

DANA HOLDING CORP  
Form 10-Q  
November 03, 2009

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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: September 30, 2009  
Commission File Number: 1-1063  
Dana Holding Corporation  
(Exact name of registrant as specified in its charter)**

Delaware 26-1531856

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification Number)

3939 Technology Drive, Maumee, OH 43537

(Address of principal executive offices) (Zip Code)  
**(419) 887-3000**

(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 has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Edgar Filing: DANA HOLDING CORP - Form 10-Q

Class	Outstanding at October 28, 2009
Common stock, \$0.01 par value	139,247,408

**DANA HOLDING CORPORATION FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009  
TABLE OF CONTENTS**

	<b>10-Q Pages</b>
Table of Contents	2
 <b><u>PART I FINANCIAL INFORMATION</u></b>	
<u>Item 1</u> <u>Financial Statements</u>	
<u>Consolidated Statement of Operations (Unaudited)</u>	3
<u>Consolidated Balance Sheet (Unaudited)</u>	4
<u>Consolidated Statement of Cash Flows (Unaudited)</u>	5
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6
<u>Item 2</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 3</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	50
<u>Item 4</u> <u>Controls and Procedures</u>	50
 <b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1</u> <u>Legal Proceedings</u>	50
<u>Item 1A</u> <u>Risk Factors</u>	51
<u>Item 6</u> <u>Exhibits</u>	51
<u>Signatures</u>	52
 <u>Exhibit Index</u>	
<u>EX-10.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	

**Table of Contents**

**PART I FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**  
**Dana Holding Corporation**  
**Consolidated Statement of Operations (Unaudited)**  
**(In millions except per share amounts)**

	Three Months Ended		Dana Nine Months Ended	Eight Months Ended	Prior Dana One Month Ended
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	January 31, 2008
<b>Net sales</b>	\$ 1,329	\$ 1,929	\$ 3,735	\$ 5,823	\$ 751
Costs and expenses					
Cost of sales	1,247	1,881	3,598	5,572	702
Selling, general and administrative expenses	73	87	217	236	34
Amortization of intangibles	18	18	53	49	
Realignment charges, net	14	16	93	61	12
Impairment of goodwill		105		180	
Impairment of intangible assets		3	6	10	
Other income, net	10	2	100	54	8
 Income (loss) from continuing operations before interest, reorganization items and income taxes	 (13)	 (179)	 (132)	 (231)	 11
Interest expense	36	37	108	99	8
Reorganization items		1	(2)	22	98
Fresh start accounting adjustments					1,009
 Income (loss) from continuing operations before income taxes	 (49)	 (217)	 (238)	 (352)	 914
Income tax benefit (expense)	9	(24)	39	(56)	(199)
Equity in earnings of affiliates	2	(13)	(2)	(10)	2
 <b>Income (loss) from continuing operations</b>	 (38)	 (254)	 (201)	 (418)	 717
<b>Loss from discontinued operations</b>		(1)		(4)	(6)
 <b>Net income (loss)</b>	 (38)	 (255)	 (201)	 (422)	 711
Less: Noncontrolling interests net income (loss)		1	(6)	6	2
 <b>Net income (loss) attributable to the parent company</b>	 (38)	 (256)	 (195)	 (428)	 709
	8	8	24	21	

**Preferred stock dividend requirements****Net income (loss) available to common stockholders**

	\$	(46)	\$	(264)	\$	(219)	\$	(449)	\$	709
--	----	------	----	-------	----	-------	----	-------	----	-----

**Income (loss) per share from continuing operations attributable to parent company stockholders:**

Basic	\$	(0.45)	\$	(2.64)	\$	(2.17)	\$	(4.45)	\$	4.77
Diluted	\$	(0.45)	\$	(2.64)	\$	(2.17)	\$	(4.45)	\$	4.75

**Loss per share from discontinued operations attributable to parent company stockholders:**

Basic	\$	-	\$	(0.02)	\$	-	\$	(0.04)	\$	(0.04)
Diluted	\$	-	\$	(0.02)	\$	-	\$	(0.04)	\$	(0.04)

**Net income (loss) per share attributable to parent company stockholders:**

Basic	\$	(0.45)	\$	(2.66)	\$	(2.17)	\$	(4.49)	\$	4.73
Diluted	\$	(0.45)	\$	(2.66)	\$	(2.17)	\$	(4.49)	\$	4.71

**Average common shares outstanding**

Basic	101	100	100	100	150
Diluted	101	100	100	100	150

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

**Table of Contents**

**Dana Holding Corporation**  
**Consolidated Balance Sheet (Unaudited)**  
(In millions except share and per share amounts)

	September 30, 2009	December 31, 2008
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 814	\$ 777
Accounts receivable		
Trade, less allowance for doubtful accounts of \$19 in 2009 and \$23 in 2008	800	827
Other	158	170
Inventories		
Raw materials	309	394
Work in process and finished goods	370	521
Other current assets	75	58
<b>Total current assets</b>	<b>2,526</b>	<b>2,747</b>
Goodwill	113	108
Intangibles	508	569
Investments and other assets	242	207
Investments in affiliates	135	135
Property, plant and equipment, net	1,738	1,841
<b>Total assets</b>	<b>\$ 5,262</b>	<b>\$ 5,607</b>
<b>Liabilities and equity</b>		
Current liabilities		
Notes payable, including current portion of long-term debt	\$ 30	\$ 70
Accounts payable	643	824
Accrued payroll and employee benefits	122	120
Accrued realignment costs	30	65
Taxes on income	65	93
Other accrued liabilities	276	274
<b>Total current liabilities</b>	<b>1,166</b>	<b>1,446</b>
Long-term debt	966	1,181
Deferred employee benefits and other non-current liabilities	867	845
Commitments and contingencies (Note 17)		
<b>Total liabilities</b>	<b>2,999</b>	<b>3,472</b>
Parent company stockholders' equity		
Preferred stock, 50,000,000 shares authorized		

