	2,113	4,206	4,222
Selling, general and administrative expenses	124	123	258	254
Interest expense	51	52	102	104
	2,276	2,288	4,566	4,580
Income before income taxes	80	63	115	96
Income tax expense	(6)	(2)	(3)	2
Minority interest	(3)	(3)	(6)	(6)
Equity in earnings of affiliates	4	4	21	20
Income from continuing operations	75	62	127	112
Income from discontinued operations, net of tax	35	38	48	46
<b>Net income</b>	<b>\$ 110</b>	<b>\$ 100</b>	<b>\$ 175</b>	<b>\$ 158</b>
<b>Basic earnings per common share</b>				
Income from continuing operations	\$ 0.51	\$ 0.42	\$ 0.86	\$ 0.75
Income from discontinued operations	0.23	0.25	0.32	0.31
Net income	\$ 0.74	\$ 0.67	\$ 1.18	\$ 1.06
<b>Diluted earnings per common share</b>				
Income from continuing operations	\$ 0.50	\$ 0.41	\$ 0.84	\$ 0.74
Income from discontinued operations	0.23	0.25	0.32	0.31
Net income	\$ 0.73	\$ 0.66	\$ 1.16	\$ 1.05
<b>Cash dividends declared and paid per common share</b>	<b>\$ 0.12</b>	<b>\$ 0.12</b>	<b>\$ 0.24</b>	<b>\$ 0.24</b>

<b>Average shares outstanding</b>	<b>Basic</b>	149	149	148	148
<b>Average shares outstanding</b>	<b>Diluted</b>	151	151	150	150

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)**  
**(in millions)**

	Six Months Ended June 30, 2005		Six Months Ended June 30, 2004	
	As Originally Reported	As Restated	As Originally Reported	As Restated
Cash and cash equivalents beginning of period	\$ 634	\$ 634	\$ 731	\$ 731
Net cash flows operating activities	(167)	(149)	55	53
Net cash flows investing activities	58	40	(19)	(20)
Net cash flows financing activities	141	141	(172)	(169)
Net change in cash and cash equivalents	32	32	(136)	(136)
Net change in cash of discontinued operations			2	2
Cash and cash equivalents end of period	\$ 666	\$ 666	\$ 597	\$ 597

The notes accompanying these condensed consolidated financial statements have been revised to reflect the impact of the restatements described in this Note 2.

*Financing Update* As a result of our announcement that we would restate our financial statements, the trustee under our December 1997 Indenture and under our 2004 Indenture notified us on November 4, 2005, that defaults had occurred due to our failure to prepare financial statements for the first and second quarters of 2005 and the year 2004 in accordance with generally accepted accounting principles. We have cured those defaults with the filing of the 2004 Form 10-K/A and the concurrent filing of our Forms 10-Q/A for the first and second quarters of 2005.

By a notice dated November 25, 2005, an agent for the holders of at least 25% in the aggregate of outstanding notes issued under our 1997 Indenture, notified us that the agent deems our failure to timely file and deliver our Form 10-Q for the quarterly period ended September 30, 2005 (the Third Quarter Report) to be a default and asked us to remedy the default. Subsequently, by notices dated December 1, 2005, the trustee under our 1997 and 2004 Indentures notified us that defaults had occurred due to our failure to timely file and deliver the Third Quarter Report and asked us to remedy the defaults. We expect to file and deliver the Third Quarter Report within the 60-day cure periods provided in the 1997 and 2004 Indentures.

The lenders under our five-year bank facility have waived any default arising from the delayed delivery of our Third Quarter Report. This waiver will expire 56 days following our receipt of the above-described default notices from the trustee under the 1997 and 2004 Indentures, unless we file the Third Quarter Report and deliver a copy to the trustee within this period.

Failure to file the Third Quarter Report within the cure period provided under our 1997 and 2004 indentures would constitute an event of default under those indentures and under the bank facility. In such event, the trustee or the holders of 25% or more of the outstanding notes under the 1997 and 2004 Indentures would have the right to accelerate the maturity of those notes. In addition, the agent under the bank facility, at the request or with the consent of the lenders holding more than 50% of the amounts drawn, could declare the total amount drawn to be immediately payable.

During the third quarter of 2005, we determined that it was unlikely that we would be able to comply with the financial covenants in our bank facility, as amended in June 2005, and in the fourth quarter of 2005 we obtained waivers of these financial covenants extending through May 31, 2006. Since non-compliance would trigger cross-acceleration provisions in some of our indenture agreements, under the accounting requirements for debt classification, beginning with the filing of the Form 10-Q/A for the period ended June 30, 2005, we have reclassified \$1,768 of our long-term debt that is subject to cross-acceleration as debt payable within one year.

We expect to file and deliver the Third Quarter Report within the applicable cure period and we are in discussions with our bank group about modifications to our bank facility or a successor facility. However, there can be no assurance of the outcome of these matters. If we do not file the Third Quarter Report as anticipated or amend or replace our bank facility as contemplated, and if our lenders were to exercise their rights, we would experience liquidity problems which would have a material adverse effect on the company, unless we obtained additional waivers, forbearance or restructuring of our debt or unless we refinance our debt.

**Note 3. New Accounting Pronouncements**

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces Accounting Principles Board Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and requires the direct effects of accounting principle changes to be retrospectively applied. The existing guidance with respect to accounting estimate changes and corrections of errors is carried forward in SFAS No. 154. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not expect the adoption of SFAS No. 154 to have a material effect on our financial statements.

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment. SFAS No. 123(R) requires recognition of the cost of employee services provided in exchange for stock options and similar equity instruments based on the fair value of the instrument at the date of grant. The effective date for this guidance has been delayed for public companies until January 1, 2006. Accordingly, we will begin recognizing compensation expense related to stock options in the first quarter of 2006. The requirements of SFAS No. 123(R) will be applied to stock options granted subsequent to December 31, 2005 as well as the unvested portion of prior grants.

The amount of expense will be affected by the valuation method (see Note 5), the volume of grants and exercises, forfeitures, our dividend rate and the volatility of our stock price. However, the impact of adopting SFAS No. 123(R) on our 2006 earnings is not expected to be significantly different from the pro forma expense included in our 2004 Form 10-K/A.

**Note 4. Common Shares**

The following table reconciles our average shares outstanding for purposes of calculating basic and diluted net income per share:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Average shares outstanding for the period    basic	<b>149.5</b>	148.6	<b>149.5</b>	148.5
Plus: Incremental shares from:				
Deferred compensation units	<b>0.7</b>	0.5	<b>0.6</b>	0.3
Restricted stock	<b>0.2</b>	0.3	<b>0.3</b>	0.3
Stock options	<b>0.4</b>	1.2	<b>0.5</b>	1.3
Potentially dilutive shares	<b>1.3</b>	2.0	<b>1.4</b>	1.9
Average shares outstanding for the period    diluted	<b>150.8</b>	150.6	<b>150.9</b>	150.4

**Note 5. Equity-Based Compensation**

In accordance with our accounting policy for stock-based compensation, we have not recognized any expense relating to our stock options. If we had used the fair value method of accounting, the alternative policy set out in SFAS No. 123, Accounting for Stock-Based Compensation, the after-tax expense relating to our stock options would have been \$4 and \$7, respectively, for the three months and six months ended June 30 of both 2005 and 2004.

During the quarter ended March 31, 2005, we changed the method used to value stock options grants from the Black-Scholes method to a binomial method. The new method is being applied to stock options granted after December 31, 2004. The fair value of prior grants determined using the Black-Scholes method has been retained for those grants. Because the binomial method considers the possibility of early exercises of options, our historical exercise and termination experience, we believe it provides a fair value that is more representative of our experience.

The weighted-average fair value of the 2,318,570 options granted in the first half of 2005 was \$4.05 per share under the binomial method, using a weighted-average market value at date of grant of \$14.94 and the following weighted-average assumptions: risk-free interest rate of 3.91%, a dividend yield of 2.68%, volatility of 30.71% to 31.5%, expected forfeitures of 17.3% and an expected life of 6.8 years.

The following table presents stock compensation expense currently included in our financial statements related to restricted stock, restricted stock units, performance shares and stock awards, as well as the pro forma information showing results as if stock option expense had been recorded under the fair value method.

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
Stock compensation expense, as reported	\$ <b>1</b>	\$ 1	\$ <b>2</b>	\$ 1
Stock option expense, pro forma	<b>3</b>	4	<b>6</b>	7
Stock compensation expense, pro forma	\$ <b>4</b>	\$ 5	\$ <b>8</b>	\$ 8
Net income, as reported	\$ <b>30</b>	\$ 100	\$ <b>46</b>	\$ 158
Net income, pro forma	<b>27</b>	96	<b>40</b>	151

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Basic earnings per share				
Net income, as reported	\$ 0.20	\$ 0.67	\$ 0.31	\$ 1.06
Net income, pro forma	0.18	0.65	0.27	1.02
Diluted earnings per share				
Net income, as reported	\$ 0.20	\$ 0.66	\$ 0.30	\$ 1.05
Net income, pro forma	0.18	0.64	0.27	1.00

13

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**Note 6. Pension and Other Postretirement Benefits**

As discussed in Note 1, the results of operations for the three months and six months ended June 30, 2004 were restated in connection with the adoption of Staff Position FAS No. 106-2 in the third quarter of 2004. The components of net periodic benefit costs for the three months and six months ended June 30, 2004 in the Other Benefits table below reflect these adjustments.

	<b>Pension Benefits</b>			
	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Service cost	\$ 13	\$ 15	\$ 26	\$ 30
Interest cost	40	44	80	88
Expected return on plan assets	(52)	(54)	(104)	(108)
Amortization of prior service cost	1	2	2	4
Recognized net actuarial loss	6	4	12	8
Net periodic benefit cost	\$ 8	\$ 11	\$ 16	\$ 22

	<b>Other Benefits</b>			
	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Service cost	\$ 3	\$ 3	\$ 6	\$ 6
Interest cost	25	27	50	54
Amortization of prior service cost	(3)	(3)	(6)	(6)
Recognized net actuarial loss	9	9	18	18
Net periodic benefit cost	\$ 34	\$ 36	\$ 68	\$ 72

We made \$25 in pension contributions to our defined benefit pension plans during the six months ended June 30, 2005 and expect to contribute approximately \$55 during the last six months of the year.

**Note 7. Comprehensive Income**

Comprehensive income includes net income and components of other comprehensive income, such as foreign currency translation and minimum pension liability adjustments that are charged or credited directly to shareholders equity.

Our total comprehensive income (loss) for the three months and six months ended June 30, 2005 and 2004 was as follows:

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
Net income	\$ 30	\$ 100	\$ 46	\$ 158
Other comprehensive income (loss):				
Deferred translation loss	(58)	(53)	(118)	(54)
Other	1	(1)	5	(2)
Total comprehensive income (loss)	\$ (27)	\$ 46	\$ (67)	\$ 102

The deferred translation loss reported for the three months ended June 30, 2005 of \$58 resulted primarily from a weaker euro (\$57), British pound (\$10) and Swedish krona (\$7), relative to the U.S. dollar, offset in part by the effect of a stronger Brazilian real (\$31). The same currencies were primarily responsible for the \$118 deferred loss for the six months ended June 30, 2005. The euro (\$97), British pound (\$49), Swedish krona (\$12) and the Canadian dollar (\$9) all weakened relative to the U.S. dollar. These effects were partially offset by the impact of a stronger Brazilian real (\$30).

