

DANA CORP  
Form 10-Q  
August 10, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended: **June 30, 2007**

**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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 31, 2007
Common stock, \$1 par value	150,202,981

**DANA CORPORATION FORM 10-Q  
FOR THE QUARTERLY PERIOD  
ENDED JUNE 30, 2007**

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**FORWARD-LOOKING INFORMATION**

Statements in this report that are not entirely historical constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forwarding-looking statements are indicated by words such as anticipates, expects, believes, intends, plans, estimates, projects and similar expressions. These statements are based on the present expectations of Dana Corporation (Dana, we or us) and its consolidated subsidiaries based on our current information and assumptions. Forward-looking statements are inherently subject to risks and uncertainties. Our plans, actions and actual results could differ materially from our present expectations due to a number of factors, including those discussed below and elsewhere in this report, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (our 2006 Form 10-K) and in our other filings with the Securities and Exchange Commission (SEC):

**Bankruptcy-Related Risk Factors**

Our ability to continue as a going concern, operate pursuant to the terms of our debtor-in-possession credit facility, and obtain court approval with respect to motions in our bankruptcy proceedings from time to time;

Our ability to fund and execute our business plan;

Our ability to maintain satisfactory terms with our customers, vendors and service providers;

Our ability to attract, motivate and/or retain key employees;

Our ability to successfully complete the implementation of the reorganization initiatives discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in Item 2 of Part I of this report; and

Our ability to (i) file a plan of reorganization with the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court) by September 3, 2007, that comports with the requirements of Chapter 11 of Title II of the United States Code (the Bankruptcy Code) and incorporates the union settlement agreements and equity investment commitments discussed in Note 2 to our financial statements in Item 1 of Part I of this report and in MD&A in Item 2 of Part I of this report, or an alternative proposal acceptable to the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (the USW) and the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (the UAW), (ii) obtain Bankruptcy Court approval of the disclosure statement filed with our plan of reorganization, (iii) obtain confirmation of our plan of reorganization implementing such union settlement agreements and equity investment commitments (or such alternative proposal) by February 28, 2008, and (iv) emerge from bankruptcy by May 1, 2008.

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**Risk Factors in the Vehicle Markets We Serve**

High fuel prices and interest rates;

The cyclical nature of the heavy-duty commercial vehicle market;

Shifting consumer preferences in the United States (U.S.) from pickup trucks and sport utility vehicles (SUVs) to cross-over vehicles (CUVs) and passenger cars;

Market share declines, production cutbacks, and potential vertical integration by our larger customers, including Ford Motor Company (Ford), General Motors Corporation (GM) and DaimlerChrysler AG (Chrysler);

The ability of Ford, GM and Chrysler to renegotiate collective bargaining agreements with their unionized employees and avert potential production interruptions;

High costs of commodities used in our manufacturing processes, such as steel, other raw materials and energy, particularly costs that cannot be recovered from our customers;

Competitive pressures on our sales from other vehicle component suppliers; and

Adverse effects that could result from any divestitures, consolidations or bankruptcies of our customers, vendors and competitors.

**Company-Specific Risk Factors**

Changes in business relationships with our major customers and/or in the timing, size and duration of their programs for vehicles with Dana content;

Price reduction pressures from our customers;

Our vendors' ability to maintain projected production levels and furnish us with critical components for our products and other necessary goods and services;

Adverse effects that could result if U.S. federal legislation relating to asbestos personal injury claims were enacted; and

Adverse effects that could result from increased costs of environmental remediation and compliance.