Edgar Filing: DANA HOLDING CORP - Form 10-Q

Series A, \$0.01 par value, 2,500,000 issued and outstanding	242	242
Series B, \$0.01 par value, 5,400,000 issued and outstanding	529	529
Common stock, \$0.01 par value, 450,000,000 authorized, 134,164,308 issued and outstanding	1	1
Additional paid-in capital	2,545	2,321
Accumulated deficit	(925)	(706)
Accumulated other comprehensive loss	(228)	(359)
 Total parent company stockholders' equity	 2,164	 2,028
Noncontrolling interests	99	107
 <b>Total equity</b>	 2,263	 2,135
 <b>Total liabilities and equity</b>	 \$ 5,262	 \$ 5,607

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

4

---

**Table of Contents**

**Dana Holding Corporation**  
**Consolidated Statement of Cash Flows (Unaudited)**  
(In millions)

	Dana	Dana	Prior Dana
	Nine	Eight Months	One Month
	Months	Ended	Ended
	Ended	September 30,	January 31,
	September	September 30,	2008
	30,	2008	2008
	2009	2008	2008
<b>Cash flows operating activities</b>			
Net income (loss)	\$ (201)	\$ (422)	\$ 711
Depreciation	231	194	23
Amortization of intangibles	64	60	
Amortization of inventory valuation		49	
Amortization of deferred financing charges and original issue discount	27	17	
Impairment of goodwill and other intangible assets	6	190	
Deferred income taxes	(31)	(18)	191
Gain on extinguishment of debt	(35)		
Reorganization:			
Reorganization items net of cash payments	(4)	(24)	79
Payment of claims		(100)	
Payments to VEBAs		(733)	(55)
Gain on settlement of liabilities subject to compromise			(27)
Fresh start adjustments			(1,009)
Pension contributions in excess of expense	(5)	(32)	
Change in working capital	49	(152)	(61)
Other, net	(13)	38	26
<b>Net cash flows provided by (used in) operating activities</b>	<b>88</b>	<b>(933)</b>	<b>(122)</b>
<b>Cash flows investing activities</b>			
Purchases of property, plant and equipment	(74)	(148)	(16)
Proceeds from sale of businesses and assets	3		5
Change in restricted cash			93
Other			(5)
<b>Net cash flows provided by (used in) investing activities</b>	<b>(71)</b>	<b>(148)</b>	<b>77</b>
<b>Cash flows financing activities</b>			
Net change in short-term debt	(36)	(74)	(18)
Advance received on corporate facility sale	11		
Proceeds from Exit Facility debt		80	1,350
Deferred financing payments	(1)	(2)	(40)
Proceeds from long-term debt	5		

Edgar Filing: DANA HOLDING CORP - Form 10-Q

Repayment of long-term debt	(197)	(11)	
Proceeds from issuance of common stock	217		
Dividends paid to preferred stockholders		(18)	
Dividends paid to noncontrolling interests	(5)	(6)	
Repayment of debtor-in-possession facility			(900)
Payment of DCC Medium Term Notes			(136)
Original issue discount payment			(114)
Issuance of Series A and Series B preferred stock			771
Other	(1)	1	(1)
<b>Net cash flows provided by (used in) financing activities</b>	<b>(7)</b>	<b>(30)</b>	<b>912</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>10</b>	<b>(1,111)</b>	<b>867</b>
Cash and cash equivalents beginning of period	777	2,147	1,271
Effect of exchange rate changes on cash balances	27	(29)	5
Net change in cash of discontinued operations			4
<b>Cash and cash equivalents end of period</b>	<b>\$ 814</b>	<b>\$ 1,007</b>	<b>\$ 2,147</b>

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

5

**Table of Contents**

**Dana Holding Corporation  
Index to Notes to the Consolidated  
Financial Statements**

1. Organization and Summary of Significant Accounting Policies
2. Emergence from Chapter 11
3. Reorganization Items
4. Discontinued Operations
5. Realignment of Operations
6. Inventories
7. Goodwill, Other Intangible Assets and Long-lived Assets
8. Capital Stock
9. Earnings Per Share
10. Incentive and Stock Compensation
11. Pension and Postretirement Benefit Plans
12. Comprehensive Income (Loss)
13. Cash Deposits
14. Liquidity and Financing Agreements
15. Fair Value Measurements
16. Risk Management and Derivatives
17. Commitments and Contingencies
18. Warranty Obligations
19. Income Taxes
20. Other Income, Net
21. Segments

**Table of Contents**

**Notes to Consolidated Financial Statements**  
**(In millions, except share and per share amounts)**

**Note 1. Organization and Summary of Significant Accounting Policies**

*General*

As a result of Dana Corporation's emergence from Chapter 11 of the United States Bankruptcy Code (Chapter 11) on January 31, 2008 (the Effective Date), Dana Holding Corporation (Dana) is the successor registrant to Dana Corporation (Prior Dana) pursuant to Rule 12g-3 under the Securities Exchange Act of 1934. The terms Dana, we, our and us, when used in this report with respect to the period prior to Dana Corporation's emergence from Chapter 11, are references to Prior Dana and, when used with respect to the period commencing after Dana Corporation's emergence, are references to Dana. These references include the subsidiaries of Prior Dana or Dana, as the case may be, unless otherwise indicated or the context requires otherwise.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. Certain information and footnote disclosures included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). These financial statements should be read in conjunction with our Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2008 and our Form 8-K filed September 2, 2009 to report updated financial statements and other affected financial information for retrospective adjustments resulting from certain accounting changes in 2009. Financial results for interim periods are not necessarily indicative of anticipated results for the entire year. The results of operations for the three- and nine-month periods ended September 30, 2009 are not necessarily indicative of results for our 2009 fiscal year because of seasonal variations and other factors.