The deferred translation loss reported for the three months ended June 30, 2004 was \$53. The euro (\$15), the Brazilian real (\$11) and the Australian dollar (\$11) accounted for the largest components of the quarterly change. The same currencies generated nearly all of the deferred loss for the six months ended June 30, 2004, as the effects related to the euro (\$29), the Brazilian real (\$13) and the Australian dollar (\$9) combined for \$51 of the \$54 change.



**Note 8. Income Taxes**

The effective tax rates for the three-month and six-month periods ended June 30, 2005 and 2004 were affected primarily by our profit mix, which included losses in the United States, and adjustments to the valuation allowance provided against deferred tax assets related to tax loss carryforwards. The June 30, 2005 enactment of new tax legislation in Ohio, which provides for the replacement of the state's current income-based system with a new gross receipts-based system, adversely affected our effective tax rate for the three months ended June 30, 2005.

We recognized tax expense of \$1 on pre-tax profit of \$22 for the three months ended June 30, 2005, which differs from the expected expense of \$8 at a U.S. federal statutory tax rate of 35%. The primary reason for this difference was a \$15 reduction in our valuation allowance against deferred tax assets related to the capital loss carryforward. During the second quarter, the completion of transactions generating capital gains permitted us to reduce the valuation allowance against the carryforward. The impact of state tax benefits on losses in the United States, combined with the effect of our international operations (which in the aggregate have a lower tax rate than the U.S. operations), reduced tax expense by \$4. Increasing tax expense by \$11 in the quarter was the reduction in deferred tax assets resulting from enactment of the Ohio tax legislation noted previously and discussed in detail in the following paragraph.

The new Ohio tax legislation phases out the current income-based tax and phases in a gross receipts-based tax over a period of five years. Applying this new approach, we determined that certain deferred tax assets related to our Ohio tax loss carryforwards would not be realized during the corresponding phase-out of the current income-based tax. The elimination of these deferred tax assets, net of the federal tax benefit, increased tax expense by \$11 in the three months ended June 30, 2005. The legislation generally provides for the deferred tax assets eliminated due to the phase-out of the income-based tax to be recoverable as credits against taxes due under the new gross receipts-based tax. Taxes based on gross receipts, which are not subject to the same accounting rules that apply to income taxes, are recorded at their present value in selling, general and administrative expenses. The \$9 discounted value (using a discount rate of 4%) of the amount we expect to recover as a credit under this provision was recognized as an asset at June 30, 2005. The corresponding credit to selling, general and administrative expense, net of federal tax, increased net income by \$6. Combined with the \$11 write-off of deferred tax assets, the net impact of the legislation was a \$5 reduction in net income in the second quarter of 2005.

For the six months ended June 30, 2005, tax benefit of \$4 on pre-tax income of \$23 differed from the amount derived by applying a 35% U.S. federal statutory tax rate by \$12. A primary factor in the reduced expense was the above-mentioned \$15 adjustment to the valuation allowance against the capital loss carryforward in the second quarter. Lower rates on income from international operations and the state tax effects of losses in the U.S. provided an additional \$11 reduction to tax expense. These two factors were partially offset by the \$11 charge related to enactment of the new tax legislation in Ohio.

The \$2 of income tax expense recognized on pre-tax income of \$63 for the three months ended June 30, 2004 differs significantly from an expected expense provision of \$22 at a U.S. federal statutory tax rate of 35%. The primary reason for this difference was our determination that it was more likely than not that a portion of our capital loss carryforward would be utilized in connection with certain future sales of Dana Credit Corporation (DCC) assets, which enabled us to reduce our valuation allowance against deferred tax assets by \$18. To the extent that asset sales or other transactional activities result in capital gains, the tax liability on the capital gains is offset by the release of a portion of the valuation allowance recorded against the deferred tax asset related to our existing capital loss carryforward. Any tax benefit recognized on this basis is limited to the lower of the expected overall net gain on the transaction or the expected amount of capital loss carryforward valuation allowances to be released in connection with the transaction. The release of the valuation allowance is recognized when sales of assets or other capital gain transactions are determined to be more likely than not to occur. The tax benefits recognized during the three months ended June 30, 2004 on DCC asset sales resulted primarily from applying this accounting treatment to these transactions, which we assessed as more likely than not to be completed. We also benefited from our forecasted utilization of net operating loss carryforwards in certain non-U.S. jurisdictions. For the six months ended June 30, 2004, a \$28 reduction in the valuation allowance related to the capital loss carryforward was the primary reason that we recorded a tax benefit of \$2 versus an expected provision of \$34 derived by applying the 35% U.S. federal statutory tax rate.

Our income from discontinued operations for the three months and six months ended June 30, 2004 included an anticipated \$20 tax benefit related to the divestiture of substantially all of our automotive aftermarket businesses, which closed in November 2004. At June 30, 2004, we initially determined based on the expected outcome of the sale of these businesses that utilization of the capital loss carryforward, was more likely than not and, as such, we released \$20 of the valuation allowance.

Deferred tax assets at June 30, 2005, net of valuation allowances, approximated \$1,065, including \$905 of U.S. federal and state deferred income taxes. We evaluate the carrying value of deferred tax assets quarterly. Excluding the capital loss carryforward, the most significant portion of our deferred tax assets relates to the tax benefits recorded for U.S.-based other post-employment employee benefits (OPEB) and net operating loss (NOL) carryforwards in the U.S. Although full realization of our deferred tax assets is not assured, based on our current evaluation, we believe that realization is more likely than not achievable through a combination of improved operating results and changes in our business operating model. Failure to achieve expected profitability results in 2005 and beyond in the U.S. may change our assessment regarding the recoverability of these deferred U.S. tax assets and could result in a valuation allowance against such assets.

**Note 9. Business Segments**

Our segments for the three months and six months ended June 30, 2005 consisted of our two manufacturing business units – the Automotive Systems Group (ASG) and the Heavy Vehicle Technologies and Systems Group (HVTSG) – and Dana Credit Corporation (DCC).

Management evaluates the operating segments and geographic regions as if DCC were accounted for on the equity method of accounting rather than on the fully consolidated basis used for external reporting. This is done because DCC is not homogeneous with our manufacturing operations, its financing activities do not support the sales of our other operating segments and its financial and performance measures are inconsistent with those of our other operating segments. Moreover, the financial covenants contained in Dana's five-year revolving credit facility are measured with DCC accounted for on an equity basis.

We have been divesting DCC's businesses and assets in accordance with plans announced in October 2001 and these activities continued during the second quarter of 2005. As a result of asset sales and the continuing collection of payments, DCC's total portfolio assets were reduced by \$115 during the quarter, leaving assets of approximately \$640 at June 30, 2005. While we are continuing to pursue the sale of the remaining DCC assets, we expect to retain certain assets for varying periods of time because tax attributes and/or market conditions make disposal uneconomical at this time. As of June 30, 2005, our expectation was that we would retain approximately \$325 of the \$640 of DCC assets held at that date; however, changes in market conditions may result in a change in our expectation. DCC's retained liabilities include certain asset-specific financing and general obligations that are uneconomical to pay off in advance of their scheduled maturities. We expect that the cash flow generated from DCC assets, including proceeds from asset sales, will be sufficient to service DCC's debt.

Information used to evaluate the segments and geographic regions is as follows:

		<b>Three Months Ended June 30,</b>				
		<b>External Sales (Restated)</b>	<b>Inter- Segment Sales (Restated)</b>	<b>EBIT (Restated)</b>	<b>Operating PAT (Restated)</b>	<b>Net Profit (Loss) (Restated)</b>
<b>2005</b>						
ASG		\$ 1,912	\$ 34	\$ 80	\$ 58	\$ 22
HVTSG		706	1	33	21	5
DCC					2	2
Other		7	16	(60)	(50)	2
<b>Total operations</b>		<b>2,625</b>	<b>51</b>	<b>53</b>	<b>31</b>	<b>31</b>
<b>Unusual items excluded from performance measures</b>				<b>9</b>	<b>(1)</b>	<b>(1)</b>
<b>Consolidated</b>		<b>\$ 2,625</b>	<b>\$ 51</b>	<b>\$ 62</b>	<b>\$ 30</b>	<b>\$ 30</b>
<b>North America</b>		<b>\$ 1,629</b>	<b>\$ 30</b>	<b>\$ 3</b>	<b>\$ 3</b>	<b>\$ (24)</b>
<b>Europe</b>		<b>539</b>	<b>26</b>	<b>51</b>	<b>36</b>	<b>27</b>
<b>South America</b>		<b>245</b>	<b>66</b>	<b>32</b>	<b>20</b>	<b>16</b>
<b>Asia Pacific</b>		<b>212</b>	<b>11</b>	<b>21</b>	<b>13</b>	<b>9</b>
<b>DCC</b>					<b>2</b>	<b>2</b>
<b>Other</b>				<b>(54)</b>	<b>(43)</b>	<b>1</b>
<b>Total operations</b>		<b>2,625</b>	<b>133</b>	<b>53</b>	<b>31</b>	<b>31</b>
<b>Unusual items excluded from performance measures</b>				<b>9</b>	<b>(1)</b>	<b>(1)</b>
<b>Consolidated</b>		<b>\$ 2,625</b>	<b>\$ 133</b>	<b>\$ 62</b>	<b>\$ 30</b>	<b>\$ 30</b>
<b>2004</b>						
ASG		\$ 1,720	\$ 47	\$ 105	\$ 70	\$ 38
HVTSG		587	1	47	29	15
DCC					5	5
Other		23	16	(54)	(58)	(12)
<b>Total continuing operations</b>		<b>2,330</b>	<b>64</b>	<b>98</b>	<b>46</b>	<b>46</b>
<b>Discontinued operations</b>				<b>36</b>	<b>21</b>	<b>21</b>
<b>Total operations</b>		<b>2,330</b>	<b>64</b>	<b>134</b>	<b>67</b>	<b>67</b>
<b>Unusual items excluded from performance measures</b>				<b>(8)</b>	<b>33</b>	<b>33</b>
<b>Consolidated</b>		<b>\$ 2,330</b>	<b>\$ 64</b>	<b>\$ 126</b>	<b>\$ 100</b>	<b>\$ 100</b>
<b>North America</b>		<b>\$ 1,577</b>	<b>\$ 30</b>	<b>\$ 73</b>	<b>\$ 43</b>	<b>\$ 16</b>
<b>Europe</b>		<b>431</b>	<b>26</b>	<b>35</b>	<b>24</b>	<b>17</b>

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South America	152	49	27	16	14
Asia Pacific	170	19	12	8	4
DCC				5	5
Other			(49)	(50)	(10)
Total continuing operations	2,330	124	98	46	46
Discontinued operations			36	21	21
Total operations	2,330	124	134	67	67
Unusual items excluded from performance measures			(8)	33	33
Consolidated	\$ 2,330	\$ 124	\$ 126	\$ 100	\$ 100

