

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. 2)**

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the Quarterly Period Ended March 31, 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 April 29, 2005

Common stock, \$1 par value

150,256,100

### **Explanatory Note**

We are filing this Amendment No. 2 on Form 10-Q/A to Dana Corporation's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, which was originally filed with the Securities and Exchange Commission (the SEC) on May 6, 2005, and subsequently amended by Amendment No. 1 on Form 10-Q/A (to amend certain disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations) which was filed on May 13, 2005 (collectively, the Original Form 10-Q), to reflect the restatements of our condensed consolidated balance sheets at March 31, 2005 and December 31, 2004; our condensed consolidated statements of income and cash flows for the three months ended March 31, 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 May 6, 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 June 30, 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  
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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****DANA CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)****(in millions)**

	<b>March 31, 2005 Restated</b>	<b>December 31, 2004 See Note 2</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 590	\$ 634
Accounts receivable		
Trade	1,468	1,254
Other	372	437
Inventories		
Raw materials	478	414
Work in process and finished goods	487	484
Other current assets	321	200
Total current assets	3,716	3,423
Property, plant and equipment, net	2,120	2,171
Investments in leases	277	281
Investments and other assets	3,032	3,144
Total assets	\$ 9,145	\$ 9,019
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Notes payable, including current portion of long-term debt	\$ 305	\$ 155
Accounts payable	1,426	1,330
Other current liabilities	1,221	1,188
Total current liabilities	2,952	2,673
Long-term debt	2,045	2,054
Deferred employee benefits and other noncurrent liabilities	1,689	1,759
Minority interest in consolidated subsidiaries	124	122
Shareholders' equity	2,335	2,411
Total liabilities and shareholders' equity	\$ 9,145	\$ 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)

	<b>Three Months Ended March 31,</b>	
	<b>2005 Restated</b>	<b>2004 See Note 2</b>
<b>Net sales</b>	<b>\$ 2,484</b>	<b>\$ 2,311</b>
Revenue from lease financing and other income	<b>34</b>	<b>14</b>
	<b>2,518</b>	<b>2,325</b>
<b>Costs and expenses</b>		
Cost of sales	<b>2,337</b>	<b>2,109</b>
Selling, general and administrative expenses	<b>138</b>	<b>131</b>
Interest expense	<b>42</b>	<b>52</b>
	<b>2,517</b>	<b>2,292</b>
Income before income taxes	<b>1</b>	<b>33</b>
Income tax benefit	<b>5</b>	<b>4</b>
Minority interest	<b>(3)</b>	<b>(3)</b>
Equity in earnings of affiliates	<b>9</b>	<b>15</b>
Income from continuing operations	<b>12</b>	<b>49</b>
Income from discontinued operations, net of tax		<b>9</b>
Income before effect of change in accounting	<b>12</b>	<b>58</b>
Effect of change in accounting See Note 16	<b>4</b>	
<b>Net Income</b>	<b>\$ 16</b>	<b>\$ 58</b>
<b>Basic earnings per common share</b>		
Income from continuing operations	<b>\$ 0.08</b>	<b>\$ 0.33</b>
Discontinued operations		<b>0.06</b>
Effect of change in accounting	<b>0.03</b>	
Net income	<b>\$ 0.11</b>	<b>\$ 0.39</b>
<b>Diluted earnings per common share</b>		
Income from continuing operations	<b>\$ 0.08</b>	<b>\$ 0.33</b>
Income from discontinued operations		<b>0.06</b>
Effect of change in accounting	<b>0.03</b>	
Net income	<b>\$ 0.11</b>	<b>\$ 0.39</b>

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

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

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>Restated</b>	<b>See Note 2</b>
Net income	\$ 16	\$ 58
Depreciation and amortization	83	93
Gain on divestitures and asset sales	(1)	(4)
Working capital increase	(266)	(212)
Other	(44)	(1)
Net cash flows operating activities	(212)	(66)
Purchases of property, plant and equipment	(60)	(77)
Payments received on leases and loans	4	4
Asset sales	35	103
Payments from partnerships	63	8
Other	1	(5)
Net cash flows investing activities	43	33
Net change in short-term debt	164	115
Payments on long-term debt	(20)	(259)
Proceeds from long-term debt		5
Dividends paid	(18)	(18)
Other	(1)	5
Net cash flows financing activities	125	(152)
Net change in cash and cash equivalents	(44)	(185)
Cash and cash equivalents beginning of period	634	731
Cash and cash equivalents end of period	\$ 590	\$ 546

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 quarter ended March 31, 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 ended March 31, 2004 by \$2 and diluted earnings per share by \$0.01.