This report includes the results of the 2008 implementation of the Third Amended Joint Plan of Reorganization of Debtors and Debtors in Possession as modified (the Plan) and the effects of the adoption of fresh start accounting. In accordance with GAAP, historical financial statements of Prior Dana are presented separately from Dana results. The implementation of the Plan and the application of fresh start accounting result in financial statements that are not comparable to financial statements in periods prior to emergence.

*Summary of Significant Accounting Policies*

*Basis of Presentation* Our financial statements include all subsidiaries in which we have the ability to control operating and financial policies and are consolidated in conformity with GAAP. All significant intercompany balances and transactions have been eliminated in consolidation. Affiliated companies (20% to 50% ownership) are recorded in the statements using the equity method of accounting. Certain prior period amounts have been reclassified to conform to the current year presentation.

Dana and forty of its wholly-owned subsidiaries (collectively, the Debtors) reorganized under Chapter 11 of the United States Bankruptcy Code from March 3, 2006 (the Filing Date) through the Effective Date. 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 and related restructuring of our business from the ongoing operations of the business.

Effective February 1, 2008, we adopted fresh start accounting. Pursuant to the Plan, all outstanding securities of Prior Dana were cancelled and new securities were issued. In addition, fresh start accounting required that our assets and liabilities be stated at fair value upon our emergence from Chapter 11.

**Table of Contents**

On January 1, 2009, we reorganized our operating segments into a new management structure and modified the calculation of segment earnings before interest, taxes, depreciation and amortization (EBITDA), our segment measure of profitability (see Note 21). The Light Axle and Driveshaft segments were combined into the Light Vehicle Driveline (LVD) segment with certain operations from these former segments moving to our Commercial Vehicle and Off-Highway segments. Prior period amounts have been revised to conform to the current year's presentation.

*Change in Accounting Principle* Our inventories are valued at the lower of cost or market. On January 1, 2009, we changed the method of determining the cost basis of inventories for our U.S. operations from the last-in, first-out (LIFO) basis to the first-in, first-out (FIFO) basis. See Note 6 for additional information regarding this change. Our non-U.S. operations continue to determine cost using an average or a FIFO cost basis.

*Recently Adopted Accounting Standards*

In December 2007, the Financial Accounting Standards Board (FASB) issued guidance regarding noncontrolling interests in consolidated financial statements. This requirement changes the accounting for and reporting of minority interests (noncontrolling interests) in consolidated financial statements, became effective January 1, 2009 and clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. We adopted this standard effective January 1, 2009. The presentation and disclosure requirements of this standard are applied retrospectively for all periods presented. See Note 12 for a reconciliation of the beginning and ending carrying amount of equity attributable to the parent company and to noncontrolling interests.

On January 1, 2009, we adopted FASB guidance related to disclosures about derivative instruments and hedging activities. This guidance provides for enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and the related hedged items are accounted for and how derivative instruments and the related hedged items affect an entity's financial position, financial performance and cash flows. The adoption of this guidance did not have an impact on our consolidated financial position or results of operations. For additional information, see Note 16.

In April 2009, the FASB issued new Staff Positions all of which impact the accounting and disclosure related to certain financial instruments. This guidance covers the determination of fair value when the volume and level of activity for the asset or liability have significantly decreased and provides additional guidance for estimating fair value for transactions that are not orderly. It also covers recognition and presentation of other-than-temporary impairments and amends the guidance for debt securities to make the guidance more operational. The new guidance requires interim disclosures about fair value of financial instruments and expands disclosures about the fair value of financial instruments. This guidance became effective for the second quarter of 2009. Adoption did not have an impact on our consolidated financial position or results of operations. Our valuations with respect to nonfinancial assets and nonfinancial liabilities that are measured at fair value in the financial statements on a non-recurring basis include market data or assumptions that we believe market participants would use in pricing an asset or liability. Our valuation techniques include a combination of observable and unobservable inputs. For additional information see Notes 7 and 15.

In May 2009, the FASB issued guidance that requires companies to recognize in the financial statements the effects of subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet including the estimates inherent in the process of preparing financial statements. Subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose before the financial statements are issued are required to be disclosed if significant. We have properly considered subsequent events through November 3, 2009, the date of this Form 10-Q filing and the date of issuance of the financial statements.

**Table of Contents**

In June 2009, the FASB issued pronouncements regarding the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. This guidance identifies the FASB Accounting Standards Codification as the authoritative source of GAAP. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this guidance did not have an impact on our consolidated financial statements.