		Six Months Ended June 30,				
		External Sales (Restated)	Inter- Segment Sales (Restated)	EBIT (Restated)	Operating PAT (Restated)	Net Profit (Loss) (Restated)
<b>2005</b>						
ASG		\$ 3,722	\$ 71	\$ 139	\$ 99	\$ 24
HVTSG		1,372	2	65	39	7
DCC					9	9
Other		15	30	(127)	(104)	3
<b>Total operations</b>		<b>5,109</b>	<b>103</b>	<b>77</b>	<b>43</b>	<b>43</b>
Unusual items excluded from performance measures				9	(1)	(1)
Effect of change in accounting					4	4
<b>Consolidated</b>		<b>\$ 5,109</b>	<b>\$ 103</b>	<b>\$ 86</b>	<b>\$ 46</b>	<b>\$ 46</b>
North America		\$ 3,210	\$ 61	\$ 17	\$ 9	\$ (50)
Europe		1,055	60	87	61	42
South America		455	125	54	34	26
Asia Pacific		389	25	32	21	12
DCC					9	9
Other				(113)	(91)	4
<b>Total operations</b>		<b>5,109</b>	<b>271</b>	<b>77</b>	<b>43</b>	<b>43</b>
Unusual items excluded from performance measures				9	(1)	(1)
Effect of change in accounting					4	4
<b>Consolidated</b>		<b>\$ 5,109</b>	<b>\$ 271</b>	<b>\$ 86</b>	<b>\$ 46</b>	<b>\$ 46</b>
<b>2004</b>						
ASG		\$ 3,431	\$ 93	\$ 205	\$ 139	\$ 76
HVTSG		1,160	2	85	52	24
DCC					12	12
Other		50	32	(110)	(110)	(19)
Total continuing operations		4,641	127	180	93	93
Discontinued operations				57	30	30
<b>Total operations</b>		<b>4,641</b>	<b>127</b>	<b>237</b>	<b>123</b>	<b>123</b>
Unusual items excluded from performance measures				(9)	35	35
<b>Consolidated</b>		<b>\$ 4,641</b>	<b>\$ 127</b>	<b>\$ 228</b>	<b>\$ 158</b>	<b>\$ 158</b>
North America		\$ 3,171	\$ 66	\$ 151	\$ 94	\$ 38

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Europe	858	51	63	45	29
South America	283	94	45	28	23
Asia Pacific	329	25	22	14	7
DCC				12	12
Other			(101)	(102)	(16)
Total continuing operations	4,641	236	180	91	93
Discontinued operations			57	32	30
Total operations	4,641	236	237	123	123
Unusual items excluded from performance measures			(9)	35	35
Consolidated	\$ 4,641	\$ 236	\$ 228	\$ 158	\$ 158

Operating profit after tax (PAT) is the key internal measure of performance used by management, including our chief operating decision maker, as a measure of segment profitability. With the exception of DCC, Operating PAT represents earnings before interest and taxes (EBIT), tax-effected at 39% (our estimated long-term effective rate), plus equity in earnings of affiliates. Net Profit (Loss), which is Operating PAT less allocated corporate expenses and net interest expense, provides a secondary measure of profitability for our segments that is more comparable to that for a free-standing entity. The allocation is based on segment sales because it is readily calculable, easily understood and, we believe, provides a reasonable distribution of the various components of our corporate expenses among our business units.

The Other category includes businesses unrelated to the segments, trailing liabilities for certain closed plants and the expense of corporate administrative functions. For purposes of presenting Operating PAT, Other also includes interest expense net of interest income, elimination of inter-segment income and adjustments to reflect the actual effective tax rate. In the Net Profit (Loss) column, Other includes the net profit or loss of businesses not assigned to the segments and closed plants (but not discontinued operations), minority interest in earnings and the tax differential.

The following table reconciles the EBIT amount reported for our segments, excluding DCC, to our consolidated income before income taxes as presented in the condensed consolidated statement of income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
EBIT from continuing operations	\$ 53	\$ 98	\$ 77	\$ 180
Unusual items excluded from performance measures				
Total operations	9	(8)	9	(9)
Discontinued operations		5		4
Interest expense, excluding DCC	(35)	(40)	(68)	(79)
Interest income, excluding DCC	8	2	15	5
DCC pre-tax income (loss)	(13)	6	(10)	(5)
Income before income taxes	\$ 22	\$ 63	\$ 23	\$ 96

Our presentation of segment information includes separate reporting of Unusual items excluded from performance measures. These items include, among other things, gains and losses on divestitures and related expenses and restructuring expenses such as severance, lease continuation and asset impairment charges.

The following table describes the Unusual items excluded from performance measures for the three months and six months ended June 30, 2005 and 2004.

	Three Months Ended June 30, 2005		Three Months Ended June 30, 2004	
	EBIT	OPAT	EBIT	OPAT
Expenses related to DCC asset sales	\$ 9	\$ (5)	\$ (4)	\$ (2)
Charge related to Ohio tax legislation				
Anticipated tax benefit related to sale of automotive aftermarket business				20
Charge related to sale of discontinued operations			(4)	(3)
Gain on DCC asset sales		3		18
	\$ 9	\$ (2)	\$ (8)	\$ 33

	Six Months Ended June 30, 2005		Six Months Ended June 30, 2004	
	EBIT	OPAT	EBIT	OPAT
Expenses related to DCC asset sales	\$ 9	\$ (5)	\$ (5)	\$ (3)
Charge related to Ohio tax legislation				
Anticipated tax benefit related to sale of automotive aftermarket business				20
Charge related to sale of discontinued operations			(4)	(3)
Gain on DCC asset sales		4		21
	\$ 9	\$ (1)	\$ (9)	\$ 35



See Note 8. Income Taxes for a discussion of the charge related to the enactment of new tax legislation in the State of Ohio.

The gains and losses recorded by DCC are not presented as Unusual items excluded from performance measures in the preceding EBIT reconciliation table since we do not include DCC's results in EBIT for segment reporting. However, the pre-tax portion of such amounts is included within DCC's pre-tax loss in the table.

**Note 10. Discontinued Operations**

In December 2003, we announced our intention to sell substantially all of the former Automotive Aftermarket Group. The divestiture was completed in November 2004. Income from these discontinued operations for the three months and six months ended June 30, 2004 consisted of the following:

	<b>Three Months Ended June 30, 2004</b>	<b>Six Months Ended June 30, 2004</b>
Income before taxes	\$ 30	\$ 50
Income tax benefit (expense)	8	(4)
Income from discontinued operations	\$ 38	\$ 46

**Note 11. Cash Deposits**

At June 30, 2005, we maintained cash deposits of \$71 to provide credit enhancement for certain lease agreements and to support surety bonds that allow us to self-insure our workers compensation obligations. These financial instruments are expected to be renewed each year. A total of \$66 of the deposits may not be withdrawn.

**Note 12. Goodwill**

The changes in goodwill during the six months ended June 30, 2005, by segment, were as follows:

	<b>Balance at December 31, 2004</b>	<b>Effect of Currency and Other</b>	<b>Balance at June 30, 2005</b>
ASG	\$ 463	\$ (19)	\$ 444
HVTSG	123	(3)	120
Other	7		7
	\$ 593	\$ (22)	\$ 571

Goodwill is included in Investments and other assets in our condensed consolidated balance sheet.

**Note 13. Realignment of Operations**

The following summarizes the activity in accrued realignment expenses during the first six months of 2005:

	<b>Employee Termination Benefits</b>	<b>Exit Costs</b>	<b>Total</b>
<b>Balance at December 31, 2004</b>	\$ 55	\$ 15	\$ 70
<b>Activity during the quarter:</b>			
Cash payments	(5)	(3)	(8)
Charges to expense	1	2	3
<b>Balance at March 31, 2005</b>	\$ 51	\$ 14	\$ 65
<b>Activity during the quarter:</b>			
Cash payments	(12)	(3)	(15)

<b>Charges to expense</b>		<b>3</b>	<b>3</b>
<b>Adjustments of accruals</b>	<b>(5)</b>		<b>(5)</b>
<b>Balance at June 30, 2005</b>	<b>\$ 34</b>	<b>\$ 14</b>	<b>\$ 48</b>

The above amounts include charges included in operating performance that are related to the continuation of previously announced actions.

During the second quarter of 2005, we reviewed the status of our plans to reduce the workforce within our off-highway operations. We concluded that completion of the plan was no longer probable within the required timeframe due to recent changes in the markets

they serve; accordingly, we reversed \$4 (of the total adjustment of \$5) of the accrual for employee termination benefits. At June 30, 2005, \$48 of restructuring charges remained in accrued liabilities. This balance was comprised of \$34 for benefits to terminated employees, including the termination of approximately 700 employees scheduled for the remainder of 2005, and \$14 for lease terminations and other exit costs. At June 30, 2005, we estimated the related cash expenditures will be approximately \$23 in the remainder of 2005, \$16 in 2006 and \$9 thereafter. The amount of estimated cash expenditures for each period approximates the midpoint of the estimated range of cash expenditures for such period. We believe that our liquidity and future cash flows will be more than adequate to satisfy these obligations related to our restructuring plans.

#### **Note 14. Contingencies**

We are a party to various pending judicial and administrative proceedings arising in the ordinary course of business. These include, among others, proceedings based on product liability claims and alleged violations of environmental laws. We have reviewed our pending legal proceedings, including the probable outcomes, our reasonably anticipated costs and expenses, the availability and limits of our insurance coverage, and our established reserves for uninsured liabilities. We do not believe that any liabilities that may result from these proceedings are reasonably likely to have a material adverse effect on our liquidity, financial condition or results of operations.

*Asbestos-Related Product Liabilities.* We had approximately 115,000 active pending asbestos-related product liability claims at June 30, 2005, compared to 116,000 at December 31, 2004. Included in the active claims were claims that are settled but awaiting final documentation and payment of 11,000 at June 30, 2005 and 10,000 at December 31, 2004. We had accrued \$143 for indemnity and defense costs for these claims at June 30, 2005, compared to \$139 at December 31, 2004. The amounts accrued are based on our assumptions and estimates about the values of the claims and the likelihood of recoveries against us derived from our historical experience and current information. We cannot estimate possible losses in excess of those for which we have accrued because we cannot predict how many additional claims may be brought against us in the future, the allegations in such claims or their probable outcomes.

At June 30, 2005, we had recorded \$41 as an asset for probable recovery from our insurers for these pending claims, compared to \$118 at December 31, 2004. The reduction in this asset resulted from our receipt in the second quarter of the final payment due us under the previously reported insurance settlement agreement that we entered into with some of our carriers in December 2004. Our remaining insurance agreements, along with the proceeds from this insurance settlement, provide significant resources for the payment of anticipated defense and indemnity costs for pending claims, as well as claims which may be filed against us in the future.

In addition to amounts related to pending claims, we had a net amount recoverable from our insurers and others of \$28 at June 30, 2005, compared to \$26 at December 31, 2004. This recoverable represents reimbursements for settled asbestos-related product liability claims and related defense costs, including billings in progress and amounts subject to alternate dispute resolution proceedings with some of our insurers.

*Other Product Liabilities* We had accrued \$9 for contingent non-asbestos product liability costs at June 30, 2005, compared to \$11 at December 31, 2004, with no recovery expected from third parties at either date. The difference between our minimum and maximum estimates for these liabilities was \$10 at June 30, 2005 and December 31, 2004. We estimate these liabilities based on assumptions about the value of the claims and about the likelihood of recoveries against us, derived from our historical experience and current information. If there is a range of equally probable outcomes, we accrue the lower end of the range.

*Environmental Liabilities* We had accrued \$66 for contingent environmental liabilities at June 30, 2005, compared to \$73 at December 31, 2004, with an estimated recovery of \$10 from other parties recorded at December 31, 2004. The \$10 was received in June 2005. The difference between our minimum and maximum estimates for these liabilities was \$1 at both dates. We estimate these liabilities based on the most probable method of remediation, current laws and regulations and existing technology. Estimates are made on an undiscounted basis and exclude the effects of inflation. If there is a range of equally probable remediation methods or outcomes, we accrue the lower end of the range.

