

DANA CORP
Form 10-Q
May 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: March 31, 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 April 30, 2007
Common stock, \$1 par value	150,202,981

**DANA CORPORATION FORM 10-Q
FOR THE QUARTERLY PERIOD
ENDED MARCH 31, 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 and projects and similar expressions. These statements represent 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 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), and the following:

Bankruptcy-Related Risk Factors

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

Our ability to fund and execute our business plan;

Our ability to come to and maintain satisfactory terms with our customers, vendors and service providers and to maintain contracts that are critical to our operations;

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

Our ability to successfully implement the reorganization initiatives discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in this report.

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);

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

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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;

Our ability to successfully complete the previously announced divestiture of our fluid products business;

Our ability to renegotiate expiring collective bargaining agreements with U.S. and Canadian unionized employees on satisfactory terms or to reject the U.S. agreements in the bankruptcy proceedings;

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 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)**

	Three Months Ended March 31,	
	2007	2006
Net sales	\$ 2,145	\$ 2,197
Costs and expenses		
Cost of sales	2,043	2,092
Selling, general and administrative expenses	96	119
Realignment charges, net	19	1
Impairment of other assets		14
Other income, net	46	31
Income from continuing operations before interest, reorganization items and income taxes	33	2
Interest expense (contractual interest of \$50 and \$47 for 2007 and 2006)	23	39
Reorganization items, net	37	55
Loss from continuing operations before income taxes	(27)	(92)
Income tax expense	(15)	(22)
Minority interests	(2)	(1)
Equity in earnings of affiliates	8	10
Loss from continuing operations	(36)	(105)
Loss from discontinued operations	(56)	(21)
Net loss	\$ (92)	\$ (126)
Basic loss per common share		
Loss from continuing operations	\$ (0.24)	\$ (0.70)
Loss from discontinued operations	(0.37)	(0.14)
Net loss	\$ (0.61)	\$ (0.84)
Diluted loss per common share		
Loss from continuing operations	\$ (0.24)	\$ (0.70)
Loss from discontinued operations	(0.37)	(0.14)
Net loss	\$ (0.61)	\$ (0.84)
Average shares outstanding Basic	150	150
Average shares outstanding Diluted	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)

	March 31, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 1,250	\$ 719
Accounts receivable		
Trade, less allowance for doubtful accounts of \$23 in 2007 and 2006	1,334	1,131
Other	268	235
Inventories	729	725
Assets of discontinued operations	206	392
Other current assets	144	122
Total current assets	3,931	3,324
Investments and other assets	1,061	1,079
Investments in equity affiliates	233	555
Property, plant and equipment, net	1,746	1,776
Total assets	\$ 6,971	\$ 6,734
Liabilities and shareholders deficit		
Current liabilities		
Notes payable, including current portion of long-term debt	\$ 361	\$ 293
Debtor-in-possession financing	900	
Accounts payable	1,051	886
Liabilities of discontinued operations	144	195
Other accrued liabilities	752	712
Total current liabilities	3,208	2,086
Liabilities subject to compromise	4,015	4,175
Deferred employee benefits and other non-current liabilities	511	504
Long-term debt	21	22
Debtor-in-possession financing		700
Commitments and contingencies (Note 14)		
Minority interest in consolidated subsidiaries	77	81
Total liabilities	7,832	7,568
Shareholders deficit	(861)	(834)
Total liabilities and shareholders deficit	\$ 6,971	\$ 6,734

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)

	Three Months Ended	
	March 31,	
	2007	2006
Operating activities		
Net loss	\$ (92)	\$ (126)
Depreciation and amortization	70	67
Impairment and divestiture-related charges	1	43
Loss on sale of businesses	14	
Reorganization items, net of payments	27	27
Changes in working capital	(52)	(44)
Other	15	48
Net cash flows provided by (used for) operating activities	(17)	15
Investing activities		
Purchases of property, plant and equipment	(39)	(94)
Proceeds from sale of businesses	303	26
Proceeds from sale of DCC assets	25	
Other	(15)	22
Net cash flows provided by (used for) investing activities	274	(46)
Financing activities		
Net change in short-term debt	(2)	(565)
Proceeds from debtor-in-possession facility	200	700
Proceeds from U.K. bank loan	67	
Issuance of long-term debt		5
Payments of long-term debt		(4)
Net cash flows provided by financing activities	265	136
Net increase in cash and cash equivalents	522	105
Cash and cash equivalents beginning of period	719	762
Effect of exchange rate changes on cash balances held in foreign currencies	17	3
Net change in cash of discontinued operations	(8)	(5)
Cash and cash equivalents end of period	\$ 1,250	\$ 865

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

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**DANA CORPORATION
(DEBTOR IN POSSESSION)
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Notes to Condensed Consolidated Financial Statements
(Dollars and shares 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 included 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 Chapter 11 of the United States Bankruptcy Code (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 United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court), although they may be settled for lesser amounts. 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. 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. A business entity will 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 is required to be adopted January 1, 2008, and we are evaluating the effect, if any, that adoption will have on our financial statements in 2008.

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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). EITF No. 06-4 requires a company that provides a benefit to an employee under an endorsement split-dollar life insurance arrangement that extends to postretirement periods to recognize a liability and related compensation costs. We will adopt EITF No. 06-4 in the first quarter of 2008 and are evaluating the effect, if any, that adoption will have on our financial statements in 2008.