*Recent Accounting Pronouncements*

In December 2008, the FASB issued a Staff Position regarding employers' disclosures about postretirement benefit plan assets. This guidance expands disclosures about the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan. An employer will also be required to disclose information about the valuation of plan assets similar to that required under guidance related to fair value measurements. These disclosures include the level within the fair value hierarchy in which fair value measurements of plan assets fall, information about the inputs and valuation techniques used to measure the fair value of plan assets and the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period. The new disclosures are required to be included in financial statements for years ending after December 15, 2009.

In June 2009, the FASB issued guidance regarding accounting for transfers of financial assets. The guidance seeks to improve the relevance and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The guidance eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria and changes the initial measurement of a transferor's interest in transferred financial assets. The guidance is effective January 1, 2010. We are currently evaluating the impact, if any, that this adoption will have on our consolidated financial statements.

In June 2009, the FASB issued additional guidance related to Variable Interest Entities (VIEs) and the determination of whether an entity is a VIE. Companies are required to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a VIE. The guidance requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE, requires enhanced disclosures and eliminates the scope exclusion for qualifying special-purpose entities. The guidance is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact, if any, that the adoption of this guidance will have on our consolidated financial statements.

**Note 2. Emergence from Chapter 11**

*Claims Resolution* On the Effective Date, the Plan was consummated and we emerged from Chapter 11. As provided in the Plan, we issued and set aside approximately 28 million shares of Dana common stock (valued in reorganization at \$640) for future distribution to holders of allowed unsecured nonpriority claims in Class 5B under the Plan. These shares are being distributed as the disputed and unliquidated claims are resolved. The claim amount related to the 28 million shares for disputed and unliquidated claims was estimated not to exceed \$700. Since emergence, we have issued 23 million of the 28 million shares for allowed claims (valued in reorganization at \$539), increasing the total shares issued to 94 million (valued in reorganization at \$2,167) for unsecured claims of approximately \$2,249. The corresponding decrease in the disputed claims reserve leaves 5 million shares (valued in reorganization at \$102). The remaining disputed and unliquidated claims total approximately \$96. To the extent that these remaining claims are settled for less than the 5 million remaining shares, additional incremental distributions will be made to the holders of the previously allowed general unsecured claims in Class 5B.

**Table of Contents**

*Fresh Start Accounting* As required by GAAP, we adopted fresh start accounting effective February 1, 2008. The financial statements for the periods ended prior to January 31, 2008 do not include the effect of any changes in our capital structure or changes in the fair value of assets and liabilities as a result of fresh start accounting. Our reorganized consolidated balance sheet as of January 31, 2008 and the related disclosures are included in Note 2 of the notes to our consolidated financial statements included in our Form 10-K for the year ended December 31, 2008.

**Note 3. Reorganization Items**

Professional advisory fees and other costs directly associated with our reorganization were reported separately as reorganization items. Post-emergence professional fees relate to claim settlements, plan implementation and other transition costs attributable to the reorganization. Reorganization items of Prior Dana 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 incurred by non-Debtor companies as a result of the Debtors' Chapter 11 proceedings.

The reorganization items in the consolidated statement of operations consisted of the following items:

	Dana		Prior Dana	
	Three Months Ended		Eight Months Ended	One Month Ended
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Professional fees	\$ 1	\$ 3	\$ 1	\$ 17
Employee emergence bonus				27
Foreign tax costs due to reorganization				47
Other	(1)	(2)	(3)	5
Interest income				19
				(1)
Total reorganization items		1	(2)	22
Gain on settlement of liabilities subject to compromise				125
				(27)
Reorganization items, net	\$ -	\$ 1	\$ (2)	\$ 98

During the second quarter of 2009, we reduced our vacation benefit liabilities by \$5 to correct the amount accrued in 2008 as union agreements arising from our reorganization activities were being ratified. We recorded \$3 as a reorganization item benefit consistent with the original expense recognition. This adjustment is not material to the current year or to the prior periods to which they relate.

The gain on settlement of liabilities subject to compromise resulted from the satisfaction of these liabilities at emergence through issuance of Dana common stock or cash payments. The \$125 of reorganization items for the one month ended January 31, 2008 included \$104 of costs incurred as a direct consequence of emergence from Chapter 11. These costs included an accrual of \$47 for stock bonuses for certain union and non-union employees, transfer taxes and other tax charges to effectuate the emergence and new legal organization, success fee obligations to certain professional advisors and other parties contributing to the Chapter 11 reorganization and other costs relating directly to emergence.

**Note 4. Discontinued Operations**

In 2005, the Board of Directors of Prior Dana approved the divestiture of our engine hard parts, fluid products and pump products operations and we reported these businesses as discontinued operations through the dates of divestiture. The divestiture of these discontinued operations was substantially completed during 2007 with the remaining pump products business divested in the first quarter of 2008. Prior Dana incurred a loss from discontinued

operations of \$6 in the month ended January 31, 2008 including a post closing adjustment of \$5 and Dana incurred a loss of \$4 in the eight months ended September 30, 2008.

**Table of Contents**

**Note 5. Realignment of Operations**

Realignment of our manufacturing operations was an essential component of our Chapter 11 reorganization plans and remains a primary focus of management. We continue to eliminate excess capacity by closing and consolidating facilities and repositioning operations in lower cost facilities or those with excess capacity and focusing on reducing and realigning overhead costs.

Realignment expense includes costs associated with previously announced actions as well as programs initiated during 2009. These actions include various employee reduction programs, manufacturing footprint optimization programs and other realignment activities across our global businesses, including the transfer of certain U.S. LVD and Commercial Vehicle manufacturing operations to Mexico.