Included in these accruals are amounts relating to the Hamilton Avenue Industrial Park Superfund site in New Jersey, where we are now one of four potentially responsible parties (PRPs). We estimate our liability for this site quarterly. There have been no material changes in the facts underlying these estimates to report since December 31,

2004; accordingly, our estimated liabilities for each of the site s three Operable Units at June 30, 2005 were as follows:

21

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Unit 1: \$1 for future remedial work and past costs incurred by the United States Environmental Protection Agency (EPA) relating to off-site soil contamination, based on the remediation performed at this Unit to date and our assessment of the likely allocation of costs among the PRPs.

Unit 2: \$14 for future remedial work relating to on-site soil contamination, taking into consideration the \$69 remedy proposed by the EPA in a Record of Decision issued in September 2004 and our assessment of the most likely remedial activities and allocation of costs among the PRPs.

Unit 3: less than \$1 for the costs of a remedial investigation and feasibility study pertaining to groundwater contamination, based on our expectations about the study that is likely to be performed and the likely allocation of costs among the PRPs.

*Other Liabilities* Until 2001, most of our asbestos-related claims were administered, defended and settled by the Center for Claims Resolution (CCR), which settled claims for its member companies on a shared settlement cost basis. In that year, the CCR was reorganized and discontinued negotiating shared settlements. Since then, we have independently controlled our legal strategy and settlements, using Peterson Asbestos Consulting Enterprise (PACE), a unit of Navigant Consulting, Inc., to administer our claims, bill our insurance carriers and assist us in claims negotiation and resolution. Some former CCR members defaulted on the payment of their shares of some of the CCR-negotiated settlements and some of the settling claimants have sought payment of the unpaid shares from Dana and the other companies that were members of the CCR at the time of the settlements. We have been working with the CCR, other former CCR members, our insurers and the claimants over a period of several years in an effort to resolve these issues. Through June 30, 2005, we had paid \$47 and collected \$29 from insurance carriers. At June 30, 2005, we had a net receivable of \$10 that is expected to be recoverable from available insurance and surety bonds relating to this matter.

*Assumptions* The amounts we have recorded for contingent asbestos-related liabilities and recoveries are based on assumptions and estimates reasonably derived from our historical experience and current information. The actual amount of our liability for asbestos-related claims and the effect on Dana could differ materially from our current expectations if our assumptions about the nature of the pending unresolved bodily injury claims and the claims relating to the CCR-negotiated settlements, the costs to resolve those claims and the amount of available insurance and surety bonds prove to be incorrect, or if currently proposed U.S. federal legislation impacting asbestos personal injury claims is enacted.

#### **Note 15. Financing Agreements**

*Bank Facility and Accounts Receivable Program* On March 4, 2005, we entered into a \$400, five-year revolving credit facility maturing March 4, 2010, which replaced the prior credit facility ahead of its November 2005 maturity. The interest rates under this new facility equal the London interbank offered rate (LIBOR) or the prime rate, plus a spread that varies depending on our credit ratings. The facility requires us to meet specified financial ratios as of the end of calendar quarters, including the ratio of net senior debt to tangible net worth; the ratio of earnings before interest, taxes and depreciation and amortization (EBITDA) less capital spend to interest expense; and the ratio of net senior debt to EBITDA with all terms as defined in the five-year revolving credit facility. The facility was amended during June 2005 to modify two of the ratio requirements for the remainder of 2005. Specifically, the ratios are: (i) net senior debt to tangible net worth of not more than 1.1:1; (ii) EBITDA (as defined in the facility) minus capital expenditures to interest expense of not less than 1.25:1 at June 30 and September 30, 2005, 2.25:1 at December 31, 2005 and 2.50:1 thereafter; and (iii) net senior debt to EBITDA of not greater than 3.25:1 at June 30 and September 30, 2005, 2.75:1 at December 31, 2005 and 2.50:1 thereafter. The ratio calculations are based on Dana's consolidated financial statements with DCC accounted for on an equity basis. We were in compliance with all ratio requirements at June 30, 2005.

We also have an accounts receivable securitization program to help meet our periodic demands for short-term financing. The program provides up to a maximum of \$275 in borrowings. The amounts available under the program are subject to reduction based on adverse changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the underlying accounts receivable.

At June 30, 2005, borrowings outstanding under the various Dana lines consisted of \$36 drawn by non-U.S. subsidiaries against uncommitted lines, \$110 outstanding under the accounts receivable securitization program and

\$175 under the revolving credit facility.

*Debt Reclassification* When we amended the bank facility in June 2005, we believed that the financial covenants would be met for the following 12-month period. However, as a result of the restatement of our financial statements and changes in our forecast, although waivers of the

financial covenants have been obtained through May 31, 2006, we have determined that it is unlikely that we will be able to comply with the financial covenants in our bank facility effective under the June 2005 amendment for the following 12-month period ending June 30, 2006. Non-compliance would trigger cross-acceleration provisions in some of our indenture agreements. Therefore, under the accounting requirements for debt classification, we have reclassified the portion of our long-term debt that is subject to cross-acceleration as debt payable within one year. The \$199 of outstanding notes issued under our August 2001 and March 2002 Indentures and \$12 of certain international borrowings continue to be classified as long-term debt.

*Swap Agreements* We are party to two interest rate swap agreements under which we have agreed to exchange the difference between fixed rate and floating rate interest amounts on notional amounts corresponding with our August 2011 notes. Converting the fixed interest rate to a variable rate is intended to provide a better balance of fixed and variable rate debt. Our current fixed-for-variable swap agreements have both been designated as fair value hedges of the August 2011 notes. Based on the aggregate fair value of these agreements, we recorded a nominal non-current liability at June 30, 2005, which was offset by a decrease in the carrying value of long-term debt. This adjustment of long-term debt, which does not affect the scheduled principal payments, will fluctuate with the fair value of the agreements and will not be amortized if the swap agreements remain open. Additional adjustments to the carrying value of long-term debt resulted from the modification or replacement of swap agreements, which generated cash receipts prior to 2004. These valuation adjustments, which are being amortized as a reduction of interest expense over the remaining life of the notes, totaled \$9 at June 30, 2005.

As of June 30, 2005, the interest rate swap agreements provided for us to receive a fixed rate of 9.0% on a notional amount of \$114 and pay variable rates based on the London interbank offered rate (LIBOR), plus a spread. The average variable rate under these contracts approximated 8.4% as of June 30, 2005. The agreements expire in August 2011.

Refer also to *Financing Update* in Note 2.

#### **Note 16. Warranty Obligations**

We record a liability for estimated warranty obligations at the date products are sold. Adjustments are made as new information becomes available. During the second quarter of 2005, HVTSG reduced the liability by \$6 to reflect lower average claim costs. Other adjustments in 2005 generally reflect favorable claims experience. Changes in our warranty liability for the three months and six months ended June 30, 2005 and 2004 follow.

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
Balance, beginning of period	\$ 72	\$ 81	\$ 80	\$ 82
Amounts accrued for current period sales	7	8	15	16
Adjustments of prior accrual estimates	(2)	1	(3)	2
Change in accounting			(6)	
Settlements of warranty claims	(11)	(10)	(19)	(19)
Foreign currency translation	(1)		(2)	(1)
Balance, end of period	\$ 65	\$ 80	\$ 65	\$ 80

Warranty obligations are reported as current liabilities in the condensed consolidated balance sheet.

In June 2005, we changed our method of accounting for warranty liabilities from estimating the liability based on the credit issued to the customer, to accounting for warranty liabilities based on our costs to settle the warranty claim. Management believes that this is a change to a preferable method. The change in method of accounting was made to more accurately reflect the cost of settling the warranty liability. In accordance with generally accepted accounting principles, the \$4 after-tax cumulative effect of the change is effective as of January 1, 2005 and the financial



statements for the three months ended March 31, 2005 have been restated to reflect this change.

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

Dollars in millions

### Restatement

As discussed more fully in Note 2 to the consolidated financial statements in Item 1 of Part I, we have restated our previously reported consolidated financial statements for the first and second quarters of 2005 and for the year 2004.

This discussion and analysis (MD&A) should be read in conjunction with the restated financial statements and notes appearing elsewhere in this Report and our 2004 Form 10-K/A.

### Market Outlook

Our industry is prone to fluctuations in demand over the business cycle. Production levels in our key markets for the past three years, along with our outlook for 2005, are shown below.

	Production in Units			Dana's Outlook 2005
	2002	Actual 2003	2004	
Light vehicle (in millions):				
North America	16.4	15.9	15.8	15.5
Europe	20.8	19.6	20.5	20.7
Asia Pacific	18.1	20.5	21.8	22.7
South America	1.9	1.9	2.4	2.6
North American commercial vehicle (in thousands):				
Medium-duty (Class 5-7)	189	196	240	256
Heavy-duty (Class 8)	181	177	269	310
Off-Highway (in thousands)*				
North America	260	281	335	360
Western Europe	466	452	464	466
Asia-Pacific	443	480	549	551
South America	55	61	73	59

\* Wheeled vehicles in construction, agriculture, mining, material handling and forestry applications.

Although North American light-duty production levels have been relatively stable in recent years (ranging between 15.8 million and 16.4 million units), a number of factors are negatively impacting our activity in this market and thus creating uncertainty.

Second-quarter 2005 production levels in North America were down 1.1% when compared to the same period last year. During the quarter, light truck production was down 3.4%, while passenger car production was up 2.4%.

Year over year, light vehicle production in the United States and Canada for the first six months of 2005 was down about 2.7% in total, with light truck production being down 4.2% and passenger car production down 0.3%.

Light trucks comprise our primary segment within the light vehicle market. In recent years, light truck sales have generally been stronger than those of passenger cars, as consumer interest in sport utility and crossover vehicles increased. More recently, however, the higher price of gasoline has negatively impacted the light truck segment. The larger sport utility vehicles, full-size pick-up trucks and minivans in particular have experienced a significant drop in

demand, which is largely attributed to rising fuel prices.

We have also been negatively impacted by the continuing market share decline experienced by our two biggest customers Ford and GM. Whereas total light truck production in 2005 is down 4.2%, light truck production of Ford and GM vehicles is down about 10.8% and 10.9 %, respectively.

Throughout most of the first half of this year, inventories of light trucks and passenger cars have been higher than normal, raising the possibility of additional production cutbacks over the remainder of 2005. In an effort to minimize continued loss of market share, Ford, GM and DaimlerChrysler have continued to use incentives to stimulate sales. In June of 2005, General Motors launched an even more aggressive incentive campaign, extending its employee discount program to all consumers. As a result, June sales were extremely strong, eliminating GM's excess inventory for both passenger cars and light trucks.

At June 30, 2005, inventories of light-duty vehicles stood at 67 days of supply, 1% below the five-year average and down from 10% above average just last quarter. As a result of General Motors' newest incentive program, its inventory is now 14% below normal. Ford inventories are at 85 days of supply, while DaimlerChrysler's inventories have climbed to 83 days of supply. The historical averages for Ford and DaimlerChrysler are 77 and 73 days of supply, respectively. Both continue to struggle with excess inventory primarily related to light trucks more so than passenger cars. As a result, both Ford and DaimlerChrysler began to offer employee discount programs to the consumer in July of 2005, while General Motors continued to offer its employee discount program.

As light trucks have been important to the profitability of Ford and GM, the decline in production and use of incentives has exerted increasing pressure on their financial performance. As a result of their declining profitability, we and others in the light vehicle market face the challenge of continued price reduction pressure from our customers. Our realignment, divestitures and outsourcing initiatives have helped position us for this increasingly competitive landscape. As such, ongoing cost reduction programs, like our lean manufacturing, value engineering activities and standardization of administrative processes, will continue to be important to improving our margins.