In September 2006, the EITF promulgated Issue No. 06-5, *Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance*. (EITF No. 06-5) EITF No. 06-5 clarifies whether policyholders of corporate owned life insurance should consider additional amounts from the policy other than the cash surrender value in determining the amount that could be realized under the insurance contract, or whether a policyholder should consider the contractual ability to surrender all individual life policies at the same time in determining the amount that could be realized under the insurance contract. We adopted EITF No. 06-5 in the first quarter of 2007. There was no material impact on our financial statements.

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 U.S. (GAAP or U.S. GAAP) and expands disclosures about fair value measurements. We will adopt SFAS No. 157 as of January 1, 2008 and we are evaluating the effect, if any, that adoption will have on our financial statements for 2008 and subsequent periods.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. We adopted FIN 48 on January 1, 2007. See Note 16 for additional information.

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 our 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 our eventual 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.

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Official committees of the Debtors' unsecured creditors (the Creditors Committee) and retirees not represented by unions (the Retiree Committee) have been appointed in the 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' rejection of certain executory contracts and unexpired leases.

The Bankruptcy Court has also 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.

Pre-petition Claims

Most persons and entities asserting pre-petition claims (other than asbestos-related personal injury and wrongful death claims) 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, litigation, tax liabilities and other matters in a total amount of approximately \$26,100 were filed by that date. Of the claims filed, the Debtors have so far identified claims totaling approximately \$20,900 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 totaling approximately \$260 have been disallowed by the Bankruptcy Court through April 2007. The Debtors are continuing to evaluate the remaining filed claims and expect to file additional claim objections with the Bankruptcy Court.

The Debtors have also identified approximately 1,100 asbestos-related personal injury and wrongful death claims (totaling approximately \$140) that are expected to be addressed in the future in connection with our plan of reorganization.

Pre-petition Debt

Our bankruptcy filing triggered the immediate acceleration of certain direct financial obligations of the Debtors, including, among others, an aggregate of \$1,623 in principal and accrued interest on currently outstanding non-secured notes issued under the 1997, 2001, 2002 and 2004 indentures. Such amounts are characterized as unsecured debt for purposes of the

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reorganization proceedings and the related obligations are classified as liabilities subject to compromise in our consolidated balance sheet as of March 31, 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 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 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 in accordance with the provisions of the Bankruptcy Code. Although the Debtors intend to file and seek confirmation of 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.

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 uncertain. 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 financial statements as of March 31, 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 a 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 uncertainty 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.

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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 will use the proceeds to pay down the notes and (ii) DCC agreed to pay the forbearing noteholders their pro rata share of any excess cash it maintains in the U.S. greater than \$7.5 on a quarterly basis. At March 31, 2007 the amount of principal outstanding under these DCC notes was \$266. In April 2007, DCC made a \$44 payment to the forbearing noteholders, consisting of \$38 of principal and \$6 of interest.

Contemporaneously with the execution of the Forbearance Agreement, Dana Corporation and DCC executed a Settlement Agreement whereby the parties agreed to a stipulated amount owed by Dana Corporation to DCC of \$325 and to the discontinuance of a tax sharing agreement between the two parties.

Liabilities Subject to Compromise

Liabilities subject to compromise in the consolidated balance sheet include those of the discontinued operations and consisted of the following:

	March 31, 2007	December 31, 2006
Accounts payable	\$ 290	\$ 290
Pension and other postretirement obligations	1,537	1,687
Debt (including accrued interest of \$38)	1,623	1,623
Other	565	575
Consolidated liabilities subject to compromise	4,015	4,175
Payables to non-Debtor subsidiaries	401	402
Debtor liabilities subject to compromise	\$ 4,416	\$ 4,577

Other includes accrued liabilities for environmental, asbestos and other product liabilities, income tax, deferred compensation, other postemployment benefits and lease rejection claims. Payables to non-Debtor subsidiaries include \$325 payable to DCC under the Settlement Agreement referred to above.

See Note 10 for a discussion of the reduction in pension and postretirement obligations.

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. Contractual interest on all debt, including the portion classified as liabilities subject to compromise, amounted to \$50 and \$47 at March 31, 2007 and 2006.

As required by SOP 90-7, the amount of liabilities subject to compromise represents our estimate of known or potential pre-petition claims to be addressed in connection with the Bankruptcy Cases. Such claims are subject to future adjustments that may result from, among other things, negotiations with creditors, rejection of executory contracts and unexpired leases, and orders of the Bankruptcy Court. Liabilities subject to compromise may change due to reclassifications, settlements or reorganization activities that give rise to claims or increases in existing claims.

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Professional advisory fees and other costs directly associated with our reorganization are reported separately as reorganization items pursuant to SOP 90-7. Reorganization items also include provisions and adjustments to record the carrying value of certain pre-petition liabilities at their estimated allowable claim amounts, as well as the costs of certain actions within the non-Debtor companies that have occurred as a result of the Debtors' bankruptcy proceedings.

The reorganization items in the consolidated statement of operations for the three months ended March 31, 2007 and 2006 consisted of the following items:

	Three Months Ended March 31,	
	2007	2006
Debtor reorganization items		
Professional fees	\$ 34	\$ 37
Debt valuation adjustments		17
Loss on settlements	1	1
Interest income	(3)	
Debtor reorganization items	32	55
Non-Debtor reorganization items		
Professional fees	5	
Total reorganization items	\$ 37	\$ 55

Non-debtor costs during the first quarter of 2007 related principally to the restructuring of our pension obligations in the United Kingdom (U.K.) (see Note 6) and other organizational restructuring to facilitate future repatriations, financings and other actions.