Table of Contents**PART I FINANCIAL INFORMATION****(In millions, except per share amounts)****ITEM 1. FINANCIAL STATEMENTS****DANA CORPORATION****(DEBTOR IN POSSESSION)****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Net sales</b>	\$ 2,289	\$ 2,300	\$ 4,434	\$ 4,497
Costs and expenses				
Cost of sales	2,141	2,161	4,184	4,257
Selling, general and administrative expenses	88	115	184	230
Realignment charges, net	134	1	153	2
Impairment of assets		1		15
Other income, net	32	39	78	70
Income (loss) from continuing operations before interest, reorganization items and income taxes	(42)	61	(9)	63
Interest expense (contractual interest of \$55 and \$53 for the three months ended June 30, 2007 and 2006 and \$105 and \$100 for the six months ended June 30, 2007 and 2006)	28	26	51	65
Reorganization items, net	38	34	75	89
Income (loss) from continuing operations before income taxes	(108)	1	(135)	(91)
Income tax expense	(3)	(36)	(18)	(58)
Minority interest expense	(4)	(2)	(6)	(3)
Equity in earnings of affiliates	10	6	18	16
<b>Loss from continuing operations</b>	(105)	(31)	(141)	(136)
<b>Income (loss) from discontinued operations</b>	(28)	3	(84)	(18)
<b>Net loss</b>	\$ (133)	\$ (28)	\$ (225)	\$ (154)
<b>Basic loss per common share</b>				
Loss from continuing operations	\$ (0.70)	\$ (0.21)	\$ (0.94)	\$ (0.91)
Income (loss) from discontinued operations	(0.19)	0.02	(0.56)	(0.12)
<b>Net loss</b>	\$ (0.89)	\$ (0.19)	\$ (1.50)	\$ (1.03)
<b>Diluted loss per common share</b>				
Loss from continuing operations	\$ (0.70)	\$ (0.21)	\$ (0.94)	\$ (0.91)
Income (loss) from discontinued operations	(0.19)	0.02	(0.56)	(0.12)
<b>Net loss</b>	\$ (0.89)	\$ (0.19)	\$ (1.50)	\$ (1.03)

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Average shares outstanding	Basic	150	150	150	150
Average shares outstanding	Diluted	150	150	150	150

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

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**DANA CORPORATION**  
**(DEBTOR IN POSSESSION)**  
**CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)**

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,001	\$ 704
Restricted cash	103	15
Accounts receivable		
Trade, less allowance for doubtful accounts of \$23 in 2007 and 2006	1,411	1,131
Other	297	235
Inventories		
Raw materials	322	290
Work in process and finished goods	451	435
Assets of discontinued operations	194	392
Other current assets	143	122
<b>Total current assets</b>	<b>3,922</b>	<b>3,324</b>
Investments and other assets	1,042	1,079
Investments in equity affiliates	211	555
Property, plant and equipment, net	1,732	1,776
<b>Total assets</b>	<b>\$ 6,907</b>	<b>\$ 6,734</b>
<b>Liabilities and shareholders deficit</b>		
Current liabilities		
Notes payable, including current portion of long-term debt	\$ 265	\$ 293
Debtor-in-possession financing	900	
Accounts payable	1,146	886
Liabilities of discontinued operations	96	195
Other accrued liabilities	837	712
<b>Total current liabilities</b>	<b>3,244</b>	<b>2,086</b>
Liabilities subject to compromise	3,653	4,175
Deferred employee benefits and other non-current liabilities	473	504
Long-term debt	20	22
Debtor-in-possession financing		700
Commitments and contingencies (Note 14)		
Minority interest in consolidated subsidiaries	92	81
<b>Total liabilities</b>	<b>7,482</b>	<b>7,568</b>
<b>Shareholders deficit</b>	<b>(575)</b>	<b>(834)</b>
<b>Total liabilities and shareholders deficit</b>	<b>\$ 6,907</b>	<b>\$ 6,734</b>

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

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**DANA CORPORATION  
(DEBTOR IN POSSESSION)  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating activities</b>		
Net loss	\$ (225)	\$ (154)
Depreciation and amortization	139	135
Impairment and divestiture-related charges	1	46
Gain on sale of assets	(8)	
Non-cash portion of U.K. pension charge	60	
Reorganization items, net of payments	7	45
Payments to VEBA's for postretirement benefits	(27)	
Changes in working capital	(64)	49
Other	(35)	(39)
<b>Net cash flows provided by (used for) operating activities</b>	<b>(152)</b>	<b>82</b>
<b>Investing activities</b>		
Purchases of property, plant and equipment	(94)	(182)
Proceeds from sale of businesses	305	
Proceeds from sale of DCC assets and partnership interests	109	11
Proceeds from sale of other assets	7	28
Payments received on leases and loans	7	6
Increase in restricted cash	(88)	
Other	18	19
<b>Net cash flows provided by (used for) investing activities</b>	<b>264</b>	<b>(118)</b>
<b>Financing activities</b>		
Net change in short-term debt	(28)	(555)
Proceeds from debtor-in-possession facility	200	700
Issuance of long-term debt		7
Other	(2)	(7)
<b>Net cash flows provided by financing activities</b>	<b>170</b>	<b>145</b>
<b>Net increase in cash and cash equivalents</b>	<b>282</b>	<b>109</b>
<b>Cash and cash equivalents beginning of period</b>	<b>704</b>	<b>762</b>
Effect of exchange rate changes on cash balances held in foreign currencies	28	(5)
Net change in cash of discontinued operations	(13)	5
<b>Cash and cash equivalents end of period</b>	<b>\$ 1,001</b>	<b>\$ 871</b>

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

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(DEBTOR IN POSSESSION)  
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**Notes to Condensed Consolidated Financial Statements  
(In millions, except per share amounts)**

**Note 1. Basis of Presentation**

In management's opinion, the accompanying financial statements include all normal recurring adjustments necessary for a fair presentation of Dana's financial condition, results of operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of full-year results.