**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 before effect of change in accounting was reduced by \$6 (\$.04 per share) and \$7 (\$.04 per share) for the three months ended March 31, 2005 and 2004, respectively.

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

	Three Months Ended March 31, 2005		2004	
	Amount	EPS	Amount	EPS
Net income, as originally reported	\$ 18	\$ 0.12	\$ 65	\$ 0.43
Accounting corrections relating to 2005 investigation, before tax:				
Customer pricing (1)	(3)	(0.02)		
Cost deferrals (2)	(3)	(0.02)		
Payments from suppliers (3)	(2)	(0.01)	(2)	(0.01)
Supplier pricing and charges (4)	(2)	(0.01)		
Steel surcharges (5)	(3)	(0.02)		
Other, net	(1)	(0.01)	(1)	(0.01)
	(14)	(0.09)	(3)	(0.02)
Income tax effects on the above	5	0.03	1	0.01
	(9)	(0.06)	(2)	(0.01)
Other restatement items, before tax:				
Interest expense (6)			(1)	(0.01)
Insurance recoveries (7)			1	0.01
Other, net	3	0.02	(5)	(0.03)
	3	0.02	(5)	(0.03)
Net income, before effect of change in accounting, as restated	\$ 12	\$ 0.08	\$ 58	\$ 0.39

(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 \$2 and earnings per share by \$.01 for the three months ended March 31, 2005.

- (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 \$2 and earnings per share by \$.01 for the three months ended March 31, 2005.

- (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 tables compare 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)

	March 31, 2005		December 31, 2004	
	As Originally Reported	As Restated	As Originally Reported	As Restated
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 590	\$ 590	\$ 634	\$ 634
Accounts receivable				
Trade	1,479	1,468	1,266	1,254
Other	379	372	444	437
Inventories				
Raw materials	482	478	416	414
Work in process and finished goods	495	487	491	484
Other current assets	256	321	217	200
Total current assets	3,681	3,716	3,468	3,423
Property, plant and equipment, net	2,106	2,120	2,153	2,171
Investments in leases	277	277	281	281
Investments and other assets	3,025	3,032	3,145	3,144
Total assets	\$ 9,089	\$ 9,145	\$ 9,047	\$ 9,019
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities				
Notes payable, including current portion of long-term debt	\$ 305	\$ 305	\$ 155	\$ 155
Accounts payable	1,407	1,426	1,317	1,330
Other current liabilities	1,138	1,221	1,217	1,188
Total current liabilities	2,850	2,952	2,689	2,673
Long-term debt	2,045	2,045	2,054	2,054
Deferred employee benefits and other noncurrent liabilities	1,689	1,689	1,746	1,759
Minority interest in consolidated subsidiaries	126	124	123	122
Shareholders' equity	2,379	2,335	2,435	2,411
Total liabilities and shareholders' equity	\$ 9,089	\$ 9,145	\$ 9,047	\$ 9,019