Note 3. Debtor Financial Statements**Debtor In Possession Financial Information**

In accordance with SOP 90-7, the statement of operations and statement of cash flows of the Debtors are presented below for the three months ended March 31, 2007 and 2006, along with the balance sheet as of March 31, 2007 and December 31, 2006. Intercompany balances among Debtors and non-Debtors are not eliminated. The investment in non-Debtor subsidiaries is accounted for on an equity basis and, accordingly, the net loss reported in the debtor in possession statement of operations is equal to the consolidated net loss.

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**DANA CORPORATION
DEBTOR IN POSSESSION
STATEMENT OF OPERATIONS (Unaudited)**

	Three Months Ended March 31,	
	2007	2006
Net sales		
Customers	\$ 1,023	\$ 1,108
Non-debtor subsidiaries	59	61
Total	1,082	1,169
Costs and expenses		
Cost of sales	1,093	1,190
Selling, general and administrative expenses	61	81
Realignment and impairment	4	
Other income, net	64	40
Loss from continuing operations before interest, reorganization items and income taxes	(12)	(62)
Interest expense (contractual interest of \$44 and \$39 for 2007 and 2006)	17	31
Reorganization items, net	32	55
Loss from continuing operations before income taxes	(61)	(148)
Income tax expense	(4)	(1)
Minority interest	2	
Equity in earnings of affiliates	4	(3)
Loss from continuing operations	(59)	(152)
Loss from discontinued operations	(52)	(29)
Equity in earnings of non-Debtor subsidiaries	19	55
Net loss	\$ (92)	\$ (126)

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

	March 31, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 407	\$ 216
Accounts receivable		
Trade, less allowance for doubtful accounts of \$23 in 2007 and 2006	544	460
Other	85	71
Inventories	226	243
Assets of discontinued operations	112	237
Other current assets	29	15
Total current assets	1,403	1,242
Investments and other assets	882	875
Investments in equity affiliates	114	110
Investments in non-debtor subsidiaries	2,121	2,193
Property, plant and equipment, net	762	788
Total assets	\$ 5,282	\$ 5,208
Liabilities and shareholders deficit		
Current liabilities		
Debtor-in-possession financing	\$ 900	\$
Accounts payable	357	294
Liabilities of discontinued operations	40	50
Other accrued liabilities	348	343
Total current liabilities	1,645	687
Liabilities subject to compromise	4,416	4,577
Deferred employee benefits and other non-current liabilities	82	76
Debtor-in-possession financing		700
Commitments and contingencies (Note 14)		
Minority interest in consolidated subsidiaries		2
Total liabilities	6,143	6,042
Shareholders deficit	(861)	(834)
Total liabilities and shareholders deficit	\$ 5,282	\$ 5,208

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

	Three Months Ended March 31,	
	2007	2006
Operating activities		
Net loss	\$ (92)	\$ (126)
Depreciation and amortization	35	39
Loss on sale of businesses	25	25
Reorganization charges, net	27	27
Equity in earnings of non-Debtor subsidiaries, net of dividends	1	(55)
Change in working capital	(44)	(177)
Other	26	57
Net cash flows used for operating activities	(22)	(210)
Investing activities		
Purchases of property, plant and equipment	(18)	(62)
Proceeds from sale of businesses	40	
Other	(9)	52
Net cash flows provided by (used for) investing activities	13	(10)
Financing activities		
Proceeds from debtor-in-possession facility	200	700
Net change in short-term debt		(377)
Net cash flows provided by financing activities	200	323
Net increase in cash and cash equivalents	191	103
Cash and cash equivalents beginning of period	216	286
Cash and cash equivalents end of period	\$ 407	\$ 389

Note 4. Asset Disposals, Impairments and Divestitures**DCC Asset Disposals and Impairments**

The carrying value of remaining DCC portfolio assets was \$152 at March 31, 2007. Where applicable these assets are adjusted quarterly to estimated fair value less cost to sell. At March 31, 2007, we determined that no adjustments to carrying value were required.

Certain DCC assets with a net book value of \$89 are equity investments. The assets underlying these equity investments have not been impaired by the investees and there is not a readily determinable market value for these investments. Based on internally estimated current market value, DCC expects that the future sale of these assets could result in total losses of \$23 to \$33. An impairment charge will be recognized if DCC enters into agreements to sell these investments at values below the carrying values or if we obtain other evidence that there has been an

other-than-temporary decline in the fair values of the assets.

Table of Contents**Divestitures**

In January 2007, we sold our trailer axle business manufacturing assets for \$28 in cash and recorded a pre-tax gain of \$14.

In March 2007, we sold our engine hard parts business for \$98 in cash and recorded a loss of \$26. Of the cash proceeds, \$4 was escrowed pending completion of closing conditions in certain countries, which are expected to occur in 2007, and \$20 was escrowed pending finalization of purchase price adjustments and satisfaction of certain of our indemnification obligations. We also sold our 30% equity interest in GETRAG Getriebe-und Zahnradfabrik Hermann Hagenmeyer GmbH & Cie KG (GETRAG) to our joint venture partner for \$207 in cash. We had recorded an impairment charge of \$58 in the fourth quarter of 2006 to adjust this equity investment to fair value. We recorded an additional loss of \$2 in the first quarter based on the final close. In addition, we signed an agreement with Orhan Holding A.S. to sell the European portion and certain North American portions of our fluid routing products business for a purchase price of \$70, subject to customary closing adjustments, with the buyer also assuming certain liabilities of the business. This transaction is subject to Bankruptcy Court and regulatory approvals and we expect to close this sale in the second quarter of 2007.