The financial statements in this report should be read in conjunction with the audited consolidated financial statements and accompanying notes in our 2006 Form 10-K.

**Accounting Requirements**

As discussed in Note 2, Dana Corporation and forty of its wholly-owned subsidiaries (collectively, the Debtors) are reorganizing under the Bankruptcy Code. American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7), which is applicable to companies operating under Chapter 11, generally does not change the manner in which financial statements are prepared. However, SOP 90-7 does require that the financial statements for periods subsequent to the filing of a Chapter 11 petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business.

We adopted SOP 90-7 effective March 3, 2006 (the Filing Date) and prepare our financial statements in accordance with its requirements. Revenues, expenses, realized gains and losses and provisions for losses that can be directly associated with the reorganization and restructuring of our business are reported separately as reorganization items in our statement of operations. Our balance sheet distinguishes pre-petition liabilities subject to compromise both from those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. Liabilities that may be affected by the Debtors' plan of reorganization are reported at the amounts expected to be allowed by the Bankruptcy Court, although they may ultimately be settled for different amounts. In addition, cash provided by or used for reorganization items is disclosed separately in our statement of cash flows. See Note 3 for further information about our financial statement presentation under SOP 90-7.

**Recent Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115. SFAS No. 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS No. 159 permits companies to choose to measure eligible items at fair value at specified election dates. Companies must report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date.

SFAS No. 159

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must be adopted effective January 1, 2008, and we are evaluating the effect, if any, that adoption will have on our consolidated financial statements in 2008.

In September 2006, the FASB Emerging Issues Task Force (EITF) promulgated Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF No. 06-4). In March 2007, the EITF promulgated Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements (EITF No. 06-10). EITF Nos. 06-4 and 06-10 require a company that provides a benefit to an employee under an endorsement or collateral assignment split-dollar life insurance arrangement that extends to postretirement periods to recognize a liability and related compensation costs. We will adopt EITF Nos. 06-4 and 06-10 effective in the first quarter of 2008 and are evaluating the effect, if any, that adoption will have on our consolidated financial statements in 2008.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States (GAAP or U.S. GAAP) and expands disclosures about fair value measurements. We will adopt SFAS No. 157 as of January 1, 2008 and are evaluating the effect, if any, that adoption will have on our consolidated financial statements for 2008 and subsequent periods.

We expect to emerge from bankruptcy following the confirmation of our plan of reorganization and to adopt fresh-start reporting as defined in SOP 90-7. SOP 90-7 requires that changes in accounting principles that will be required in the financial statements of the emerging entity within the twelve months following the date of emergence must be adopted at the time fresh-start reporting is adopted.

**Note 2. Reorganization Under Chapter 11 of the Bankruptcy Code**

**The Bankruptcy Cases**

The Debtors are operating under Chapter 11 of the Bankruptcy Code. The Debtors' Chapter 11 cases (collectively, the Bankruptcy Cases) have been consolidated in the Bankruptcy Court under the caption *In re Dana Corporation, et al.*, Case No. 06-10354 (BRL). Neither Dana Credit Corporation (DCC) and its subsidiaries nor any of Dana's non-U.S. affiliates are Debtors.

During the bankruptcy proceedings, investments in Dana securities are highly speculative. Although shares of our common stock are trading on the OTC Bulletin Board under the symbol DCNAQ, the opportunity for any recovery by shareholders under a confirmed plan of reorganization is uncertain and the shares may be cancelled without any compensation pursuant to such plan.

The Bankruptcy Cases are being jointly administered, with the Debtors managing their businesses as debtors in possession subject to the supervision of the Bankruptcy Court. We are continuing normal business operations while we evaluate our business financially and operationally. We are proceeding with previously announced divestiture and realignment plans and taking steps to reduce costs, increase efficiency and enhance productivity so that we can emerge from bankruptcy as a stronger, more viable company.