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

	<b>Three Months Ended March 31, 2005</b>		<b>Three Months Ended March 31, 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>\$ 2,488</b>	<b>\$ 2,484</b>	<b>\$ 2,311</b>	<b>\$ 2,311</b>
Revenue from lease financing and other income	32	34	14	14
	2,520	2,518	2,325	2,325
<b>Costs and expenses</b>				
Cost of sales	2,327	2,337	2,105	2,109
Selling, general and administrative expenses	136	138	134	131
Interest expense	43	42	51	52
	2,506	2,517	2,290	2,292
Income before income taxes	14	1	35	33
Income tax benefit		5	3	4
Minority interest	(3)	(3)	(3)	(3)
Equity in earnings of affiliates	7	9	17	15
Income from continuing operations	18	12	52	49
Income from discontinued operations, net of tax			13	9
Income before effect of change in accounting	18	12	65	58
Effect of change in accounting		4		
Net Income	\$ 18	\$ 16	\$ 65	\$ 58
<b>Basic earnings per common share</b>				
Income from continuing operations	\$ 0.12	\$ 0.08	\$ 0.35	\$ 0.33
Income from discontinued operations			0.09	0.06
Effect of change in accounting		0.03		
Net income	\$ 0.12	\$ 0.11	\$ 0.44	\$ 0.39

**Diluted earnings per common share**

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

		<b>Three Months Ended March 31, 2005</b>		<b>Three Months Ended March 31, 2004</b>	
		<b>As Originally Reported</b>	<b>As Restated</b>	<b>As Originally Reported</b>	<b>As Restated</b>
Cash and cash equivalents	beginning of period	\$ 634	\$ 634	\$ 731	\$ 731
Net cash flows	operating activities	(203)	(212)	(62)	(66)
Net cash flows	investing activities	34	43	29	33
Net cash flows	financing activities	125	125	(152)	(152)
Net change in cash and cash equivalents		(44)	(44)	(185)	(185)
Cash and cash equivalents	end of period	\$ 590	\$ 590	\$ 546	\$ 546

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 Pronouncement**

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment. SFAS No. 123R 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 was recently 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. 123R will be applied to stock options granted subsequent to December 31, 2005 as well as the unvested portion of prior grants.

The impact of adopting SFAS No. 123R on our 2006 earnings is not expected to be significantly different from the pro forma expense included in our 2004 annual report; however, the amount of expense will be affected by the new valuation method, the volume of grants and exercises, forfeitures, our dividend rate and the volatility of our stock price.

**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 March 31,</b>	
	<b>2005</b>	<b>2004</b>
Average shares outstanding for the period    basic	<b>149.4</b>	148.3
Plus: Incremental shares from:		
Deferred compensation units	<b>0.5</b>	0.4
Restricted stock	<b>0.3</b>	0.3
Stock options	<b>0.5</b>	1.3
Potentially dilutive shares	<b>1.3</b>	2.0
Average shares outstanding for the period    diluted	<b>150.7</b>	150.3

**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 the stock options would have been \$3 in the first quarter 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 the binomial method. The new method is being applied to stock options granted after December 31, 2004, including approximately 1,800,000 options granted in February 2005. 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 fair value of the options granted in February 2005 was \$4.28 per share under the binomial method, using a market value at date of grant of \$15.94 and the following assumptions: risk-free interest rates of 2.84% to 4.08%, a dividend yield of 2.64%, volatility of 30% to 31.5%, expected forfeitures of 17.5% and an expected life of 6.7 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 March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Restated)</b>	<b>(Restated)</b>
Stock compensation expense, as reported	<b>\$ 1</b>	\$ 0
Stock option expense, pro forma	<b>3</b>	3
Stock compensation expense, pro forma	<b>\$ 4</b>	\$ 3
Net income, as reported	<b>\$ 16</b>	\$ 58
Net income, pro forma	<b>13</b>	55

Basic earnings per share			
Net income, as reported	\$	<b>0.11</b>	\$ 0.39
Net income, pro forma		<b>0.09</b>	0.37
Diluted earnings per share			
Net income, as reported	\$	<b>0.11</b>	\$ 0.39
Net income, pro forma		<b>0.09</b>	0.37

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

As discussed in Note 1, the results of operations for the three months ended March 31, 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 ended March 31, 2004 in the Other Benefits table below reflect these adjustments.