Note 5. Discontinued Operations

The results of operations of the engine hard parts business that we sold in March 2007 and the fluid products and pump products businesses that we intend to divest in 2007 are aggregated and presented as discontinued operations.

The results of the discontinued operations for the three months ended March 31, 2007 and 2006 were as follows:

	Three Months Ended	
	March 31,	
	2007	2006
Sales	\$ 278	\$ 325
Cost of sales	270	300
Selling, general and administrative expenses	15	18
Impairment charges	1	28
Other expense, net	(26)	(1)
Loss from discontinued operations before income taxes	(34)	(22)
Income tax (expense) benefit	(22)	1
Loss from discontinued operations	\$ (56)	\$ (21)

Since the fourth quarter of 2005, we have adjusted the underlying net assets of the discontinued operations to their net fair value less cost to sell based on the profit outlook for these businesses, discussions with potential buyers and other factors impacting expected sale proceeds. Other expense in 2007 includes the pre-tax loss of \$26 on the sale of the engine hard parts business. Valuation adjustments led to impairment charges of \$1 for the three months ended March 31, 2007 relating to the fluid routing and pump businesses. An impairment of discontinued operations net assets totaling \$28 was recorded in the first quarter of 2006. At March 31, 2007, we had reduced the net assets of the fluid and pump products businesses to the extent permitted by GAAP. At the current expected selling prices, we expect to record additional charges of \$10 as the sales are finalized.

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The assets and liabilities of discontinued operations reported in the consolidated balance sheet as of March 31, 2007 and December 31, 2006 consisted of the following:

	March 31, 2007	December 31, 2006
Assets of discontinued operations		
Accounts receivable	\$ 140	\$ 223
Inventories	43	123
Cash and other current assets	21	11
Investments and other assets	2	29
Investments in leases		6
Total assets	\$ 206	\$ 392
Liabilities of discontinued operations		
Accounts payable	\$ 69	\$ 95
Accrued payroll and employee benefits	19	41
Other current liabilities	54	51
Other noncurrent liabilities	2	8
Total liabilities	\$ 144	\$ 195

In the consolidated statement of cash flows, the cash flows of discontinued operations are reported in the respective categories of cash flows, along with those of our continuing operations. Liabilities subject to compromise of discontinued operations and certain other accounts are not included in the liabilities of discontinued operations. The assets and liabilities of discontinued operations declined due to the sale of the engine hard parts business during the first quarter of 2007.

Note 6. Realignment of Operations

The following table shows the realignment charges and related payments recorded in our continuing operations during the three months ended March 31, 2007:

	Employee Termination Benefits	Long-Lived Asset Impairment	Exit Costs	Total
Balance at December 31, 2006	\$ 64	\$	\$ 10	\$ 74
Activity during the period				
Charges to expense	9	3	7	19
Cash payments and adjustments	(19)	(3)	(6)	(28)
Balance at March 31, 2007	\$ 54	\$	\$ 11	\$ 65

In February 2007, we announced the restructuring of pension liabilities in the U.K. As a result of this action, we recorded \$8 of pension curtailment cost in the first quarter of 2007. In April 2007, certain of our U.K. subsidiaries were released from any continuing pension plan obligations in return for a cash payment of \$93 and transfer of a 33% equity interest in our remaining U.K. axle and driveshaft operating businesses. In the second quarter of 2007, we expect to record a pension settlement charge in the range of \$150 to \$170 which is not included in the estimated costs to complete in the table below.

In addition to the \$8, we recorded realignment costs of \$11 during the first three months of this year related primarily to manufacturing footprint related facility closure and downsizing actions initiated in the past two years.

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At March 31, 2007, \$65 of restructuring charges remained in accrued liabilities, including \$54 for the reduction of approximately 2,300 employees to be completed over the next two years and \$11 for lease terminations and other exit costs. The estimated cash expenditures are projected to approximate \$26 in the remainder of 2007 and \$39 thereafter. Our liquidity and cash flows will be materially impacted by these charges.

Realignment initiatives generally occur over multiple reporting periods. The following table provides project-to-date and estimated future expenses for completion of our pending manufacturing footprint related realignment initiatives for the Automotive Systems Group (ASG) and the Heavy Vehicle Technology Systems Group (HVTSG) business units and the underlying segments.

	Expense Recognized			Estimated Cost to Complete
	Prior to 2007	Year-to- Date 2007	Total	
ASG				
Axle	\$ 42	\$ 1	\$ 43	\$ 1
Driveshaft	31	2	33	49
Sealing	3	1	4	1
Thermal Structures	4 45	 6	 51	 68
Total ASG	125	10	135	119
HVTSG				
Commercial Vehicles	5		5	4
Off-Highway	31		31	
Total HVTSG	36		36	4
Other	17	1	18	
Total continuing operations	\$ 178	\$ 11	\$ 189	\$ 123

Note 7. Common Shares

In addition to average shares outstanding of 149.8 for 2007 and 2006, we have 0.6 shares that satisfy the definition of potentially dilutive shares. These potentially dilutive shares have been excluded from the computation of earnings per share for the three months ended March 31, 2007 and 2006 as the loss from continuing operations for these periods caused the shares to have an anti-dilutive effect.

In addition, we excluded 13.6 common shares for each of the 2007 and 2006 periods from the computation of earnings per share as these shares represent stock options with exercise prices higher than the average per share trading price of our stock during the respective periods and the effect of including them would also be anti-dilutive.

