DANA CORP
Form 10-Q/A
December 30, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q/A
(Amendment No. 2)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended March 31, 2005
Commission File Number 1-1063
Dana Corporation

(Exact name of Registrant as Specified in its Charter)

Virginia	34-4361040
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
4500 Dorr Street, Toledo, Ohio	43615
(Address of Principal Executive Offices)	(Zip Code)

(419) 535-4500

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes o No þ

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes þ No o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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

Class	Outstanding at April 29, 2005
Common stock, $1 par value	150,256,100

Explanatory Note

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

We reported the decision to restate this information in a Current Report on Form 8-K which was filed with the SEC on October 14, 2005. The decision to restate was based on the findings of internal investigations conducted by Dana s management and the Audit Committee of our Board of Directors. Part I of this Form 10-Q/A contains more information about these restatements in Note 2. Restatement of Financial Statements and Financing Update, which accompanies the condensed consolidated financial statements in Item 1, and more information about the investigations in Item 4.

Although this Form 10-Q/A contains the Original Form 10-Q in its entirety, it amends and restates only Items 1, 2 and 4 of Part I and Exhibits 31-A, 31-B and 32, referred to in Item 6 of Part II of the Original Form 10-Q, in each case solely as a result of and to reflect the restatements. Also reflected in this Form 10-Q/A are the change in accounting principle discussed in Note 16 and the items described in the *Financing Update* in Note 2 to the condensed consolidated financial statements included herein. No other information in the Original Form 10-Q is amended hereby. This Form 10-Q/A has been repaginated and references to Form 10-Q and Form 10-K have been revised to refer to Form 10-Q/A and Form 10-K/A, as applicable.

Except for the amended information referred to above, this Form 10-Q/A continues to speak as of May 6, 2005, and we have not updated or modified the disclosures herein for events that occurred at a later date. Events occurring after the date of the Original Form 10-Q, and other disclosures necessary to reflect subsequent events, have been or will be addressed in our amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004 (2004 Form 10-K/A) and our amended Quarterly Report on Form 10-Q/A for the quarterly period ended June 30, 2005, which are being filed concurrently with this Form 10-Q/A, and/or in other reports filed with the SEC subsequent to the date of the Original Form 10-Q.

DANA CORPORATION
INDEX

	Page Number
Cover	
Explanatory Note	2
Index	3
Part I. Financial Information	4
Item 1. Financial Statements Restated (Unaudited)	4
Condensed Consolidated Balance Sheet March 31, 2005 and December 31, 2004	4
Condensed Consolidated Statement of Income Three Months Ended March 31, 2005 and 2004	5
Condensed Consolidated Statement of Cash Flows Three Months Ended March 31, 2005 and 2004	6
Notes to Condensed Consolidated Financial Statements	7-20
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	21-33
Item 3. Quantitative and Qualitative Disclosures About Market Risk	33
Item 4. Controls and Procedures	34
Part II. Other Information	34
Item 1. Legal Proceedings	34
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 4. Submission of Matters to a Vote of Security Holders	35
Item 6. Exhibits	35
Signature	36
Exhibit Index	37
Exhibits	38-40

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DANA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

(in millions)

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

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

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

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

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

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(in millions, except per share amounts)

Note 1. Basis of Presentation

In our opinion, the accompanying condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of financial condition, results of operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of full-year results. We have reclassified certain amounts in 2004 to conform to the 2005 presentation. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2004 Form 10-K/A.

As indicated in the Original Form 10-Q, the results of operations for the quarter ended March 31, 2004 were restated, as required, in connection with the adoption in the third quarter of 2004 of Staff Position FAS No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The adoption resulted in a $68 decrease in our accumulated postretirement benefit obligation and a corresponding actuarial gain, which we deferred in accordance with our accounting policy related to postretirement benefit plans. Amortization of the actuarial gain, along with a reduction in service and interest costs, increased net income for the three months ended March 31, 2004 by $2 and diluted earnings per share by $0.01.

