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)

þ **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 o No þ

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes þ No o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

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
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DANA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

(in millions)

	June 30, 2005 Restated	December 31, 2004 See Note 2
Assets		
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
Liabilities and Shareholders Equity		
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 June 30,		Six Months Ended June 30,	
	2005 Restated	2004 **See Note 2**	**2005 Restated**	2004 **See Note 2**
Net sales	**$ 2,625**	$ 2,330	**$ 5,109**	$ 4,641
Revenue from lease financing and other income	**22**	21	**56**	35
	2,647	2,351	**5,165**	4,676
Costs and expenses				
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
	2,625	2,288	**5,142**	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**	
Net Income	**$ 30**	$ 100	**$ 46**	$ 158
Basic earnings per common share				
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
Diluted earnings per common share				
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

Cash dividends declared and paid per common share	**$ 0.12**	$ 0.12	**$ 0.24**	$ 0.24
Average shares outstanding Basic	**150**	149	**150**	148
Average shares outstanding Diluted	**151**	151	**151**	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.

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**	**Amount**	**EPS**	**Amount**	**EPS**
Net income, as originally reported	$51	$0.34	$110	$0.73	$69	$0.46	$175	$1.16
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
Assets				
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	$9,019
Liabilities and Shareholders Equity				
Current liabilities				
Notes payable, including current portion of long-term debt	**$ 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**
Net sales	**$ 2,632**	$ 2,625	**$ 5,120**	$ 5,109
Revenue from lease financing and other income	**25**	22	**57**	56
	2,657	2,647	**5,177**	5,165
Costs and expenses				
Cost of sales	**2,428**	2,445	**4,753**	4,782
Selling, general and administrative expenses	**136**	139	**274**	277
Interest expense	**40**	41	**83**	83
	2,604	2,625	**5,110**	5,142
Income before income taxes	**53**	22	**67**	23
Income tax benefit (expense)	**(10)**	(1)	**(10)**	4
Minority interest	**(3)**	(3)	**(6)**	(6)
Equity in earnings of affiliates	**11**	12	**18**	21
Income before effect of change in accounting	**51**	30	**69**	42
Effect of change in accounting				4
Net income	**$ 51**	$ 30	**$ 69**	$ 46
Basic earnings per common share				
Income from continuing operations	**$ 0.34**	$ 0.20	**$ 0.46**	$ 0.28
Effect of change in accounting				0.03
Net income	**$ 0.34**	$ 0.20	**$ 0.46**	$ 0.31
Diluted earnings per common share				
Income from continuing operations	**$ 0.34**	$ 0.20	**$ 0.46**	$ 0.28
Effect of change in accounting				0.02
Net income	**$ 0.34**	$ 0.20	**$ 0.46**	$ 0.30
Cash dividends declared and paid per common share	**$ 0.12**	$ 0.12	**$ 0.24**	$ 0.24

Average shares outstanding	**Basic**	**150**	150	**150**	150
Average shares outstanding	**Diluted**	**151**	151	**151**	151

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

	Three Months Ended June 30, 2004		Six Months Ended June 30, 2004	
	As Originally Reported	**As Restated**	**As Originally Reported**	**As Restated**
Net sales	**$** 2,331	$ 2,330	**$** 4,642	$ 4,641
Revenue from lease financing and other income	25	21	39	35
	2,356	2,351	4,681	4,676
Costs and expenses				
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
Net income	**$** 110	$ 100	**$** 175	$ 158
Basic earnings per common share				
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
Diluted earnings per common share				
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
Cash dividends declared and paid per common share	**$** 0.12	$ 0.12	**$** 0.24	$ 0.24

Average shares outstanding	**Basic**	149	149	148	148
Average shares outstanding	**Diluted**	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:

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

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

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

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.

	Pension Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
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

	Other Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005 **(Restated)**	2004 **(Restated)**	**2005** **(Restated)**	2004 **(Restated)**
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:

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

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

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	Six Months Ended June 30,				
	External Sales (Restated)	Inter-Segment Sales (Restated)	EBIT (Restated)	Operating PAT (Restated)	Net Profit (Loss) (Restated)
2005					
ASG	**$ 3,722**	**$ 71**	**$ 139**	**$ 99**	**$ 24**
HVTSG	**1,372**	**2**	**65**	**39**	**7**
DCC				**9**	**9**
Other	**15**	**30**	**(127)**	**(104)**	**3**
Total operations	**5,109**	**103**	**77**	**43**	**43**
Unusual items excluded from performance measures			**9**	**(1)**	**(1)**
Effect of change in accounting				**4**	**4**
Consolidated	**$ 5,109**	**$ 103**	**$ 86**	**$ 46**	**$ 46**
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**
Total operations	**5,109**	**271**	**77**	**43**	**43**
Unusual items excluded from performance measures			**9**	**(1)**	**(1)**
Effect of change in accounting				**4**	**4**
Consolidated	**$ 5,109**	**$ 271**	**$ 86**	**$ 46**	**$ 46**
2004					
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
Total operations	4,641	127	237	123	123
Unusual items excluded from performance measures			(9)	35	35
Consolidated	$ 4,641	$ 127	$ 228	$ 158	$ 158
North America	$ 3,171	$ 66	$ 151	$ 94	$ 38

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