Table of Contents**Note 8. Goodwill**

Changes in goodwill during the three months ended March 31, 2007 for the affected segments were as follows:

	December 31, 2006	Effect of Currency and Other	March 31, 2007
ASG			
Driveshaft	\$ 158	\$ 1	\$ 159
Sealing	24		24
Thermal	119		119
Total	301	1	302
HVTSG			
Off-Highway	115		115
Total	\$ 416	\$ 1	\$ 417

Note 9. Equity-Based Compensation

During the first quarter of 2007, there were no stock options, restricted shares or units, or other stock-based awards granted under our equity compensation plans; no options were exercised; and the number of options and restricted shares or units that vested, expired or were forfeited was immaterial.

Note 10. Pension and Postretirement Benefit Plans

We provide defined contribution and defined benefit, qualified and nonqualified, pension plans for certain employees. We also provide other postretirement benefits, including medical and life insurance, for certain employees upon retirement.

Components of net periodic benefit costs for the three months ended March 31, 2007 and 2006 were as follows:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Service cost	\$ 13	\$ 11	\$ 2	\$ 3
Interest cost	41	41	22	22
Expected return on plan assets	(50)	(50)		
Amortization of prior service cost		1	(3)	(3)
Recognized net actuarial loss (gain)	6	8	9	10
Net periodic benefit cost	\$ 10	\$ 11	\$ 30	\$ 32
Curtailement loss	8			
Settlement loss (gain)		4	(12)	
Net periodic benefit cost after curtailment and settlements	\$ 18	\$ 15	\$ 18	\$ 32

In March 2007, the Bankruptcy Court approved the elimination of non-pension retiree benefits for active non-union employees in the U.S. This action reduced our accumulated postretirement benefit obligation (APBO) for postretirement healthcare by \$115 at March 31, 2007. Because the termination reduced benefits previously earned, it is considered a negative

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plan amendment. Accordingly, the reduction in the APBO is offset by a credit to accumulated other comprehensive income which will be amortized to income in the future.

In March 2007, we also reached a tentative agreement with the Retiree Committee to make a \$78 cash contribution to a Voluntary Employee Beneficiary Association (VEBA) trust for non-pension retiree benefits in exchange for release of the Debtors from obligations for postretirement health and welfare benefits for non-union retirees in the U.S. The VEBA will allow for continuation of benefits under an alternate plan. This tentative agreement is subject to approval by the Bankruptcy Court. In addition, in April 2007, the Bankruptcy Court approved our settlement with the IAM to pay \$2.25 to resolve all IAM claims for non-pension retiree benefits for retirees and active employees represented by the IAM. The APBO relating to these non-union retirees and the IAM will be reduced by approximately \$220 upon final approval by the Bankruptcy Court.

Note 11. Comprehensive Loss

Comprehensive loss includes our net loss and components of other comprehensive income (loss) (OCI), such as foreign currency translation gains and losses that are charged or credited directly to shareholders' deficit and adjustments to record the reclassification of items to net income during the period.

The components of our total comprehensive loss for the three months ended March 31, 2007 and 2006 were as follows:

	Three Months Ended March 31,	
	2007	2006
Net loss	\$ (92)	\$ (126)
Other comprehensive income (loss):		
Deferred translation gain	16	32
GETRAG divestiture	(93)	
Postretirement healthcare plan amendment	115	
Benefit plan amortization	11	
Other	13	1
Total comprehensive loss	\$ (30)	\$ (93)

For the three months ended March 31, 2007, OCI included a reduction of \$93 to eliminate the currency translation adjustment and unamortized pension expense related to the sale of our equity investment in GETRAG and the \$115 increase resulting from the termination of postretirement healthcare coverage for non-union employees (see Note 10). The \$16 deferred translation gain reported for the three months ended March 31, 2007 was primarily due to the weakening of the dollar against the euro, partially offset by a \$9 and \$3 strengthening of the U.S. dollar against the Brazilian real and Mexican peso. Benefit plan amortization represents the unamortized actuarial losses in accumulated OCI. Other includes \$10 of pension adjustments related to our sale of the engine hard parts business.

The \$32 deferred translation gain reported for the three months ended March 31, 2006 resulted primarily from the weakening of the U.S. dollar relative to the euro (\$16) and the Brazilian real (\$22).

Table of Contents**Note 12. Cash Deposits**

At March 31, 2007, cash and cash equivalents held outside the U.S. amounted to \$789, including \$93 of escrowed cash related to the restructuring of U.K. pension liabilities (see Note 6) and \$21 of cash deposits to provide credit enhancement for certain lease agreements and to support surety bonds that allow us to self-insure our workers compensation obligations. In addition, a substantial portion of our cash and cash equivalents balance represents funds held in overseas locations that need to be retained for working capital and other operating purposes. Several countries have local regulatory requirements that significantly restrict the ability of the Debtors to access this cash. In addition, \$79 was held by entities that are majority owned and consolidated by Dana, but which have third party minority ownership with varying levels of participation rights involving cash withdrawals. Beyond these restrictions, there are practical limitations on repatriation of cash from certain countries because of the resulting tax cost.

At March 31, 2007, cash and cash equivalents held in the U.S. amounted to \$461, including \$72 of cash deposits to provide credit enhancement for certain lease agreements and to support surety bonds that allow us to self-insure our workers compensation obligations and \$53 held by DCC, a non-Debtor subsidiary whose cash is restricted by the Forbearance Agreement discussed in Note 2.

The financial instruments for the cash deposits discussed above are typically renewed each year and are recorded in cash and cash equivalents. In most jurisdictions, these cash deposits can be withdrawn if we provide comparable security in the form of letters of credit. Our DIP Credit Agreement (discussed in Note 13) provides for the issuance of letters of credit and the availability at March 31, 2007 was adequate to cover the amounts on deposit.