Official committees of the Debtors' unsecured creditors (the Creditors Committee) and retirees not represented by unions (the Retiree Committee) have been appointed in the

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Bankruptcy Cases. The Debtors bear certain of the committees' costs and expenses, including those of their counsel and other professional advisors. An official committee of Dana's equity security holders was also appointed, but it was later disbanded.

The Debtors have filed schedules of their assets and liabilities existing on the Filing Date, including certain amendments to the initial schedules, with the Bankruptcy Court.

Under the Bankruptcy Code, the Debtors have the right to assume or reject executory contracts (*i.e.*, contracts that are to be performed by the parties after the Filing Date) and unexpired leases, subject to Bankruptcy Court approval and other limitations. The Bankruptcy Court has approved the Debtors' assumption and rejection of certain executory contracts and unexpired leases, but a significant number of contracts and leases have not yet been assumed or rejected.

The Bankruptcy Court has entered an order establishing procedures for trading in claims and equity securities that is designed to protect the Debtors' potentially valuable tax attributes (such as net operating loss carryforwards). Under the order, holders or acquirers of 4.75% or more of Dana's common stock are subject to certain notice and consent procedures before acquiring or disposing of the shares. Holders of claims against the Debtors that would entitle them to more than 4.75% of the common shares of reorganized Dana under a confirmed plan of reorganization utilizing the tax benefits provided under Section 382(l)(5) of the Internal Revenue Code may be required to sell down the excess claims if necessary to implement such a plan of reorganization. The Plan Support Agreement discussed below contemplates a plan of reorganization utilizing tax benefits under Section 382(l)(6) of the Internal Revenue Code.

The Bankruptcy Court has also authorized the Debtors to enter into the agreements discussed in Note 19.

**Pre-petition Claims**

Most persons and entities asserting pre-petition claims (with the exception of, among others, asbestos-related personal injury claims and claims resulting from the future rejection of executory contracts and unexpired leases) against the Debtors were required to file proofs of claim in the Bankruptcy Cases by September 21, 2006. Proofs of claim alleging rights to payment for financing, trade debt, employee obligations, environmental matters, commercial damages and other litigation-based liabilities, tax liabilities and other matters in a total amount of approximately \$26,600 (as well as certain unliquidated amounts) were filed by that date. In addition, another \$51 in liabilities is listed in our schedules of assets and liabilities as undisputed, non-contingent and liquidated. Of the claims filed, the Debtors have so far identified claims totaling approximately \$21,800 that they believe should be disallowed, primarily because they appear to be amended, duplicative, withdrawn by the creditor, without basis for claim, or solely equity-based. Of these claims, approximately \$20,400 had been disallowed by the Bankruptcy Court, withdrawn by the creditors or eliminated by settlement through July 2007. The Debtors are continuing to evaluate the remaining filed claims and, as appropriate, to file and prosecute additional claim objections with the Bankruptcy Court or to address claims through settlement or alternate dispute resolution procedures. Asbestos-related personal injury claims will be addressed separately in the future in connection with our plan of reorganization.

Filed proofs of claim are being reviewed and evaluated by the Debtors through reconciliation and other procedures. In connection therewith, claim adjustments of \$9 were recorded as liabilities subject to compromise—\$5 being charged to reorganization items, net, and \$4 to cost of sales and selling, general and administrative expense (SG&A). These claims existed prior to the second quarter of 2007 but were recorded in the second quarter. This out-of-period adjustment was not considered material to the second quarter of 2007 or the earlier periods to which they related.

Claims have been filed for matters such as contract disputes, litigation, and environmental remediation and related costs. The amounts recorded as liabilities subject to compromise for

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these claims are, in most cases, significantly lower based on the Debtors' assessment of the probable and estimable liabilities.

Since receipt of the filed claims, the Debtors have been actively evaluating the merits of the claims and obtaining additional information to ascertain their validity. Upon completion of this evaluation, the Debtors in many cases have commenced settlement discussions with the claimants to reach a consensual resolution of the allowed claim amount. Based on such settlement activity, \$21 was added to liabilities subject to compromise in the second quarter with corresponding charges of \$11 to other income (expense), net, \$9 to pre-tax loss from discontinued operations and \$1 to cost of sales. Although certain of these settlements may be subject to Bankruptcy Court approval, the Debtors determined these settlements to be probable. As the Debtors continue to pursue settlement discussions to resolve these claims, additional agreements to allow claims subject to compromise are likely to be achieved at amounts in excess of that currently recorded for these claims. As of the present date, however, these additional amounts do not meet probable and estimable standards for recognition in the financial statements.