In January 2008, we announced the closure of our Barrie, Ontario Commercial Vehicle facility. Realignment expense in January 2008 included severance and other costs associated with the termination of approximately 160 employees and costs incurred to transfer the manufacturing operations to certain facilities in Mexico.

In the third quarter of 2008, we entered into an agreement to sell our corporate headquarters. The book value in excess of sale proceeds was recognized as accelerated depreciation and recorded as realignment expense from the date we entered the agreement through the closing of the agreement in February 2009. Under the terms of the agreement, we received proceeds of \$11 and we were entitled to occupy the facility rent-free through January 2010 while absorbing the customary occupancy-related costs. Due to the conditions under which we continued to occupy the facility, the sale proceeds were deferred and initially classified as a liability. Based upon our intent to exit the facility during the third quarter of 2009, we recognized the sale of the facility in June 2009. Headquarters personnel were relocated to other facilities in the Toledo, Ohio area during the third quarter of 2009.

In response to increased economic and market challenges during the second half of 2008, particularly lower production volumes, we initiated cost reduction actions and continued to execute such plans in 2009. In 2008, we reduced our global workforce by approximately 6,000 employees, including approximately 5,000 in North America.

The adverse economic conditions first experienced in 2008 continued into 2009, prompting further cost reduction actions. We have reduced our headcount during 2009 from 29,000 at the end of 2008 to 23,000 at the end of the third quarter. These workforce reductions and other actions resulted in a net charge of \$6 for severance and other benefit costs for the three-month period ended September 30, 2009 and \$69 for the first nine months of 2009. Our 2009 cost reduction actions included the announced closures of the Mississauga, Ontario facility in our Thermal business; the McKenzie, Tennessee and Calatayud, Spain facilities in our Sealing business and the Beamsville, Ontario facility supporting our Commercial Vehicle business.

Realignment charges during the three months and nine months ended September 30, 2009 also included \$8 and \$24 of long-lived asset impairments and exit costs incurred for transfers of production activities among facilities and previously announced facility closures.

**Table of Contents**

The following tables show the realignment charges and related payments and adjustments recorded during the three months and nine months ended September 30, 2009.

	Employee Termination Benefits	Long-Lived Asset Impairment	Exit Costs	Total
Balance at June 30, 2009	\$ 35	\$ -	\$ 4	\$ 39
Activity during the period:				
Charged to realignment	9	5	3	17
Adjustments of accruals	(3)			(3)
Non-cash write-off		(5)		(5)
Cash payments	(16)		(3)	(19)
Currency impact	1			1
Balance at September 30, 2009	\$ 26	\$ -	\$ 4	\$ 30
Balance at December 31, 2008	\$ 55	\$ -	\$ 10	\$ 65
Activity during the period:				
Charged to realignment	75	12	17	104
Adjustments of accruals	(6)		(5)	(11)
Non-cash write-off		(12)		(12)
Cash payments	(100)		(18)	(118)
Currency impact	2			2
Balance at September 30, 2009	\$ 26	\$ -	\$ 4	\$ 30

At September 30, 2009, \$30 of realignment accruals remained in accrued liabilities, including \$26 related to continuing benefits and the reduction of approximately 900 employees to be completed over the next year and \$4 for lease continuation and other exit costs. The estimated cash expenditures related to these liabilities are projected to approximate \$12 in 2009 and \$18 thereafter. In addition to the \$30 accrued at September 30, 2009, we estimate that another \$14 will be expensed in the future to complete previously announced initiatives.

The following table provides project-to-date and estimated future expenses for completion of our pending realignment initiatives for our business segments.

	Expense Recognized			Future
	Prior to 2009	Year-to-Date 2009	Total to Date	Cost to Complete
LVD	\$ 89	\$ 28	\$ 117	\$ 8
Structures	37	7	44	2
Sealing	3	15	18	2
Thermal		7	7	
Off-Highway	2	2	4	
Commercial Vehicle	31	25	56	2
Other	17	9	26	
Total continuing operations	\$ 179	\$ 93	\$ 272	\$ 14

The remaining cost to complete includes estimated noncontractual separation payments, lease continuation costs, equipment transfers and other costs which are required to be recognized as closures are finalized or as incurred during the closure.

**Table of Contents****Note 6. Inventories**

On January 1, 2009, we changed the method of determining the cost of inventories for our U.S. operations from the LIFO basis to the FIFO basis. Our non-U.S. operations continue to determine cost using the average or FIFO cost method. We believe the change is preferable as the FIFO method discloses the current value of inventories on the consolidated balance sheet, provides greater uniformity across our operations and enhances our comparability with peers.

We applied the change in accounting method by adjusting the 2008 financial statements for the periods subsequent to our emergence from Chapter 11 on January 31, 2008. As a result of applying fresh start accounting, inventory values at January 31, 2008 had been adjusted to their acquired value which resulted in the LIFO basis equaling the FIFO basis at that date. At December 31, 2008, our FIFO basis exceeded our LIFO basis by \$14. The change in accounting from the LIFO to FIFO method for 2008 was recorded as a reduction to cost of sales, resulting in a \$14 benefit to operating income from continuing operations for the eleven months ended December 31, 2008. The accounting adjustment to a FIFO basis decreased cost of sales by \$15 for the three months ended September 30, 2008 and by \$7 for the eight months ended September 30, 2008. The \$7 consists of a charge to cost of sales of \$34 to amortize the valuation step-up recorded at January 31, 2008 in connection with fresh start accounting offset by \$41 of reversal of the LIFO provision that had been recorded in that eight-month period. The eight-month credit of \$7 and the reversal of additional credit LIFO reserves of \$7 recorded in the fourth quarter of 2008 result in the net benefit of \$14 for the eleven months ended December 31, 2008. There is no net effect on income tax expense due to the valuation allowances on U.S. deferred tax assets.