Note 13. Financing Agreements**DIP Credit Agreement**

Dana Corporation, as borrower, and its Debtor subsidiaries, as guarantors, are parties to the DIP Credit Agreement that was approved by the Bankruptcy Court in March 2006. Under the DIP Credit Agreement, we currently have a \$650 revolving credit facility and a \$900 term loan facility. In the first quarter of 2007, the original term loan facility was increased by \$200 and we reduced the original revolving credit facility by \$100 to correspond with the lower availability in our collateral base. For a discussion of the terms of the DIP Credit Agreement, see Note 10 to our consolidated financial statements in Item 8 of our 2006 Form 10-K.

At March 31, 2007, we had borrowed \$900 under the DIP Credit Agreement. Based on our borrowing base collateral, we had availability at that date under the DIP Credit Agreement of \$182 after deducting the \$100 minimum availability requirement and \$307 for outstanding letters of credit. All obligations under the DIP Credit Agreement will become due and payable no later than March 2008. We expect to refinance these obligations as part of the plan of emergence from bankruptcy. However, since refinancing these obligations on a long-term basis is not presently assured, we have classified the borrowings under the DIP Credit Agreement as a current liability at March 31, 2007.

Canadian Credit Agreement

Dana Canada Corporation (Dana Canada) as borrower, and certain of its Canadian affiliates, as guarantors, are parties to a credit agreement (the Canadian Credit Agreement) that provides Dana Canada with a \$100 revolving credit facility, of which \$5 is available for the issuance of letters of credit.

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For a discussion of the terms of the Canadian Credit Agreement, see Note 10 to our consolidated financial statements in Item 8 of our 2006 Form 10-K. Based on Dana Canada's borrowing base collateral, at March 31, 2007, it had availability of \$59 after deducting the \$20 minimum availability requirement and \$2 for currently outstanding letters of credit. Dana Canada had no borrowing under this agreement at March 31, 2007.

European Receivables Loan Facility

In March 2007, certain of our European subsidiaries received a commitment from GE Leveraged Loans Limited for the establishment of a five-year accounts receivable securitization program that will provide our European subsidiaries with up to the euro equivalent of \$225 in available financing. For a discussion of the terms of this program, see Note 10 to our consolidated financial statements in Item 8 of our 2006 Form 10-K. We expect the agreements for this program will be finalized in the second quarter of 2007.

DCC Notes

See Note 2 for information about DCC's outstanding notes and the Forbearance Agreement between DCC and most of its noteholders.

United Kingdom Financing

In connection with the restructuring of our U.K. pension obligations (see Note 6), we borrowed \$67 under a short-term interim bank loan which has an October 31, 2007 maturity date.

Note 14. Commitments and Contingencies

Impact of Our Bankruptcy Filing

Under the Bankruptcy Code, the filing of our petition on March 3, 2006 automatically stayed most actions against us. Substantially all of our pre-petition liabilities will be addressed under our plan of reorganization, if not otherwise addressed pursuant to orders of the Bankruptcy Court.

Class Action Lawsuit and Derivative Actions

There is a consolidated securities class action (*Howard Frank v. Michael J. Burns and Robert C. Richter*) pending in the U.S. District Court for the Northern District of Ohio naming our Chief Executive Officer (CEO), Mr. Burns, and our former Chief Financial Officer (CFO), Mr. Richter, as defendants. The plaintiffs in this action allege violations of the U.S. securities laws and claim that the price at which Dana's shares traded at various times between February 2004 and November 2005 was artificially inflated as a result of the defendants' alleged wrongdoing. In February 2007, lead plaintiff in the *Frank* action filed a motion for an order partially lifting the statutory discovery stay in this action to enable it to obtain copies of certain documents produced to the SEC. Defendants opposed that motion and, following a hearing on May 4, 2007, the matter is now under consideration by the District Court. There is also a shareholder derivative action (*Roberta Casden v. Michael J. Burns, et al.*) pending in the same court naming our current directors, certain former directors and Messrs. Burns and Richter as defendants.

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The derivative claim in this case, alleging breaches of the defendants' fiduciary duties to Dana, has been stayed. The plaintiff in the *Casden* action has also asserted class action claims alleging a breach of duties that purportedly forced Dana into bankruptcy. The defendants moved to dismiss or stay the class action claims in these cases and a hearing on these motions was held in January 2007. The court has not yet ruled on the motions. A second shareholder derivative suit (*Steven Staehr v. Michael Burns, et al.*) remains pending and stayed. Due to the preliminary nature of these lawsuits, we cannot at this time predict their outcome or estimate Dana's potential exposure. While we have insurance coverage with respect to these matters and do not currently believe that any liabilities that may result from these proceedings are reasonably likely to have a material adverse effect on our liquidity, financial condition or results of operations, there is no assurance that any uninsured loss would not be material.

SEC Investigation

The SEC is conducting an investigation with respect to matters related to the restatement of our financial statements for the first two quarters of 2005 and fiscal years 2002 through 2004. The investigation is a non-public, fact-finding inquiry to determine whether any violations of law have occurred. The investigation was not suspended as a result of our bankruptcy filing and we are continuing to cooperate fully with the SEC in the investigation.