In July 2007, we entered into a Settlement Agreement with Sypris Solutions, Inc. (Sypris) under which Sypris will obtain a general unsecured claim of \$90 in the Bankruptcy Cases, subject to Bankruptcy Court approval. The settlement amount primarily covers damages alleged by Sypris in connection with the termination of existing supply agreements. As part of the settlement, Sypris and Dana will execute a new long-term supply agreement at prices more favorable to Dana than those in the existing agreements, and Sypris will release Dana from all filed and asserted claims. Of the total settlement amount, \$3 has been attributed to events which occurred prior to June 30, 2007. Net of amounts previously recorded for these events, the impact of this settlement on the second quarter of 2007 was not material. The remaining \$87 of the settlement, which is attributable to damages for lost future profits from termination of the existing agreements, will be recognized upon Bankruptcy Court approval (expected in the third quarter of 2007) in liabilities subject to compromise. The Bankruptcy Court approved this settlement on August 7, 2007.

**Pre-petition Debt**

Our bankruptcy filing triggered the immediate acceleration of certain of the direct financial obligations of the Debtors, including, among others, an aggregate of \$1,623 in principal and accrued interest on currently outstanding unsecured notes issued under our 1997, 2001, 2002 and 2004 indentures. Such amounts are characterized as unsecured debt for purposes of the reorganization proceedings and the related obligations are classified as liabilities subject to compromise in our consolidated balance sheet as of June 30, 2007. In accordance with SOP 90-7, following the Filing Date, we discontinued recording interest expense on debt classified as liabilities subject to compromise.

**Reorganization Initiatives**

It is critical to the Debtors' successful emergence from bankruptcy that they (i) achieve positive margins for their products by obtaining substantial price increases from their customers, (ii) recover or otherwise provide for increased material costs through renegotiation or rejection of various customer programs, (iii) restructure their wage and benefit programs to create an appropriate labor and benefit cost structure, (iv) address the excessive cash requirements of the legacy pension and other postretirement benefit liabilities that they have accumulated over the years, (v) optimize their manufacturing footprint by eliminating excess capacity, closing and consolidating facilities and repositioning operations in lower cost countries and (vi) achieve a

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permanent reduction and realignment of their overhead costs. The steps that the Debtors are taking to accomplish these goals are discussed in Item 2 of Part I.

**Plan of Reorganization**

Until September 3, 2007, the Debtors have the exclusive right to file a plan of reorganization in the Bankruptcy Cases. We anticipate that substantially all of the Debtors' liabilities as of the Filing Date will be addressed and treated in accordance with such plan, which will be voted on by the creditors and equity holders in accordance with the provisions of the Bankruptcy Code. Although the Debtors intend to file such a plan by that date, there can be no assurance that they will be able to do so or that any plan that is filed will be confirmed by the Bankruptcy Court and consummated. The Debtors' plan of reorganization could materially change the amounts and classification of items reported in our historical financial statements.

On August 1, 2007, the Bankruptcy Court entered an order authorizing the Debtors to enter into a series of related agreements consisting of (i) settlement agreements with the UAW and USW providing terms for settling all outstanding issues between the Debtors and these unions related to the Bankruptcy Cases; (ii) a Plan Support Agreement with these unions, Centerbridge Capital Partners, L.P. (Centerbridge) and certain of Dana's unsecured creditors setting out the terms under which these parties will support the Debtors' plan of reorganization; and (iii) an Investment Agreement between Dana, Centerbridge, and a Centerbridge affiliate providing for Centerbridge to purchase \$250 in Series A convertible preferred shares of reorganized Dana and qualified creditors of the Debtors (*i.e.*, creditors who meet specified criteria) to have an opportunity to purchase \$500 in Series B convertible preferred shares on a pro rata basis, with Centerbridge purchasing up to \$250 in Series B preferred shares that are not purchased by the qualified creditors. The proceeds from the sale of the preferred shares will be used in part to fund the Voluntary Employee Benefit Association (VEBA) trusts that will be established under the union settlement agreements. We have agreed to file a plan of reorganization with the Bankruptcy Court incorporating the union settlement agreements and the foregoing equity investment commitments (or an alternative proposal acceptable to the UAW and USW) by September 3, 2007. If we fail to do so, Centerbridge may terminate the Investment Agreement and the unions may, under some circumstances, terminate the union settlement agreements or their collective bargaining agreements. In addition, if our plan of reorganization does not become effective by February 28, 2008, individual supporting creditors may withdraw their support and if it does not become effective by May 1, 2008, the Plan Support Agreement will expire. See Note 19 for additional details.