The impacts of this change in costing on the consolidated statement of operations for the three months ended September 30, 2009 and 2008 are presented in the following table:

	2009		2008			
	Three Months Ended September 30, 2009 (LIFO)	Difference Between LIFO and FIFO	As Reported Three Months Ended September 30, 2009 (FIFO)	As Reported Three Months Ended September 30, 2008 (LIFO)	Adjustments to Change from LIFO to FIFO	As Adjusted Three Months Ended September 30, 2008 (FIFO)
Cost of sales	\$ 1,243	\$ 4	\$ 1,247	\$ 1,896	\$ (15)	\$ 1,881
Income (loss) from continuing operations before interest, reorganization items and income taxes	(9)	(4)	(13)	(194)	15	(179)
Income (loss) from continuing operations before income taxes	(45)	(4)	(49)	(232)	15	(217)
Income (loss) from continuing operations	(34)	(4)	(38)	(269)	15	(254)
Net income (loss)	(34)	(4)	(38)	(270)	15	(255)
Net income (loss) attributable to the parent company	(34)	(4)	(38)	(271)	15	(256)
	(42)	(4)	(46)	(279)	15	(264)

Net income  
(loss) available  
to common stockholders

Loss per share from  
continuing operations  
attributable to parent  
company stockholders:

Basic	\$ (0.41)	\$ (0.04)	\$ (0.45)	\$ (2.78)	\$ 0.14	\$ (2.64)
Diluted	\$ (0.41)	\$ (0.04)	\$ (0.45)	\$ (2.78)	\$ 0.14	\$ (2.64)

Net income (loss) per  
share attributable to parent  
company stockholders:

Basic	\$ (0.41)	\$ (0.04)	\$ (0.45)	\$ (2.79)	\$ 0.13	\$ (2.66)
Diluted	\$ (0.41)	\$ (0.04)	\$ (0.45)	\$ (2.79)	\$ 0.13	\$ (2.66)

Note: The as reported amounts for 2008 are presented after giving effect to the adjustments made to modify the reporting of noncontrolling interests.

**Table of Contents**

The impacts of this change in costing on the consolidated statement of operations for the nine months ended September 30, 2009 and the eight months ended September 30, 2008 are presented in the following table:

	2009		2008			
	Nine Months Ended September 30, 2009 (LIFO)	Difference Between LIFO and FIFO	As Reported Nine Months Ended September 30, 2009 (FIFO)	As Reported Eight Months Ended September 30, 2008 (LIFO)	Adjustments to Change from LIFO to FIFO	As Adjusted Eight Months Ended September 30, 2008 (FIFO)
Cost of sales	\$3,582	\$ 16	\$ 3,598	\$5,579	\$ (7)	\$ 5,572
Income (loss) from continuing operations before interest, reorganization items and income taxes	(116)	(16)	(132)	(238)	7	(231)
Income (loss) from continuing operations before income taxes	(222)	(16)	(238)	(359)	7	(352)
Income (loss) from continuing operations	(185)	(16)	(201)	(425)	7	(418)
Net income (loss)	(185)	(16)	(201)	(429)	7	(422)
Net income (loss) attributable to the parent company	(179)	(16)	(195)	(435)	7	(428)
Net income (loss) available to common stockholders	(203)	(16)	(219)	(456)	7	(449)
Income (loss) per share from continuing operations attributable to parent company stockholders:						
Basic	\$ (2.01)	\$ (0.16)	\$ (2.17)	\$ (4.52)	\$ 0.07	\$ (4.45)
Diluted	\$ (2.01)	\$ (0.16)	\$ (2.17)	\$ (4.52)	\$ 0.07	\$ (4.45)
Net income (loss) per share attributable to parent company stockholders:						
Basic	\$ (2.01)	\$ (0.16)	\$ (2.17)	\$ (4.56)	\$ 0.07	\$ (4.49)
Diluted	\$ (2.01)	\$ (0.16)	\$ (2.17)	\$ (4.56)	\$ 0.07	\$ (4.49)

Note: The as reported amounts for 2008 are presented after giving effect to the adjustments made to modify the reporting of noncontrolling interests.

The impacts of this change on reported balances at December 31, 2008 and September 30, 2009 are as follows:

	2009 Difference		2008 Adjustments			
	September 30, 2009 (LIFO)	Between LIFO and FIFO	As Reported September 30, 2009 (FIFO)	As Reported December 31, 2008 (LIFO)	to Change from LIFO to FIFO	As Adjusted December 31, 2008 (FIFO)
Inventories	\$ 681	\$ (2)	\$ 679	\$ 901	\$ 14	\$ 915
Total current assets	2,528	(2)	2,526	2,733	14	2,747
Total assets	5,264	(2)	5,262	5,593	14	5,607
Accumulated deficit	(923)	(2)	(925)	(720)	14	(706)
Total parent company stockholders equity	2,166	(2)	2,164	2,014	14	2,028
Total equity	2,265	(2)	2,263	2,121	14	2,135
Total liabilities and equity	5,264	(2)	5,262	5,593	14	5,607

Note: The as reported amounts for 2008 are presented after giving effect to the adjustments made to modify the reporting of noncontrolling interests.