	<b>Pension Benefits Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Service cost	\$ 13	\$ 15
Interest cost	40	44
Expected return on plan assets	(52)	(54)
Amortization of prior service cost	1	2
Recognized net actuarial loss	6	4
Net periodic benefit cost	<b>\$ 8</b>	<b>\$ 11</b>

	<b>Other Benefits Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Service cost	\$ 3	\$ 3
Interest cost	25	27
Amortization of prior service cost	(3)	(3)
Recognized net actuarial loss	9	11
Net periodic benefit cost	<b>\$ 34</b>	<b>\$ 38</b>

We made \$9 in pension contributions to our defined benefit plans during the three months ended March 31, 2005 and expect to contribute approximately \$75 during the last nine 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. The deferred translation loss reported for the three months ended March 31, 2005 was \$60 and resulted primarily from the strengthening of the U.S. dollar relative to the euro (\$39), the British pound (\$6), the South African rand (\$5) and the Swedish krona (\$5). Changes in the relative value of the euro (\$14 loss) and the British pound (\$10 gain) were largely offsetting during the three months ended March 31, 2004.

Our total comprehensive income (loss) for the three months ended March 31, 2005 and 2004 was as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2005 (Restated)</b>	<b>2004 (Restated)</b>
Net income	\$ 16	\$ 58
Other comprehensive income (loss):		
Deferred translation loss	(60)	(1)
Other	4	(1)

Total comprehensive income (loss)	\$ (40)	\$ 56
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## Note 8. Income Taxes

The effective tax rates for the three-month periods ended March 31, 2005 and 2004 were affected primarily by adjustments to the valuation allowances provided against deferred tax assets related to tax loss carryforwards.

We recognized tax benefit of \$5 for the three months ended March 31, 2005, which differs from the expected expense of less than \$1 at a U.S. federal statutory tax rate of 35%. The primary reason for this difference was a \$3 reduction in our valuation allowance against deferred tax assets. The adjustment to the valuation allowance was based primarily on our determination that it was more likely than not that a portion of the tax loss carryforward of one of our non-U.S. subsidiaries would be realized within the applicable carryforward period.

The \$4 income tax benefit for the three months ended March 31, 2004 recognized on pre-tax income of \$33 differed from an expected expense provision of \$12 at a statutory tax rate of 35%. The primary reason for this difference was a \$12 reduction in the valuation allowance against deferred tax assets, as we determined that it was more likely than not that a portion of our capital loss carryforward would be utilized in connection with the sale of Dana Credit Corporation (DCC) assets.

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. 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.

Deferred tax assets at March 31, 2005, net of valuation allowances, approximated \$1,001, including \$856 of U.S. federal and state deferred income taxes. We evaluate the carrying value of deferred tax assets quarterly. Excluding the capital loss carryover, 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 results in 2005 or the inability to project such results in the U.S. beyond 2005 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 first quarter of 2005 consist of our business units – the Automotive Systems Group (ASG) and the Heavy Vehicle Technologies and Systems Group (HVTSG) – and DCC.

In accordance with plans announced in October 2001, we have been divesting DCC's businesses and assets; these sales continued during the first quarter of 2005. As a result of sales and the continuing collection of payments, DCC's total portfolio assets were reduced by \$75 during the quarter, leaving assets of approximately \$755 at March 31, 2005. While we are continuing to pursue the sale of many 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 March 31, 2005, our expectation was that we would retain approximately \$400 of the \$755 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.

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 long-term bank facility are measured with DCC accounted for on an equity basis.