In addition, the Bankruptcy Court order authorizing our entry into these agreements established a schedule and procedures under which we will consider potential alternatives to the investments contemplated with Centerbridge under the Investment Agreement. The schedule contemplates that any alternate investment proposals will be received and considered by specific dates during August through October 2007.

**Continuation as a Going Concern**

Our financial statements have been prepared on a going-concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. As a result of our bankruptcy filing, such realization of assets and liquidation of liabilities is subject to uncertainty. While operating as debtors in possession under the protection of Chapter 11, the Debtors may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those recorded in our financial statements, subject to Bankruptcy Court approval or as otherwise permitted in the ordinary course of business. Our

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financial statements as of June 30, 2007 do not give effect to all the adjustments to the carrying value of assets and liabilities that may become necessary as a consequence of our reorganization.

Our continuation as a going concern is contingent upon our ability to (i) comply with the terms and conditions of the Senior Secured Superpriority Debtor-In-Possession Credit Agreement to which Dana, as borrower, and our Debtor U.S. subsidiaries, as guarantors, are parties (the DIP Credit Agreement) (see Note 13), (ii) obtain confirmation of a plan of reorganization under the Bankruptcy Code, (iii) generate sufficient cash flow from operations, and (iv) obtain financing sources to meet our future obligations. Although we are taking steps to achieve these objectives, there is no assurance that we will be successful in doing so or that any measures that are achievable will result in sufficient improvement to our financial position. Accordingly, until such time as we emerge from bankruptcy, there is no certainty about our ability to continue as a going concern. If our reorganization is not completed successfully, we could be forced to sell a significant portion of our assets to retire debt outstanding or, under certain circumstances, to cease operations.

**DCC Notes**

At the time of our bankruptcy filing, DCC had outstanding notes totaling approximately \$399. In December 2006, DCC and most of its noteholders executed a Forbearance Agreement under which (i) the forbearing noteholders agreed not to exercise their rights or remedies with respect to the DCC notes for a period of 24 months (or until the effective date of Dana's plan of reorganization), during which time DCC is endeavoring to sell its remaining asset portfolio in an orderly manner and use the proceeds to pay down the notes and (ii) DCC agreed to pay the forbearing noteholders their pro rata share of any cash it maintains in the U.S. greater than \$7.5 on a quarterly basis. At June 30, 2007, the amount of principal outstanding under the DCC notes was \$228. In July 2007, DCC made a \$95 payment to the forbearing noteholders, consisting of \$91 of principal and \$4 of interest.

Contemporaneously with the execution of the Forbearance Agreement, Dana and DCC executed a Settlement Agreement whereby they agreed to the discontinuance of a tax sharing agreement between them and to a stipulated amount of a general unsecured claim owed by Dana to DCC of \$325. Payments to DCC relative to this obligation are expected to be addressed in our plan of reorganization, which may propose that distributions to DCC be limited to the amount required to satisfy DCC's obligations.

**Table of Contents****Liabilities Subject to Compromise**

Liabilities subject to compromise in the consolidated balance sheet include those of our discontinued operations and consisted of the following at June 30, 2007 and December 31, 2006:

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Accounts payable	\$ 291	\$ 290
Pension and other postretirement obligations	1,140	1,687
Debt (including accrued interest of \$39)	1,623	1,623
Other	599	575
Consolidated liabilities subject to compromise	3,653	4,175
Payables to non-Debtor subsidiaries	401	402
Debtor liabilities subject to compromise	\$ 4,054	\$ 4,577

Other includes accrued liabilities for environmental, asbestos-related and other product liabilities, income tax, deferred compensation, other postemployment benefits and lease rejection claims. Payables to non-Debtor subsidiaries include the \$325 payable to DCC under the Settlement Agreement referred to above. As a result of the claims and settlement activity described elsewhere in Note 2, liabilities subject to compromise increased by \$21 during the second quarter of 2007.

As discussed in Note 10, the reduction in pension and postretirement obligations is attributed to the elimination of postretirement healthcare benefits for non-union employees and retirees and the freeze of service and benefit accruals for non-union employees.

Debtors' pre-petition debt of \$1,623 is included in liabilities subject to compromise. As of the Filing Date, we discontinued recording interest expense on debt classified as liabilities subject to compromise. On a consolidated basis, contractual interest on all debt, including the portion classified as liabilities subject