Although North American light-duty vehicle inventories declined in June to more normal levels, the decrease was driven by increased incentives to consumers in the months of May and June. The higher sales stimulated by these incentives was satisfied in part with existing inventories as production levels were largely unchanged. To the extent that such incentives pulled sales forward from later in the year, a reduction in the incentives could result in lower sales, and consequent lower production. Continued high energy prices also pose a risk to future production levels, primarily in the light truck segment. Given the current environment high gas prices, higher than normal light truck inventories, unprecedented incentive programs and the erosion of market share of our biggest customers there is considerable uncertainty surrounding production levels in this market for the remainder of the year. As a result, we have lowered our 2005 North American production outlook to 15.5 million units from 15.7 million units.

The commercial vehicle market, on the other hand, is relatively strong. In North America our biggest market Class 8 production approximated 80,000 units in the second quarter of 2005, up about 27% from the 63,000 units produced in the same period last year. The North American medium-duty commercial vehicle market has similarly been strong, with 2005 production up about 6% from a year ago. With inventories relatively stable and a strong order backlog, production for the remainder of the year in this market is expected to continue to be strong. Given the current fundamentals in the North American Class 8 market, we increased our full-year 2005 production estimate from 293,000 units to 310,000 units.

In our other markets off highway, European commercial and light vehicles and light vehicles in the Asia Pacific and South American regions we expect either stable or improving production demand in the remainder of 2005.

#### **Commodity Costs**

Steel and other raw material costs have had a significant impact on our results and those of others in our industry this year. With steel particularly, suppliers began assessing price surcharges and increasing base prices during the first quarter of 2004, and these have continued throughout the current year. The surcharges, as well as base prices, which increased over most of 2004, have leveled off in the past three quarters. A frequently used indicator for steel cost trends is the Tri-Cities #1 bundles scrap steel price index. Prices on this index more than doubled over the course of 2004 peaking at \$431 per ton in the fourth quarter. The spot price of scrap steel on this index has declined during the first half of this year to \$246 per ton at the end of the first quarter and to around \$150 per ton at June 30, 2005. With this decline in market scrap prices and some moderation of demand for steel, we expect that steel costs will come

down as we move through the year. However, the situation continues to be volatile and uncertain. As well, a substantial portion of our

steel cost impact relates to purchased components which are not directly affected by the spot prices of scrap steel. As such, our forecast for the remainder of the year assumes some drop in steel costs.

Only about 30% of our annual steel purchases are in the form of raw steel from mills and processors, with the balance contained in components or products containing steel. While leverage is clearly on the side of the steel suppliers at the present time, we are managing the situation by consolidating purchases and taking advantage of OE manufacturers' resale programs where possible. We are also working with our customers to recover the cost of steel increases, either in the form of increased selling prices or reductions in price-downs that they expect from us.

Steel cost surcharges and base price increases, net of recoveries from our customers, reduced our net income by approximately \$47 and \$85 for the three months and six months ended June 30, 2005, respectively. In 2004, three-month and six-month income from continuing operations was reduced by \$9 and \$10 and net income by \$13 and \$15, respectively, with the inclusion of discontinued operations. The impacts of higher steel costs disclosed herein were determined by comparing current pricing to base steel prices in effect at the beginning of 2004. The higher impact of steel cost during the first six months of 2005 included the cost of finalizing contract settlements with certain suppliers.

### **Other Key Factors**

Given the margin pressure from today's higher raw material costs and the continued pricing demands of our customers, an area of critical focus for us is reducing our cost structure. Actions underway today include global purchasing initiatives, deployment of lean manufacturing techniques, standardizing administrative processes and pursuing value engineering activities by working with our customers to redesign existing components.

In our markets, concentration of business with certain customers is common, so our efforts to achieve additional diversification are important. In the light vehicle market, we have been successful in gaining new business with several manufacturers based outside the U.S. over the past few years. We expect greater customer diversity as more of this business comes on stream and we gain additional business with these customers.

Broadening our global presence is also increasingly important. Global sourcing presents opportunities to improve our competitive cost position, as well as to take advantage of the higher expected growth in emerging markets such as China and India.

Another key factor in our future success is technology. We are continuing to invest in advanced product (for example, modular heavy axle housings and integrated light weight trailer axle modules) and process (such as laser and robotic welding) technologies as we believe that they, as much as any factor, are critical to improving our competitive position and profitability. In keeping with these efforts, our recent moves to focus even more on our core OE markets will enable us to capitalize on the continuing trends toward modularity and systems integration in these markets.

### **New Business**

Another major focus for us today is growing our top line revenue faster and profitably.

In the OE vehicular business, new programs are generally awarded to suppliers well in advance of the expected start of production. The amount of lead time varies based on the nature of the product, size of the program and required start-up investment. The awarding of new business usually coincides with model changes on the part of vehicle manufacturers. Given the cost and service concerns associated with changing suppliers, we expect to retain any awarded business over the vehicle life, which is typically several years.

Based upon contracts awarded to date, we expect net new business to contribute approximately \$505 to our 2005 sales and a total of \$1,345 in the years 2005 through 2007. Approximately 70% of this net new business is outside North America with 80% being with non-Big Three customers. Our efforts continued during this year's second quarter, as we added \$215 to our net new business coming on stream in the future. We are currently pursuing a number of additional opportunities which could further increase new business for 2005, 2006 and later years.

**Liquidity and Capital Resources****Cash Flows (First Six Months 2005 versus First Six Months 2004)**

	<b>Six Months Ended June 30,</b>		<b>Dollar Change (Restated)</b>
	<b>2005 (Restated)</b>	<b>2004 (Restated)</b>	
<b>Cash Flows Operating Activities:</b>			
Net income	\$ 46	\$ 158	\$ (112)
Depreciation and amortization	163	183	(20)
Gains on divestitures and asset sales	(5)	(25)	20
Increase in operating working capital	(219)	(129)	(90)
Deferred taxes	(35)	(41)	6
Other	(99)	(93)	(6)
Net cash flows from (used in) operating activities	\$ (149)	\$ 53	\$ (202)

Overall, operating activities used cash of \$149 in the first half of 2005, while \$53 was generated in the same period in 2004, a decline of \$202.

Net income for the first half of 2005 dropped significantly when compared to the same period in 2004. The automotive aftermarket businesses treated as discontinued operations in 2004 had contributed earnings of \$46 in the first half of 2004. The effect of steel price increases accounted for another \$75. Depreciation and amortization was \$20 lower in the first half of 2005, primarily the result of the divestiture of our automotive aftermarket businesses. Working capital increased as seasonal factors and year-on-year sales growth pushed trade receivables higher. Other is comprised of unremitted equity earnings and a decrease in deferred compensation.

Our estimate of cash outlays related to realignment activities is approximately \$23 for the remainder of 2005. Exclusive of our realignment activities, we expect to reduce working capital by \$100 for the year. The actual increase for the first half of 2005 was \$219, requiring a \$319 decrease in the second half in order to attain our goal. We expect to achieve \$200 of the reduction in accounts receivables, as outstanding receivables are expected to decline dramatically from the peak level at June 30 to a seasonal low at December 31. Inventory improvement is anticipated to be \$150 as raw and purchased finished component inventories are consumed through production and are not replenished to the same levels.

	<b>Six Months Ended June 30,</b>		<b>Dollar Change (Restated)</b>
	<b>2005 (Restated)</b>	<b>2004 (Restated)</b>	
<b>Cash Flows Investing Activities:</b>			
Purchases of property, plant and equipment	\$ (124)	\$ (141)	\$ 17
Asset sales	137	152	(15)
Payments received from partnerships	38	16	22
Other	(11)	(47)	36
Net cash flows from (used in) investing activities	\$ 40	\$ (20)	\$ 60

Capital spending in the first half of 2005 was slightly less than the expenditures made in the comparable period in 2004 as we maintained tight control over expenditures. Proceeds from asset sales were comparable to the same period in 2004. Payments received from partnerships represent distributions related to liquidation of a partnership interest formerly held by DCC.

	<b>Six Months Ended June 30,</b>		<b>Dollar Change</b>
	<b>2005</b>	<b>2004</b>	
<b>Cash Flows Financing Activities:</b>			
Net change in short-term debt	\$ 225	\$ 153	\$ 72
Payments on long-term debt	(45)	(304)	259
Proceeds from long-term debt		5	(5)
Dividends paid	(36)	(36)	
Other	(3)	13	(16)
Net cash flows from (used in) financing activities	\$ 141	\$ (169)	\$ 310



We made draws on the accounts receivable securitization program and the five-year revolving credit facility to meet our working capital needs during the first half of 2005. The remainder of our debt transactions was generally limited to \$45 of debt repayments, including a \$35 scheduled payment at DCC, while dividend payments were even with the first half of 2004.

*Financing Activities* Committed and uncommitted credit lines enable us to make borrowings to supplement the cash flow generated by our operations. Excluding DCC, we had committed and uncommitted borrowing lines of \$1,181 at June 30, 2005.

On March 4, 2005, we entered into a \$400, five-year revolving credit facility maturing on March 4, 2010, which replaced the prior credit facility ahead of its November 2005 maturity. The interest rates under this new facility equal the London interbank offered rate (LIBOR) or the prime rate, plus a spread that varies depending on our credit ratings. The facility requires us to meet specified financial ratios as of the end of calendar quarters, including the ratio of net senior debt to tangible net worth; the ratio of earnings before interest, taxes and depreciation and amortization (EBITDA) less capital spend to interest expense; and the ratio of net senior debt to EBITDA with all terms as defined in the five-year revolving credit facility. The facility was amended during June 2005 to modify two of the ratio requirements for the remainder of 2005. Specifically, the ratios are: (i) net senior debt to tangible net worth of not more than 1.1:1; (ii) EBITDA (as defined in the facility) minus capital expenditures to interest expense of not less than 1.25:1 at June 30 and September 30, 2005, 2.25:1 at December 31, 2005 and 2.50:1 thereafter; and (iii) net senior debt to EBITDA of not greater than 3.25:1 at June 30 and September 30, 2005, 2.75:1 at December 31, 2005 and 2.50:1 thereafter. The ratio calculations are based on Dana's consolidated financial statements with DCC accounted for on an equity basis. We were in compliance with all ratio requirements at June 30, 2005.

Noncompliance with these covenants would constitute an event of default, allowing the lenders to accelerate the repayment of any borrowings outstanding under the facility. If an event of default were to occur under the five-year revolving credit facility, defaults might occur under our other debt instruments. Our business, results of operations and financial condition could be adversely affected if we were unable to successfully negotiate amended covenants or obtain waivers on acceptable terms.

We also have an accounts receivable securitization program to help meet our periodic demands for short-term financing. The program provides up to a maximum of \$275 in borrowings. The amount available is subject to reduction based on adverse changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the underlying accounts receivable. This program is subject to possible termination by the lenders in the event our credit ratings are lowered below Ba3 by Moody's and BB- by S&P. As of June 30, 2005, we were rated Ba2 by Moody's and BBB- by S&P.

At June 30, 2005, borrowings outstanding under the various Dana lines consisted of \$36 drawn by non-U.S. subsidiaries against uncommitted lines, \$110 outstanding under the accounts receivable securitization program and \$175 under the revolving credit facility.

We expect our cash flows from operations, combined with our five-year revolving credit facility and our accounts receivable securitization program, to provide sufficient liquidity for a period that includes the next twelve months. This includes funding our debt service obligations, projected working capital requirements, realignment obligations, capital spending and the previously announced Dongfeng joint venture in China and minority interest buy-out by Dana Albarus in Brazil.