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

**Three Months Ended March 31,**

	<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	\$ 1,810	\$ 37	\$ 59	\$ 41	\$ 5
HVTSG	666	1	31	18	1
DCC				6	6
Other	8	14	(66)	(54)	(1)
<b>Total operations</b>	<b>2,484</b>	<b>52</b>	<b>24</b>	<b>11</b>	<b>11</b>
<b>Unusual items excluded from performance measures</b>				<b>1</b>	<b>1</b>
<b>Effect of change in accounting</b>				<b>4</b>	<b>4</b>
<b>Consolidated</b>	<b>\$ 2,484</b>	<b>\$ 52</b>	<b>\$ 24</b>	<b>\$ 16</b>	<b>\$ 16</b>
North America	\$ 1,582	\$ 30	\$ 14	\$ 7	\$ (22)
Europe	516	34	36	25	15
South America	209	59	23	14	10
Asia Pacific	177	13	12	8	4
DCC				6	6
Other			(61)	(49)	(2)
<b>Total operations</b>	<b>2,484</b>	<b>136</b>	<b>24</b>	<b>11</b>	<b>11</b>
<b>Unusual items excluded from performance measures</b>				<b>1</b>	<b>1</b>
<b>Effect of change in accounting</b>				<b>4</b>	<b>4</b>
<b>Consolidated</b>	<b>\$ 2,484</b>	<b>\$ 136</b>	<b>\$ 24</b>	<b>\$ 16</b>	<b>\$ 16</b>
<b>2004</b>					
ASG	\$ 1,712	\$ 45	\$ 100	\$ 70	\$ 38
HVTSG	573	1	38	23	9
DCC				7	7
Other	26	16	(56)	(53)	(7)
<b>Total continuing operations</b>	<b>2,311</b>	<b>62</b>	<b>82</b>	<b>47</b>	<b>47</b>
<b>Discontinued operations</b>			<b>20</b>	<b>9</b>	<b>9</b>
<b>Total operations</b>	<b>2,311</b>	<b>62</b>	<b>102</b>	<b>56</b>	<b>56</b>
<b>Unusual items excluded from performance measures</b>			<b>(1)</b>	<b>2</b>	<b>2</b>

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Consolidated	\$ 2,311	\$ 62	\$ 101	\$ 58	\$ 58
North America	\$ 1,594	\$ 36	\$ 78	\$ 51	\$ 22
Europe	427	25	28	21	13
South America	130	44	18	11	9
Asia Pacific	160	6	10	7	3
DCC				7	7
Other			(52)	(50)	(7)
Total continuing operations	2,311	111	82	47	47
Discontinued operations			20	9	9
Total operations	2,311	111	102	56	56
Unusual items excluded from performance measures			(1)	2	2
Consolidated	\$ 2,311	\$ 111	\$ 101	\$ 58	\$ 58

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 of 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 closed plants and 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.

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Restated)</b>	<b>(Restated)</b>
EBIT from continuing operations	\$ 24	\$ 82
Unusual items excluded from performance measures		(1)
Interest expense, excluding DCC	(33)	(39)
Interest income, excluding DCC	7	2
DCC pre-tax income (loss)	3	(11)
Income before income taxes	\$ 1	\$ 33

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 ended March 31, 2005 and 2004.

	<b>Three Months Ended March 31, 2005</b>		<b>Three Months Ended March 31, 2004</b>	
	<b>EBIT</b>	<b>OPAT</b>	<b>EBIT</b>	<b>OPAT</b>
Expenses related to DCC asset sales	\$	\$	\$ (1)	\$
Gain on DCC asset sales		1		2
	\$	\$ 1	\$ (1)	\$ 2

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 our Automotive Aftermarket Group (AAG). These operations comprise the discontinued operations reported in our financial statements for the period ended March 31, 2004. The \$9 of income of discontinued operations consisted of pre-tax income of \$20 and tax expense of \$11. The sale of these operations was completed in November 2004 and had no impact on income for the three months ended March 31, 2005.

#### **Note 11. Cash Deposits**

At March 31, 2005, we maintained cash deposits of \$94 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 \$89 of the deposits may not be withdrawn.

#### **Note 12. Goodwill**

The changes in goodwill during the three months ended March 31, 2005, by segment, were as follows:

<b>Balance at</b>	<b>Effect of</b>
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	<b>December 31, 2004</b>	<b>Currency and Other</b>	<b>Balance at March 31, 2005</b>
ASG	\$ 454	\$ (8)	\$ 446
HVTSG	123	(1)	122
Other	16		16
	<b>\$ 593</b>	<b>\$ (9)</b>	<b>\$ 584</b>

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

**Note 13. Restructuring of Operations**

The following summarizes the activity in accrued restructuring expenses during the first three months of 2005:

<b>Employee Termination Benefits</b>	<b>Exit Costs</b>	<b>Total</b>
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