Legal Proceedings Arising in the Ordinary Course of Business

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

Asbestos-Related Product Liabilities

Under the Bankruptcy Code, our pending asbestos-related product liability lawsuits, as well as any new lawsuits against us alleging asbestos-related claims, have been stayed during our reorganization process. However, some claimants may still file proofs of asbestos-related claims in the Bankruptcy Cases. The September 21, 2006 claims bar date did not apply to claimants alleging asbestos-related personal injury claims, but it was the deadline for claimants (including insurers) who are not one of the allegedly injured individuals or their personal representatives to file proofs of claim with respect to other types of asbestos-related claims. Our obligations with respect to asbestos claims will be addressed in our plan of reorganization, if not otherwise addressed pursuant to orders of the Bankruptcy Court.

We had approximately 72,000 active pending asbestos-related product liability claims at March 31, 2007, compared to 73,000 at December 31, 2006, including approximately 6,000 claims at both dates that were settled but awaiting final documentation and payment. We had accrued \$57 for indemnity and defense costs for pending asbestos-related product liability claims at March 31, 2007, compared to \$61 at December 31, 2006. We project indemnity and defense cost for pending cases using the same methodology we use for projecting potential future liabilities. Given the inherent variability of our key assumptions, we estimate our potential liability for pending and future cases through 2021 to be within a range of \$138 to \$199. Since the outcomes within that

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range are equally probable, we accrue the lower end of the range. While the process of estimating future demands is highly uncertain beyond 2021, we believe there are reasonable circumstances in which our expenditures related to asbestos-related product liability claims after that date would be *de minimis*.

Prior to 2006, we reached agreements with some of our insurers to commute policies covering asbestos-related product claims. We apply proceeds from insurance commutations first to reduce any recorded recoverable amount. Proceeds from commutations in excess of our estimated receivable recorded for pending claims and future demands are recorded as a liability for future demands. There were no commutations of insurance in the first quarter of 2007. At March 31, 2007, our liability for future demands under prior commutations totaled \$11, bringing our total recorded liability for asbestos related product liability claims to \$149.

At March 31, 2007, we had recorded \$71 as an asset for probable recovery from our insurers for our pending and projected asbestos-related product liability claims, compared to \$72 recorded at December 31, 2006. The assets recorded represent our assessment of the capacity of our current insurance agreements to provide for the payment of anticipated defense and indemnity costs for pending claims and projected future demands. These recoveries assume elections to extend existing coverage that we intend to exercise in order to maximize our insurance recovery. The assets recorded do not represent the limits of our insurance coverage, but rather the amount we would expect to recover if we paid the accrued indemnity and defense costs.

In addition, we had a net amount recoverable from our insurers and others of \$16 and \$14 at March 31, 2007 and December 31, 2006. The recoverable represents reimbursements for settled asbestos-related product liability claims, including billings in progress and amounts subject to alternate dispute resolution proceedings with some of our insurers. As a result of the stay in our asbestos litigation during the reorganization process, we do not expect to make any asbestos-related claims payments in the near term. However, we are continuing to pursue insurance collections with respect to asbestos-related amounts paid prior to the Filing Date.

Other Product Liabilities

We had accrued \$8 for non-asbestos product liability costs at March 31, 2007, compared to \$7 at December 31, 2006, with no recovery expected from third parties at either date. We estimate these liabilities based on assumptions about the value of the claims and about the likelihood of recoveries against us, derived from our historical experience and current information.

Environmental Liabilities

We had accrued \$59 for environmental liabilities at March 31, 2007, compared to \$64 at December 31, 2006. We estimate these liabilities based on the most probable method of remediation, current laws and regulations and existing technology. Estimates are made on an undiscounted basis and exclude the effects of inflation. If there is a range of equally probable remediation methods or outcomes, we accrue the lower end of the range. The difference between our minimum and maximum estimates for these liabilities was \$3 and \$1 at March 31, 2007 and December 31, 2006.

Included in these accruals are amounts relating to the Hamilton Avenue Industrial Park site in New Jersey, where we are one of four potentially responsible parties (PRPs) under the Comprehensive Environmental Response, Compensation and Liability Act (Superfund). We review our estimate of our liability for this site quarterly. Our total estimated liability for this site at March 31, 2007 was approximately \$16.

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Our liability has been estimated based on our status as a passive owner of the property during a period when some of the contaminating activity occurred and assumes that the other PRPs will be able to honor their fair share of liability for site related costs. As with any Superfund matter, should this not be the case, our actual costs could increase. The United States Environmental Protection Agency (EPA) has filed claims exceeding \$200 with the Bankruptcy Court, as an unsecured creditor, for all unreimbursed past and future response costs at this site, civil penalties, punitive and stipulated damages, and alleged damages to natural resources. The support behind the EPA's claims provides no cost studies or other information which we have not already assessed in establishing the liability above. Based on our current information, we do not believe there is a reasonably estimable liability for this site beyond that which we have recorded.

Other Liabilities Related to Asbestos Claims

Until 2001, most of our asbestos-related claims were administered, defended and settled by the Center for Claims Resolution (CCR), which settled claims for its member companies on a shared settlement cost basis. In 2001, the CCR was reorganized and discontinued negotiating shared settlements. Some former CCR members have defaulted on the payment of their shares of some of the CCR-negotiated settlements and some of the settling claimants have sought payment of the unpaid shares from Dana and the other companies that were members of the CCR at the time of the settlements. We have been working with the CCR, other former CCR members, our insurers and the claimants over a period of years to resolve these issues. Through March 31, 2007, we had paid \$47 to claimants and collected \$29 from our insurance carriers with respect to these claims. At March 31, 2007, we had a net receivable of \$13 that we expect to recover from available insurance and surety bonds relating to these claims. We are continuing to pursue insurance collections with respect to asbestos-related claims paid prior to the Filing Date.