*Debt Reclassification* When we amended the bank facility in June 2005, we believed that the financial covenants would be met for the following 12-month period. However, as a result of the restatement of our financial statements, although waivers of the financial covenants have been obtained through May 31, 2006, we have determined that it is unlikely that we will be able to comply with the financial covenants in our bank facility effective under the June 2005 amendment for the following 12-month period ending June 30, 2006. Non-compliance would trigger cross-acceleration provisions in some of our indenture agreements. Therefore, under the accounting requirements for debt classification, we have reclassified the portion of our long-term debt that is subject to cross-acceleration as debt payable within one year. The \$199 of outstanding notes issued under our August 2001 and March 2002 Indentures and \$12 of certain international borrowings continue to be classified as long-term debt.

Refer also to *Financing Update* in Note 2.

*Hedging Activities* At June 30, 2005, we had a number of open forward contracts to hedge against certain anticipated cross-currency purchase and sale commitments. These forward contracts are for a short duration and none extends beyond the second quarter of 2006. The aggregate fair value of these contracts is a nominal amount. These contracts have been valued by independent

financial institutions using the exchange spot rates on June 30, 2005, plus or minus quoted forward basis points, to determine a settlement value for each contract.

In order to provide a better balance of fixed and variable rate debt, we have two interest rate swap agreements in place to effectively convert the fixed interest rate on a portion of our August 2011 notes to variable rates. These swap agreements have been designated as fair value hedges and the impact of the change in their value is offset by an equal and opposite change in the carrying value of the notes. Under these agreements, we receive a fixed rate of interest of 9.0% on notional amounts of \$114 and we pay a variable rate based on LIBOR, plus a spread. As of June 30, 2005, the average variable rate under these agreements was 8.4%. The swap agreements expire in August 2011, coinciding with the term of the hedged notes. Based on the aggregate fair value of these agreements at June 30, 2005, we recorded a nominal non-current liability and offset the carrying value of long-term debt. This adjustment of long-term debt, which does not affect the scheduled principal payments, will fluctuate with the fair value of the swap agreements and will not be amortized if the swap agreements remain open.

**Cash Obligations** Under various agreements, we are obligated to make future cash payments in fixed amounts. These include payments under our long-term debt agreements, rent payments required under operating lease agreements and payments for equipment, other fixed assets and certain raw materials.

The following table summarizes our fixed cash obligations over various future periods as of June 30, 2005.

	<b>Total</b>	<b>Payments Due by Period</b>			
		<b>Less than 1 Year</b>	<b>1 - 3 Years</b>	<b>4 - 5 Years</b>	<b>After 5 Years</b>
<b>Contractual Cash Obligations</b>					
Principal of Long-Term Debt (as restated)	\$ 2,066	\$ 1,855	\$ 4	\$ 77	\$ 130
Operating Leases	598	87	147	115	249
Unconditional Purchase Obligations	217	193	24		
Other Long-Term Liabilities	1,538	220	307	295	716
<b>Total Contractual Cash Obligations</b>	<b>\$ 4,419</b>	<b>\$ 2,355</b>	<b>\$ 482</b>	<b>\$ 487</b>	<b>\$ 1,095</b>

The unconditional purchase obligations presented are comprised principally of commitments for procurement of fixed assets and the purchase of raw materials.

We have a number of sourcing arrangements with suppliers for various component parts used in the assembly of certain of our products. These arrangements include agreements to procure certain outsourced components that we had manufactured ourselves in earlier years. These agreements do not contain any specific minimum quantities that we must order in any given year, but generally require that we purchase the specific component exclusively from the supplier over the term of the agreement. Accordingly, our cash obligations under these agreements are not fixed.

The Other Long-Term Liabilities component includes estimated obligations under our retiree healthcare programs, estimated 2005 contributions to our defined benefit pension plans, and payments under the long-term agreement with IBM for the outsourcing of certain human resource services, which began June 1, 2005.

Obligations under the retiree healthcare programs are not fixed commitments and will vary depending on various factors, including the level of participant utilization and inflation.

Our estimates of the payments to be made through 2009 considered recent payment trends and certain of our actuarial assumptions. We have not estimated pension contributions beyond 2005 due to the significant impact that return on plan assets and changes in discount rates might have on such amounts.

In addition to fixed cash commitments, we may have future cash payment obligations under arrangements where we are contingently obligated if certain events occur or conditions were present. We have guaranteed \$1 of short-term

borrowings of a non-U.S. affiliate accounted for under the equity method of accounting. We have also guaranteed the performance of a wholly-owned

consolidated subsidiary under several operating leases. The operating leases require the subsidiary to make monthly payments at specified amounts and guarantee, up to a stated amount, the residual value of the assets at the end of the lease. The guarantees are for periods of from five to seven years or until termination of the lease. We have recorded a liability and corresponding prepaid amount of \$3 relating to these guarantees. In the event of a default by our subsidiary, we would be required to fulfill its obligations under the operating lease.

When we order tooling on behalf of our customers, we use a variety of suppliers. In certain instances, in lieu of making progress payments on the tooling, we may guarantee a tooling supplier's obligations under its credit facility, secured by the specific tooling purchase order. Our Board authorization permits us to issue tooling guarantees up to \$80 for these programs. There were no guarantees outstanding under these programs at June 30, 2005.

Included in cash and cash equivalents at June 30, 2005 are cash deposits of \$71 to provide credit enhancement of certain lease agreements and to support surety bonds that allow us to self-insure our workers compensation obligations. A total of \$66 of the deposits may not be withdrawn. These financial instruments are expected to be renewed each year. We accrue the estimated liability for workers compensation claims, including incurred but not reported claims. Accordingly, no significant impact on our financial condition would result if the surety bonds were called.

In connection with certain of our divestitures, there may be future claims and proceedings instituted or asserted against us relative to the period of our ownership or pursuant to indemnifications or guarantees provided in connection with the respective transactions. The estimated maximum potential amount of payments under these obligations is not determinable due to the significant number of divestitures and lack of a stated maximum liability for certain matters. In some cases, we have insurance coverage available to satisfy claims related to the divested businesses. We believe that payments, if any, in excess of amounts provided or insured related to such matters are not reasonably likely to have a material adverse effect on our liquidity, financial condition or results of operations.

*Contingencies* We are a party to various pending judicial and administrative proceedings arising in the ordinary course of business. These include, among others, proceedings based on product liability claims and alleged violations of environmental laws. We have reviewed our pending legal proceedings, including the probable outcomes, our reasonably anticipated costs and expenses, the availability and limits of our insurance coverage, and our established reserves for uninsured liabilities. We do not believe that any liabilities that may result from these proceedings are reasonably likely to have a material adverse effect on our liquidity, financial condition or results of operations.

*Asbestos-Related Product Liabilities.* We had approximately 115,000 active pending asbestos-related product liability claims at June 30, 2005, compared to 116,000 at December 31, 2004. Included in the active claims were claims that have been settled but awaiting final documentation and payment of 11,000 at June 30, 2005 and 10,000 at December 31, 2004. We had accrued \$143 for indemnity and defense costs for these claims at June 30, 2005, compared to \$139 at December 31, 2004. The amounts accrued are based on our assumptions and estimates about the values of the claims and the likelihood of recoveries against us derived from our historical experience and current information. We cannot estimate possible losses in excess of those for which we have accrued because we cannot predict how many additional claims may be brought against us in the future, the allegations in such claims or their probable outcomes.

At June 30, 2005, we had recorded \$41 as an asset for probable recovery from our insurers for these pending claims compared to \$118 at December 31, 2004. The reduction in this asset resulted from our receipt in the second quarter of the final payment due us under the previously reported insurance settlement agreement that we entered into with some of our carriers in December 2004. Our remaining insurance agreements, along with the proceeds from this insurance settlement, provide significant resources for the payment of the anticipated defense and indemnity costs for pending claims, as well as claims which may be filed against us in the future.

In addition to amounts related to pending claims, we had a net amount recoverable from our insurers and others of \$28 at June 30, 2005, compared to \$26 at December 31, 2004. This recoverable represents reimbursements for settled asbestos-related product liability claims and related defense costs, including billings in progress and amounts subject to alternate dispute resolution proceedings with some of our insurers.

*Other Product Liabilities* We had accrued \$9 for contingent non-asbestos product liability costs at June 30, 2005, compared to \$11 at December 31, 2004, with no recovery expected from third parties at either date. The difference

between our minimum and maximum estimates for these liabilities was \$10 at June 30, 2005 and December 31, 2004. We estimate these liabilities based on

assumptions about the value of the claims and about the likelihood of recoveries against us, derived from our historical experience and current information. If there is a range of equally probable outcomes, we accrue the lower end of the range.

*Environmental Liabilities* We had accrued \$66 for contingent environmental liabilities at June 30, 2005, compared to \$73 at December 31, 2004, with an estimated recovery of \$10 from other parties recorded at December 31, 2004. The \$10 was received in June 2005. The difference between our minimum and maximum estimates for these liabilities was \$1 at both dates. We estimate these liabilities based on the most probable method of remediation, current laws and regulations and existing technology. Estimates are made on an undiscounted basis and exclude the effects of inflation. If there is a range of equally probable remediation methods or outcomes, we accrue the lower end of the range.

Included in these accruals are amounts relating to the Hamilton Avenue Industrial Park Superfund site in New Jersey, where we are now one of four potentially responsible parties (PRPs). We estimate our liability for this site quarterly. There has been no material change in the facts underlying these estimates to report since December 31, 2004; accordingly our estimated liabilities for each of the site's three Operable Units at June 30, 2005 are:

Unit 1: \$1 for future remedial work and past costs incurred by the United States Environmental Protection Agency (EPA) relating to off-site soil contamination, based on the remediation performed at this Unit to date and our assessment of the likely allocation of costs among the PRPs.

Unit 2: \$14 for future remedial work relating to on-site soil contamination, taking into consideration the \$69 remedy proposed by the EPA in a Record of Decision issued in September 2004 and our assessment of the most likely remedial activities and allocation of costs among the PRPs.

Unit 3: less than \$1 for the costs of a remedial investigation and feasibility study pertaining to groundwater contamination, based on our expectations about the study that is likely to be performed and the likely allocation of costs among the PRPs.

*Other Liabilities* Until 2001, most of our asbestos-related claims were administered, defended and settled by the Center for Claims Resolution (CCR), which settled claims for its member companies on a shared settlement cost basis. In that year, the CCR was reorganized and discontinued negotiating shared settlements. Since then, we have independently controlled our legal strategy and settlements, using Peterson Asbestos Consulting Enterprise (PACE), a unit of Navigant Consulting, Inc., to administer our claims, bill our insurance carriers and assist us in claims negotiation and resolution. Some former CCR members defaulted on the payment of their shares of some of the CCR-negotiated settlements and some of the settling claimants have sought payment of the unpaid shares from Dana and the other companies that were members of the CCR at the time of the settlements. We have been working with the CCR, other former CCR members, our insurers, and the claimants over a period of several years in an effort to resolve these issues. Through June 30, 2005, we have paid \$47 and collected \$29 from insurance carriers. At June 30, 2005, we have a net receivable of \$10 that is expected to be recoverable from available insurance and surety bonds relating to this matter.

*Assumptions* The amounts we have recorded for contingent asbestos-related liabilities and recoveries are based on assumptions and estimates reasonably derived from our historical experience and current information. The actual amount of our liability for asbestos-related claims and the effect on Dana could differ materially from our current expectations if our assumptions about the nature of the pending unresolved bodily injury claims and the claims relating to the CCR-negotiated settlements, the costs to resolve those claims and the amount of available insurance and surety bonds prove to be incorrect, or if currently proposed U.S. federal legislation impacting asbestos personal injury claims is enacted.