**Table of Contents**

The impacts of this change on operating cash flow for the nine months ended September 30, 2009 and the eight months ended September 30, 2008 are as follows:

	2009		As Reported		2008	
	Nine Months Ended September 30, 2009 (LIFO)	Adjustments to Change from LIFO to FIFO	As Reported Nine Months Ended September 30, 2009 (FIFO)	As Reported Eight Months Ended September 30, 2008 (LIFO)	Adjustments to Change from LIFO to FIFO	As Adjusted Eight Months Ended September 30, 2008 (FIFO)
Net income (loss)	\$ (185)	\$ (16)	\$ (201)	\$ (429)	\$ 7	\$ (422)
Amortization of inventory valuation				15	34	49
Change in working capital	33	16	49	(111)	(41)	(152)

Note: The as reported amounts for 2008 are presented after giving effect to the adjustments made to modify the reporting of noncontrolling interests.

During the third quarter of 2009, we reduced inventory and charged cost of sales for \$6 to correct an overstatement of inventory related to full absorption costing that arose in 2008. The \$6 charge is not included in segment EBITDA, as full absorption adjustments are recorded at the corporate level. This adjustment was not considered material to the current period or the prior periods to which it related. The correction of full absorption costing also required the reclassification of \$5 from cost of sales to selling, general and administrative expenses in each of the first two quarters of 2009. Year-to-date cost of sales has been reduced and selling, general and administrative expenses increased by \$10 in the financial statements for the nine months ended September 30, 2009 to correct the classification of these costs. The impact on classification of costs in prior periods was not considered material.

**Note 7. Goodwill, Other Intangible Assets and Long-lived Assets**

*Goodwill* We test goodwill for impairment on an annual basis unless conditions arise that warrant an interim review. The annual impairment tests are performed as of October 31. In assessing the recoverability of goodwill estimates of fair value are based upon consideration of various valuation methodologies, including projected future cash flows and multiples of current earnings. If these estimates or related projections change in the future, we may be required to record goodwill impairment charges.

During the second quarter of 2009, our assessment of the effects of the pace of the market recovery on our forecast for the remainder of the year and for future periods led us to conclude that the related reduction in cash flows projected for those periods comprised a triggering event. As a result, we evaluated our Off-Highway goodwill and indefinite-lived intangible assets of all of our segments to test for impairment using the fair value methodology described in Note 2 of the notes to our consolidated financial statements in our Form 8-K filed September 2, 2009 as modified by the fair value guidance discussed under recently adopted accounting standards in Note 1 above.

For the Off-Highway goodwill evaluation we used the average of a discounted cash flow (DCF) valuation and comparable company multiple valuation. We utilized a discount rate of 12.9% for the DCF analysis and an EBITDA multiple of 7.7 based on comparable companies in similar markets. The updated fair value of the Off-Highway segment supported the carrying value of the net assets of this business at June 30, 2009 and, accordingly, no impairment charge was recorded in the second quarter of 2009.

No triggering events were identified in the third quarter of 2009. However, market conditions or operational execution impacting any of the key assumptions underlying our estimated cash flows could result in future goodwill impairment. Our remaining goodwill relates to the Off-Highway segment and increased from \$108 at December 31, 2008 to \$113 at September 30, 2009 due to foreign currency translation.



**Table of Contents**

*Other Intangible Assets* Intangible assets include core technology, trademarks and trade names and customer relationships. Core technology includes the proprietary know-how and expertise that is inherent in our products and manufacturing processes. Trademarks and trade names include our trade names related to product lines and the related trademarks including Dana<sup>®</sup>,

Spicer<sup>®</sup> and others. Customer relationships include the established relationships with our customers and the related ability of these customers to continue to generate future recurring revenue and income.

Customer contracts and developed technology have finite lives while substantially all of the trademarks and trade names have indefinite lives. Definite-lived intangible assets are amortized over their useful lives using the straight-line method of amortization and are periodically reviewed for impairment indicators. Indefinite-lived intangible assets are reviewed for impairment annually or more frequently if impairment indicators exist.

Due to the second-quarter 2009 assessment of our forecasted results noted above, we performed impairment testing on our indefinite-lived intangible assets as of June 30, 2009 and determined that the fair value of trademarks and trade names had declined below the carrying value. These valuations resulted in impairments of \$4 in our Commercial Vehicle segment and \$2 in our Off-Highway segment in the second quarter of 2009 which we reported as impairment of intangible assets.

We utilized an income approach, the relief from royalty method, for the valuation of the fair value of our trademarks and trade names. This approach is consistent with the fair value guidance discussed under *Recently Adopted Accounting Standards* in Note 1 above. Four trade names/trademarks are identified as intangible assets: Dana<sup>®</sup>, Spicer<sup>®</sup>, Victor-Reinz<sup>®</sup> and Long<sup>®</sup>. The fair value of trademarks and trade names is included in the fair value disclosure in Note 15.

The following table summarizes the components of other intangible assets at September 30, 2009:

	Weighted Average Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Core technology	7	\$ 99	\$ (26)	\$ 73
Trademarks and trade names	17	4		4
Customer relationships	8	487	(120)	367
Non-amortizable intangible assets:				
Trademarks and trade names		64		64
		\$ 654	\$ (146)	\$ 508

The net carrying amounts of intangible assets attributable to each of our operating segments at September 30, 2009 were as follows: LVD \$24, Sealing \$40, Thermal \$19, Structures \$47, Commercial Vehicle \$202 and Off-Highway \$176.