Assumptions

The amounts we have recorded for asbestos-related liabilities and recoveries are based on assumptions and estimates reasonably derived from our historical experience and current information. The actual amount of our liability for asbestos-related claims and the effect on us could differ materially from our current expectations if our assumptions about the outcome of the pending unresolved bodily injury claims, the volume and outcome of projected future bodily injury claims, the outcome of claims relating to the CCR negotiated settlements, the costs to resolve these claims and the amount of available insurance and surety bonds prove to be incorrect, or if U.S. federal legislation impacting asbestos personal injury claims is enacted. Although we have projected our liability for future asbestos-related product liability claims based upon historical trend data that we consider to be reliable, there is no assurance that our actual liability will not differ from what we currently project.

Table of Contents**Note 15. Warranty Obligations**

We record a liability for estimated warranty obligations at the dates our products are sold. Adjustments are made as new information becomes available. Our warranty liabilities for the three months ended March 31, 2007 and 2006 were as follows:

	Three Months Ended March 31,	
	2007	2006
Balance, beginning of period	\$ 90	\$ 91
Amounts accrued for current period sales	11	15
Adjustments of prior accrual estimates	3	
Settlements of warranty claims	(20)	(12)
Foreign currency translation and other		1
Balance, end of period	\$ 84	\$ 95

Note 16. Income Taxes

Income taxes are accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. Current and deferred income tax assets and liabilities are recognized based on events which have occurred and are measured under enacted tax laws. Based on our history of losses and our near term profit outlook, we have established 100% valuation allowances against our U.S. deferred tax assets. Similar valuation allowances are recorded in other countries such as the U.K. where, based on the profit outlook, realization of the deferred taxes does not satisfy the more likely than not recognition criteria.

As a consequence of not recognizing the benefit of deferred tax assets in countries such as the U.S. and U.K., continuing losses in these jurisdictions provide no tax benefit. This is the primary factor which causes the tax expense of \$15 and \$22 for the three months ended March 31, 2007 and 2006 to differ from expected tax benefits of \$9 and \$32 at the U.S. federal statutory rate of 35%.

We adopted the provisions of FIN 48 on January 1, 2007, and increased retained earnings by approximately \$3. As of the adoption date, we had gross unrecognized tax benefits of \$137, of which \$112 can be reduced by net operating loss carryforwards, state adjustments, and other timing adjustments. The net amount of \$25, if recognized, would affect the company's effective tax rate. As of March 31, the total amount of gross unrecognized benefits are \$141 of which \$29, if recognized, would affect the effective tax rate. If the matters for 1999-2002 ultimately settle with the Internal Revenue Service within the next 12 months, the total amounts of unrecognized tax benefits may increase or decrease for all open tax years. Audit outcomes and the timing of the audit settlements are subject to significant uncertainty, therefore, an accurate estimate of the impact on earnings is unavailable at this time. Unrecognized tax benefits are the difference between a tax position taken, or expected to be taken in a tax return, and the benefit recognized for accounting purposes pursuant to FIN 48. We recognize interest and penalties related to unrecognized tax benefits in income tax expense.

We conduct business globally and, as a result, filed income tax returns in the U.S. and various state and foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 1999. We are currently under audit by the Internal Revenue Service for the 2003 to 2005 tax years. It is likely that the examination phase of the audit for the years 2003 to 2005 will conclude in 2007.

Table of Contents**Note 17. Other Income, Net**

	Three Months Ended March 31,	
	2007	2006
Interest income	\$ 8	\$ 9
DCC income	6	9
Divestiture gains	12	
Foreign exchange gain	5	3
Government grants	3	1
Rental income	3	
Other, net	9	9
Total	\$ 46	\$ 31

Note 18. Segments

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131), establishes standards for reporting information about operating segments and related disclosures about products and services and geographic locations. SFAS No. 131 requires reporting on a single basis of segmentation. The components that management establishes for purposes of making decisions about an enterprise's operating matters are referred to as operating segments. We currently have seven operating segments within two manufacturing business units (ASG and HVTSG). ASG consists of five operating segments: Axle, Driveshaft, Sealing, Thermal and Structures. HVTSG consists of two operating segments: Commercial Vehicle and Off-Highway.

Management also monitors shared services, operations that are not part of the operating segments, trailing liabilities of closed operations and other administrative costs.

Management evaluates DCC as if it were accounted for under the equity method of accounting rather than on the fully consolidated basis used for external reporting. DCC is included as a reconciling item between the segment results and our loss before income tax.

During 2007, we modified the methodology for allocating profit on certain sales from the Axle and Driveshaft segments to the Commercial Vehicle segment. For comparability purposes, segment profits in 2006 have been adjusted to be consistent with the new profit allocation used by management to evaluate segment performance.

Earnings before interest and taxes (EBIT) is the key internal measure of performance used by management as a measure of profitability for our segments. EBIT, a non-GAAP financial measure, excludes equity in earnings of affiliates. It includes sales, cost of sales, selling, general and administrative expenses (SG&A) and certain reorganization items and other income (expense) items, net. Certain nonrecurring and unusual items like goodwill impairment, certain realignment charges and divestiture gains and losses are excluded from segment EBIT. EBIT is a critical component of earnings before interest, taxes, depreciation, amortization, restructuring and reorganization charges (EBITDAR), which is a measure used to determine compliance with our DIP Credit Agreement financial covenants.

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We used the following information to evaluate our operating segments for the three months ended March 31, 2007 and 2006:

	External Sales	Inter- Segment Sales	Segment EBIT
2007			
ASG			&nb