### **Critical Accounting Estimates**

#### **General**

The preparation of interim financial statements involves the use of certain estimates that differ from those used in the preparation of the annual financial statements, the most significant of which relates to income taxes. For purposes of preparing our interim financial statements we utilize an estimated annual effective tax rate for ordinary items that is re-evaluated each period based on changes in the components used to determine the annual effective rate. Except as described below, our critical accounting estimates, as described in our 2004 Form 10-K/A, are unchanged.

#### **Change in Stock Option Valuation Method**

As discussed in Note 5, we modified the method used to determine the fair value of stock options in the first quarter of 2005 to the binomial method.

**Change in Accounting for Warranty**

As discussed in Note 16, we changed our method for accounting for warranty liabilities from estimating the liability based on the credit issued to the customer, to accounting for warranty liabilities based on our costs to settle the warranty claim.



**Results of Operations (Second Quarter 2005 versus Second Quarter 2004)**

We are organized into two market-focused business units Automotive Systems Group (ASG) and Heavy Vehicle Technologies and Systems Group (HVTSG). Accordingly, our segments are our business units and DCC.

Sales of our continuing operations by region for the second quarter of 2005 and 2004 were as follows:

	Three Months		Dollar Change	% Change	Dollar Change Due To		
	Ended June 30, 2005	2004			Currency Effects	Acquisitions/Divestitures	Organic Change & Other
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
North America	\$ 1,629	\$ 1,577	\$ 52	3%	\$ 19		\$ 33
Europe	539	431	108	25%	17		91
South America	245	152	93	61%	28		65
Asia Pacific	212	170	42	25%	9	14	19
	\$ 2,625	\$ 2,330	\$ 295	13%	\$ 73	\$ 14	\$ 208

Organic change presented in the table is the residual change in sales after excluding the effects of acquisitions, divestitures and currency movements. The strengthening of certain international currencies against the U.S. dollar since the first quarter of 2004 played a significant role in increasing our 2005 sales. In North America, the currency effects were attributed primarily to a stronger Canadian dollar. In Europe, the euro and the British pound strengthened, while in Asia Pacific the increase was led by the effect of the stronger Australian dollar. The currency effect in South America resulted principally from a stronger Brazilian real.

The organic sales increase in North America is due primarily to the stronger Class 8 commercial vehicle market where production in the second quarter of 2005 approximated 80,000 units, up from 63,000 units in the same period of 2004. A stronger off-highway market also contributed to the higher sales. The strength of these two markets more than offset the effects of slightly lower production levels in the North American light vehicle market which was down around 1% compared to last year's second quarter driven by a 3% decline in the light truck segment.

In Europe, the organic sales growth resulted primarily from new off-highway business in HVTSG and light vehicle business in ASG that came on stream in 2005. In South America, the organic sales increase reflects new business in ASG as well as stronger light vehicle production.

Sales by segment for 2005 and 2004 are presented in the following table. DCC did not record sales in either year. The Other category in the table represents facilities that have been closed or sold and operations not assigned to a segment, but excludes discontinued operations.

**Business Unit Sales Analysis**

	<b>Three Months</b>		Dollar Change Due To				
	<b>Ended June 30, 2005</b>	2004	Dollar Change	% Change	Currency Effects	Acquisitions/ Divestitures	Organic Change & Other
	<b>(Restated)</b>	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
ASG	<b>\$ 1,912</b>	\$ 1,720	\$ 192	11%	\$ 62	\$ 14	\$ 116
HVTSG	<b>706</b>	587	119	20%	11		108
Other	<b>7</b>	23	(16)	(70)%			(16)
	<b>\$ 2,625</b>	\$ 2,330	\$ 295	13%	\$ 73	\$ 14	\$ 208

ASG principally serves the light vehicle market, with some driveshaft sales to the commercial vehicle market. The organic sales increase was due primarily to the addition of new business and the stronger commercial vehicle market, which experienced higher Class 8 production of about 27% in North America. This more than offset the lower production levels in ASG's primary market—the North American light truck market—which was down about 3% compared to the second quarter of last year.

HVTSG focuses on the commercial vehicle and off-highway markets. More than 90% of HVTSG's sales are in North America and Europe. In the commercial vehicle markets in both North America and Europe, production levels were much stronger, with the North American Class 8 segment being up significantly, as previously noted.

In off-highway, production levels in our key market segments, including construction, agricultural and material handling, were also stronger in 2005. Our off-highway business, in particular, is also benefiting from new customer programs which added to current year sales.

An analysis of our 2005 and 2004 gross and operating margins and selling, general and administrative expenses relative to sales is presented in the following table.

**Gross and Operating Margin Analysis**

<b>Three Months Ended June 30,</b>	<b>As a Percentage of Sales</b>		<b>Increase</b>	<b>%</b>
	<b>2005</b>	<b>2004</b>	<b>/ (Decrease)</b>	<b>Change</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
Gross Margin:				
ASG	<b>5.91%</b>	6.98%	(1.07)%	(15.29)%
HVTSG	<b>7.37%</b>	11.93%	(4.56)%	(38.24)%
Consolidated	<b>6.82%</b>	9.31%	(2.49)%	(26.78)%
Selling, general and administrative expenses:				
ASG	<b>3.82%</b>	3.90%	(0.08)%	(1.99)%
HVTSG	<b>4.39%</b>	5.45%	(1.06)%	(19.45)%
Consolidated	<b>5.22%</b>	5.28%	(0.06)%	(1.14)%
Operating margin:				

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ASG	<b>2.09%</b>	3.08%	(0.99)%	(32.11)%
HVTSG	<b>2.97%</b>	6.47%	(3.50)%	(54.05)%
Consolidated	<b>1.60%</b>	4.03%	(2.43)%	(60.34)%

In the ASG, the reduction in gross margins was due mainly to a year-over-year increase in steel costs of \$41. Outside North America, ASG had some success recovering higher steel costs from customers. However, the major North American automotive companies have generally resisted accepting any price increases associated with steel surcharges. Adjusting for the higher steel costs, ASG's gross margins in 2005 would have been 8.1%, slightly improved over 2004. Margin improvement from higher sales and cost savings programs like lean manufacturing more than offset inflationary cost increases and other items.

HVTSG margins were similarly reduced by higher year-over-year steel costs, net of customer recoveries, of approximately \$21, accounting for about 3% of the decline in gross margin. The additional decline in gross margin is due primarily to production inefficiencies due in part to the constraints at our Commercial Vehicle group's principal North American assembly facility at current volume levels.

Consolidated selling, general and administrative (SG&A) expenses of \$139 in the second quarter of 2005 were up \$16 from the comparative period in 2004. Current year SG&A expenses were reduced by \$9 in connection with the enactment of the new tax legislation in the State of Ohio (see Income tax expense). An increase of \$3 resulted from certain operations, reported in 2004 as discontinued, now being included in continuing operations and from consolidation of an operation which was included as an equity affiliate in 2004. In addition, currency translation effects on international expenses accounted for an increase of \$3.

	<b>2005</b>	<b>2004</b>	<b>Dollar</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>Change</b>
			<b>(Restated)</b>
Income before income taxes	\$ 22	\$ 63	\$(41)

Income before income taxes declined \$41 in the second quarter of 2005 compared to the second quarter of 2004. As discussed previously, gross margins in our two manufacturing business segments were negatively impacted by higher steel cost, net of customer recoveries, of \$62. The lower operating margin was partially offset by lower interest expense of \$11 due primarily to lower overall debt levels.

	<b>2005</b>	<b>2004</b>	<b>Dollar</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>Change</b>
			<b>(Restated)</b>
Income tax expense	\$ (1)	\$ (2)	\$ 1

We recognized tax expense of \$1 on pre-tax profit of \$22 for the three months ended June 30, 2005, which differs from the expected expense of \$8 at a U.S. federal statutory tax rate of 35%. The primary reason for this difference was a \$15 reduction in our valuation allowance against deferred tax assets relating to capital loss carryforwards. During the second quarter, the completion of transactions generating capital gains permitted us to release valuation allowances against these carryforwards. The impact of state tax benefits on losses in the United States, combined with the effect of international operations which in the aggregate have a lower tax rate than the U.S. operations, reduced the expected tax expenses by \$4.

Partially offsetting these reductions to the expected tax was \$11 of additional expense resulting from the enactment of a new tax system in the State of Ohio. On June 30, 2005, the State of Ohio enacted legislation replacing the previous income-based tax with a new gross receipts tax. As a result, deferred state tax assets of \$15 determined to no longer be realizable during the phase-out of the income-based tax system were written off during the second quarter of 2005, impacting net income by \$11. The legislation enacting the new gross receipts tax system included provisions for certain deferred tax assets to be recoverable as credits against taxes due under the new system. The discounted value of the amount expected to be recovered as a credit under this provision of \$9 was recognized as an asset at June 30, 2005 with a corresponding credit to selling, general and administrative expense. Net of federal tax, the \$9 recoverable increased net income by \$6. Combined with the \$11 write-off of deferred tax assets, the net impact of the new Ohio tax legislation was a \$5 reduction in second-quarter 2005 results of operations.

	<b>2005</b>	<b>2004</b>	<b>Dollar</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>Change</b>
			<b>(Restated)</b>
Equity in earnings of affiliates	\$ 12	\$ 4	\$ 8

Our two largest equity affiliates accounted for \$5 of the increase.

**Results of Operations (Six Months 2005 versus Six Months 2004)**

Sales of our continuing operations by region for the first six months of 2005 and 2004 were as follows:

**Geographical Sales Analysis**

	Six Months Ended June 30,		Dollar Change	%	Dollar Change Due To		
	2005 (Restated)	2004 (Restated)			Currency Effects (Restated)	Acquisitions/ Divestitures (Restated)	Organic Change & Other (Restated)
North America	\$ 3,210	\$ 3,171	\$ 39	1%	\$ 34		\$ 5
Europe	1,055	858	197	23%	44		153
South America	455	283	172	61%	45		127
Asia Pacific	389	329	60	18%	13	28	19
	\$ 5,109	\$ 4,641	\$ 468	10%	\$ 136	\$ 28	\$ 304

The strengthening of certain international currencies against the U.S. dollar since the first half of 2004 played a significant role in increasing our 2005 sales. In North America, the impact of the stronger Canadian dollar was the primary factor. In Europe, the euro and the British pound strengthened, while in Asia Pacific the increase was led by the Australian dollar. The increase in South America was due principally to the effect of a stronger Brazilian real.

North American light vehicle production in the first half of 2005 was down 3% when compared to the first half of 2004. While passenger car production declined slightly about 1% the light truck segment was down about 4%. Partially offsetting the weaker light-duty market was a stronger North American commercial vehicle market. The Class 8 market in North America experienced an increase in production to around 160,000 units in the first half of 2005 from 117,000 units in the first half of 2004.

Elsewhere in the world, stronger commercial vehicle and off-highway production helped generate higher organic sales in Europe as light vehicle production was fairly stable. New business programs with off-highway and light duty customers also contributed to the European sales growth. In South America, domestic volumes were higher when compared to last year and sales also benefited from new business programs in ASG. The organic sales growth in Asia Pacific related primarily to net new business gains in the light vehicle market by ASG.

Sales by segment for 2005 and 2004 are presented in the following table. DCC did not record sales in either year. The Other category in the table represents facilities that have been closed or sold and operations not assigned to a segment, but excludes discontinued operations.