Amortization expense related to intangible assets was \$22 and \$64 for the three months and nine months ended September 30, 2009. Year-to-date amortization of core technology of \$11 was charged to cost of sales and \$53 of amortization of trademarks and trade names and customer relationships was charged to amortization of intangibles.

Estimated aggregate pre-tax amortization expense related to intangible assets for the remainder of 2009 and each of the next five years is as follows: remainder of 2009 \$19, 2010 \$74, 2011 \$72, 2012 \$72, 2013 \$72 and 2014 \$69. Actual amounts may differ from these estimates due to such factors as currency translation, customer turnover, impairments, additional intangible asset acquisitions and other events.

**Table of Contents**

*Long-lived Assets* Based on the second-quarter assessment of our forecasted results noted above, we evaluated our long-lived assets in each segment for impairment. We reviewed the recoverability of these assets by comparing the carrying amount of the assets to the projected undiscounted future net cash flows expected to be generated. These assessments supported the carrying values of the long-lived assets at the end of the second quarter of 2009; however, deterioration of market conditions or operational execution impacting any of the key assumptions underlying our estimated cash flows could result in future long-lived asset impairment.

**Note 8. Capital Stock**

*Series A and Series B Preferred Stock* Dividends on the preferred stock have been accrued from the issue date at a rate of 4% per annum and are payable in cash on a quarterly basis as approved by the Board of Directors. The payment of preferred dividends was suspended in November 2008 under the terms of our amended Term Facility and may resume when our total leverage ratio as of the end of the previous fiscal quarter is less than or equal to 3.25:1.00. See Note 14 for additional information on the amended Term Facility. Preferred dividends accrued but not paid at September 30, 2009 were \$34.

*Common Stock* At September 30, 2009, we had issued 134,198,885 shares of our common stock and we held less than \$1 in treasury stock (34,577 shares at an average cost per share of \$6.31).

On September 29, 2009, we completed an underwritten offering of 34 million shares of common stock at \$6.75 per share, generating proceeds of \$217, net of underwriting commissions and related offering expenses (see Note 14). On October 5, 2009, we completed the sale of an additional 5 million shares, generating net proceeds of \$33.

**Note 9. Earnings Per Share**

The following table reconciles the weighted-average number of shares used in the basic earnings per share calculations to the weighted-average number of shares used to compute diluted earnings per share (in millions of shares):

	Dana		Prior Dana	
	Three Months	Nine Months	Eight Months	One Month
	Ended	Ended	Ended	Ended
	September 30,	September	September	January 31,
	2009	30,	30,	2008
	2009	2009	2008	2008
Weighted-average number of shares outstanding - basic	100.9	100.1	100.4	149.9
Employee compensation-related shares, including stock options				0.5
Weighted-average number of shares outstanding - diluted	100.9	100.1	100.4	150.4

Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to parent company stockholders, less preferred stock dividend requirements, by the weighted-average number of common shares outstanding. The outstanding common shares computation excludes any shares held in treasury.

In September 2009, we issued an additional 34 million shares in a common stock offering (see Note 14). The terms of our Series A and Series B convertible preferred stock allow for adjustments to the conversion price when dilution occurs (based on a formula set forth in our Restated Certificate of Incorporation). The preferred stock conversion price changed from \$13.19 to \$12.06 at September 30, 2009 as a result of the common stock issued in September 2009 and our preferred shares would have converted into approximately 65.5 million shares of common stock at September 30, 2009. The additional issuance of common stock in October 2009 lowered the preferred stock conversion price to \$11.93 which would result in the conversion of our preferred shares into approximately 66.2 million shares of

common stock.

**Table of Contents**

The share count for diluted earnings (loss) per share is computed on the basis of the weighted-average number of common shares outstanding plus the effects of dilutive common stock equivalents (CSEs) outstanding during the period. CSEs, which are securities that may entitle the holder to obtain common stock, include outstanding stock options, restricted stock unit awards, performance share awards and preferred stock. When the average price of the common stock during the period exceeds the exercise price of a stock option, the options are considered potentially dilutive CSEs. To the extent these CSEs are anti-dilutive they are excluded from the calculation of diluted earnings per share. Also, when there is a loss from continuing operations, potentially dilutive shares are excluded from the computation of earnings per share as their effect would be anti-dilutive due to the loss.

We excluded 4.1 million and 4.2 million of CSEs from the table above for the quarters ended September 30, 2009 and 2008 and we excluded 5.9 million and 2.0 million of CSEs for the nine months ended September 30, 2009 and eight months ended September 30, 2008 as the effect of including them would have been anti-dilutive. In addition, we excluded CSEs that satisfied the definition of potentially dilutive shares of 4.0 million, zero, 1.3 million and 0.1 million for these same periods due to the dilutive effect of the loss from continuing operations for these periods. Conversion of the preferred stock was also not included in the share count for diluted earnings per share due to the loss from continuing operations.

The calculation of earnings per share is based on the following income (loss) attributable to the parent company stockholders:

	Three Months Ended		Dana Nine Months Ended	Eight Months Ended	Prior Dana One Month Ended
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	January 31, 2008
Income (loss) from continuing operations	\$ (38)	\$ (255)	\$ (195)	\$ (424)	\$ 715
Loss from discontinued operations		(1)		(4)	(6)
Net income (loss)	\$ (38)	\$ (256)	\$ (195)	\$ (428)	\$ 709