**Business Unit Sales Analysis**

	Six Months Ended June 30,		Dollar Change	%	Dollar Change Due To		
	2005 (Restated)	2004 (Restated)			Currency Effects (Restated)	Acquisitions/ Divestitures (Restated)	Organic Change & Other (Restated)

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ASG	<b>\$ 3,722</b>	\$ 3,431	\$ 291	8%	\$ 111	\$ 28	\$ 152
HVTSG	<b>1,372</b>	1,160	212	18%	25		187
Other	<b>15</b>	50	(35)	(70)%			(35)
	<b>\$ 5,109</b>	\$ 4,641	\$ 468	10%	\$ 136	\$ 28	\$ 304

ASG principally serves the light vehicle market, with some driveshaft sales to the original equipment commercial vehicle market. New business gains were the primary driver of organic growth in the ASG. Partially offsetting the new business contributions were the effects of lower production levels in ASG's primary market—the North American light truck market—which was down about 4% compared to the first half of last year.

HVTSG focuses on the commercial vehicle and off-highway markets. This group's sales are predominantly in North America and Europe. In the commercial vehicle markets in both North America and Europe, production levels were much stronger, with the North American Class 8 segment being up by more than 35%. Overall, off-highway production levels have also been strong this year. New programs with off-highway customers are also contributing to higher 2005 sales.

	<b>2005</b>	<b>2004</b>	<b>Dollar</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>Change</b>
			<b>(Restated)</b>
Revenue from lease financing and other income	<b>\$ 56</b>	\$ 35	\$ 21

Revenue from lease financing and other income increased \$21 in the first half of 2005 compared to the same period in 2004. Leasing revenue is \$7 higher, primarily due to last year's results including pre-tax losses on the sale of lease assets by DCC. Interest income increased \$7, due in part to interest on a note receivable obtained in connection with our sale of the majority of our automotive aftermarket businesses in November 2004.

An analysis of our 2005 and 2004 gross and operating margins and selling, general and administrative expense is presented in the following table.

#### Gross and Operating Margin Analysis

Six Months Ended June 30,	As a Percentage of		Increase /	%
	2005	2004		
	(Restated)	(Restated)	(Restated)	(Restated)
Gross Margin:				
ASG	<b>5.27%</b>	<b>6.65%</b>	(1.38)%	(20.76)%
HVTSG	<b>7.51%</b>	<b>11.72%</b>	(4.22)%	(35.97)%
Consolidated	<b>6.40%</b>	<b>9.03%</b>	(2.63)%	(29.11)%
Selling, general and administrative expenses:				
ASG	<b>3.95%</b>	<b>5.47%</b>	(1.52)%	(27.84)%
HVTSG	<b>4.66%</b>	<b>5.69%</b>	(1.02)%	(18.01)%
Consolidated	<b>5.42%</b>	<b>5.47%</b>	(0.05)%	(0.93)%
Operating margin:				
ASG	<b>1.32%</b>	<b>3.08%</b>	(1.76)%	(57.28)%
HVTSG	<b>2.84%</b>	<b>6.03%</b>	(3.19)%	(52.89)%
Consolidated	<b>0.98%</b>	<b>3.56%</b>	(2.58)%	(72.47)%

During the first half of 2005, the ASG's reduction in gross margins was due mainly to a year-over-year increase in steel costs of \$80. Outside North America, ASG had some success recovering higher steel costs from customers. However, the major North American automotive companies have generally resisted accepting any price increases associated with steel surcharges. Adjusted for the higher steel costs, ASG's gross margins in 2005 would have been 7.4%, up slightly over last year. As adjusted, the margin improvement from higher sales and cost reductions initiatives were essentially offset by inflationary cost increases, pricing reductions and other items.

In HVTSG, margins were also adversely impacted by higher year-over-year steel costs, net of customer recoveries, of approximately \$42. Removing the impact of the incremental steel cost, HVTSG gross margins would have been 10.6%, down approximately 1% from 2004. The margin improvement on higher sales in HVTSG was more than offset by inflationary cost increases, a component shortage in the first quarter of 2005 and manufacturing inefficiencies.





The \$277 total of consolidated selling, general and administrative (SG&A) expenses in the first half of 2005 is up \$23 from the comparative period in 2004. The increase is primarily a function of higher sales, with total expenses as a percent of sales being comparable to 2004.

	<b>2005</b>	<b>2004</b>	<b>Dollar</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>Change</b>
			<b>(Restated)</b>
Income before income taxes	\$ 23	\$ 96	\$(73)

The decline in income before income taxes during the first six months of 2005 compared to the same period in 2004 was due primarily to the adverse impact of higher steel cost, net of customer recoveries, of \$122 on operating margins, which decreased \$115. Mitigating the shortfall was lower interest expense of \$21 due primarily to lower overall debt levels, and higher leasing revenues and other income of \$21.

	<b>2005</b>	<b>2004</b>	<b>Dollar</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>Change</b>
			<b>(Restated)</b>
Income tax benefit	\$ 4	\$ 2	\$ 2

For the six months ended June 30, 2005, tax benefit of \$4 on pre-tax income of \$23 differed from the amount expected using the U.S. federal statutory tax rate of 35% by \$12. A primary factor in the reduction of income tax expense was the above-mentioned \$15 adjustment to valuation allowances against capital loss carryforwards in the second quarter. Lower rates on income from international operations and state tax effects on losses in the U.S. provided an additional \$11 reduction to tax expense. These two factors were offset in part by the \$11 increase to expense due to the enactment of a new tax system in the State of Ohio. See Second Quarter 2005 versus Second Quarter 2004 section for a detailed discussion.

#### **Forward-Looking Information**

Forward-looking statements in this report are indicated by words such as anticipates, expects, believes, intends, plans, estimates, projects and similar expressions. These statements represent our expectations based on current information and assumptions. Forward-looking statements are inherently subject to risks and uncertainties. Our actual results could differ materially from those which are anticipated or projected due to a number of factors. These factors include national and international economic conditions; adverse effects from terrorism or hostilities; the strength of other currencies relative to the U.S. dollar; increases in commodity costs, including steel, that cannot be recouped in product pricing; changes in business relationships with our major customers and in the timing, size and continuation of their programs; the ability of our customers and suppliers to achieve their projected sales and production levels; the continued availability of necessary goods and services from our suppliers; competitive pressures on our sales and pricing; the continued success of our cost reduction and cash management programs, long-term transformation and U.S. tax loss carryforward utilization strategies and other factors set out elsewhere in this report, including those discussed under the captions *Financing Activities* and *Contingencies* within Liquidity and Capital Resources.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to our exposures to market risk since December 31, 2004.

The financing activities of the first six months of 2005 are described in Management's Discussion and Analysis of Financial Condition and Results of Operations within this Form 10-Q/A.

**ITEM 4. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures* We maintain controls and procedures designed to ensure that the information disclosed in the reports that we file with the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

In the second quarter of 2005, senior management at our corporate office identified an unsupported asset sale transaction in our Commercial Vehicle business unit and recorded the necessary adjustments to correct for the accounting related to this matter before the accounting and reporting was completed for the quarter. During the third quarter, management initiated an investigation into the matter, corporate management found other incorrect accounting entries related to a customer agreement within the same business unit, and informed the Audit Committee of the Board of Directors of its findings.

In September 2005, the Audit Committee engaged outside counsel to conduct an independent investigation of the situation. The independent investigation included interviews with nearly one hundred present and former employees with operational and financial management responsibilities for each of the company's business units.

The investigations also included a review and assessment of accounting transactions identified through the interviews noted above, and through other work performed by the company and the independent investigators engaged by the Audit Committee. The

independent investigators also reviewed and assessed certain items identified as part of the annual audit performed by the company's independent registered public accounting firm.

In announcements during October and November 2005, we reported on the preliminary findings of the ongoing management and Audit Committee investigations, including the determination that we would restate our consolidated financial statements for the first and second quarters of 2005 and for years 2002 through 2004.

The investigations are now complete, and management, under the direction of our CEO and CFO, has re-evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2005. Based upon this re-evaluation and the investigations described above, and as a result of the material weaknesses discussed in Item 9A of our 2004 Form 10-K/A, management, including our CEO and CFO, has concluded that our disclosure controls and procedures were not effective as of June 30, 2005.

You can find more information about the investigations, the material weaknesses and their impact on our disclosure controls and procedures and our internal control over financial reporting, and the actions that we have taken or are planning to take to remediate the material weaknesses in Item 9A of our 2004 Form 10-K/A, which is incorporated by reference into this Item 4.

*Changes in Internal Control Over Financial Reporting* Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements in accordance with GAAP. With the participation of our CEO and CFO, our management evaluates any changes in our internal control over financial reporting that occurred during each fiscal quarter which have materially affected, or are reasonably likely to materially affect, such internal control. Apart from the ongoing deployment of our account reconciliation software to our major facilities to allow access and review of reconciliations from a central location, discussed in Item 9A of our 2004 Form 10-K/A, there were no changes that occurred during the quarter ended June 30, 2005, that have materially affected or were reasonably likely to materially affect Dana's internal control over financial reporting.

*CEO and CFO Certifications* The Certifications of our CEO and CFO which are attached as Exhibits 31-A and 31-B to this Report include information about our disclosure controls and procedures and internal control over financial reporting. These Certifications should be read in conjunction with the information contained in this Item 4, including the information incorporated by reference to our 2004 Form 10-K/A, for a more complete understanding of the matters covered by the Certifications.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We are a party to various pending judicial and administrative proceedings arising in the ordinary course of business. After reviewing the proceedings that are currently pending (including the probable outcomes, reasonably anticipated costs and expenses, availability and limits of our insurance coverage, and our established reserves for uninsured liabilities), we do not believe that any liabilities that may result from these proceedings are reasonably likely to have a material adverse effect on our liquidity, financial condition or results of operations.

Since our annual report on Form 10-K/A for the year ended December 31, 2004, there have not been any material developments in our previously reported pending litigation and environmental proceedings or any new litigation or environmental proceedings that are required to be reported in this quarterly report.

You can find more information about our legal proceedings under Note 14. Contingencies and Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

There were no equity securities sold by Dana during the second quarter of 2005 that were not registered under the Securities Act of 1933.

The following shares were repurchased in connection with (1) the vesting of restricted stock grants to satisfy the required payment of withheld income taxes and (2) the exercise of stock options to satisfy the payment of the exercise price and/or withheld income taxes.

<b>Total</b>	
<b>Number</b>	<b>Average</b>

<b>Period</b>	<b>of Shares Purchased</b>	<b>Price Paid Per Share</b>
April 2005	241	\$ 12.15
May 2005	3,933	11.20
June 2005	40	12.02
	4,214	\$ 11.26

**ITEM 6. EXHIBITS**

The Exhibits listed in the Exhibit Index are filed with or furnished as a part of this report. Exhibit No. 10-W is a compensatory contract in which a named executive officer of Dana participates.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DANA CORPORATION

/s/ Robert C. Richter

Robert C. Richter  
Chief Financial Officer

Date: December 30, 2005

**EXHIBIT INDEX**

10-W	Separation Agreement, General Release and Covenant Not to Sue between Dana Corporation and James Michael Laisure	Filed by reference to Exhibit 99.1 to our Form 8-K filed on June 20, 2005
18	Letter re Change in Accounting Principles from PricewaterhouseCoopers LLP	Filed with this report
31-A	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer	Filed with this report
31-B	Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer	Filed with this report
32	Section 1350 Certifications	Furnished with this report