Note 2. Restatement of Financial Statements and Financing Update

In the second quarter of 2005, senior management at our corporate office identified an unsupported asset sale transaction in our Commercial Vehicle business unit and recorded the necessary adjustments to correct for the accounting related to this matter before the accounting and reporting was completed for the quarter. During the third quarter, management initiated an investigation into the matter, found other incorrect accounting entries related to a customer agreement within the same business unit, and informed the Audit Committee of the Board of Directors of its findings. In September 2005, the Audit Committee engaged outside counsel to conduct an independent investigation of the situation. The independent investigation included interviews with nearly one hundred present and former employees with operational and financial management responsibilities for each of the company s business units. The investigations also included a review and assessment of accounting transactions identified through the interviews noted above, and through other work performed by the company and the independent investigators engaged by the Audit Committee. The independent investigators also reviewed and assessed certain items identified as part of the annual audit performed by our independent public registered accounting firm. In announcements during October and November 2005, we reported on the preliminary findings of the ongoing management and Audit Committee investigations, including the determination that we would restate our consolidated financial statements for the first and second quarters of 2005 and for years 2002 through 2004.

Summarized below are other restatement effects that are unrelated to the above investigations. The years prior to 2004 required restatement as a result of amounts that were recorded in 2004 that were attributable to earlier periods. Other restatement effects in the following table also include differences that were identified during audits of the company and stand alone audits of businesses to be sold. We had determined that these items were individually and in the aggregate immaterial to the financial statements. In conjunction with the restatements, we corrected these items by recording them in the periods to which they were attributable. These other restatement items affected the timing of reported income, but, since they had previously been recorded, did not significantly affect the cumulative income over the periods restated.

As a result of the restatement, originally reported net income before effect of change in accounting was reduced by $6 ($.04 per share) and $7 ($.04 per share) for the three months ended March 31, 2005 and 2004, respectively.

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

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

(1) Primarily, the company inappropriately recognized revenue during the period based on an oral agreement with a customer. This adjustment reverses that revenue and reflects revenue in accordance with contractual terms and

company performance. The impact was to reduce net income by $2 and earnings per share by $.01 for the three months ended March 31, 2005.

(2) The company inappropriately capitalized cost overruns at certain plants in anticipation of recovery from customers or suppliers. However, these claims were not supported by contractual arrangements so this adjustment expenses the costs in the period incurred. The impact was to reduce net income by $2 and earnings per share by $.01 for the three months ended March 31, 2005.

(3) In 2004, primarily, the company recorded income for cash received on asset sales before the title to the assets transferred and did not defer a portion of the revenue for other asset sales with a leaseback. This adjustment defers gain recognition until the asset is transferred and defers income for the related leaseback of an asset over the life of the lease.

(4) This adjustment increases cost of sales to accrue our liability for contractual obligations to suppliers which were not previously recorded.

The following tables compare the restated condensed consolidated balance sheet, statement of income, and statement of cash flows in this Form 10-Q/A with the corresponding information in the Original Form 10-Q.

CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)
(in millions)

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

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

	Three Months Ended March 31, 2005		Three Months Ended March 31, 2004	
	As Originally Reported	As Restated	As Originally Reported	As Restated
Net sales	**$** 2,488	$ 2,484	**$** 2,311	$ 2,311
Revenue from lease financing and other income	32	34	14	14
	2,520	2,518	2,325	2,325
Costs and expenses				
Cost of sales	2,327	2,337	2,105	2,109
Selling, general and administrative expenses	136	138	134	131
Interest expense	43	42	51	52
	2,506	2,517	2,290	2,292
Income before income taxes	14	1	35	33
Income tax benefit		5	3	4
Minority interest	(3)	(3)	(3)	(3)
Equity in earnings of affiliates	7	9	17	15
Income from continuing operations	18	12	52	49
Income from discontinued operations, net of tax			13	9
Income before effect of change in accounting	18	12	65	58
Effect of change in accounting		4		
Net Income	$ 18	$ 16	$ 65	$ 58
Basic earnings per common share				
Income from continuing operations	**$** 0.12	$ 0.08	**$** 0.35	$ 0.33
Income from discontinued operations			0.09	0.06
Effect of change in accounting		0.03		
Net income	**$** 0.12	$ 0.11	**$** 0.44	$ 0.39
Diluted earnings per common share				

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

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

The notes accompanying these condensed consolidated financial statements have been revised to reflect the impact of the restatements described in this Note 2.

Financing Update As a result of our announcement that we would restate our financial statements, the trustee under our December 1997 Indenture and under our 2004 Indenture notified us on November 4, 2005, that defaults had occurred due to our failure to prepare financial statements for the first and second quarters of 2005 and the year 2004 in accordance with generally accepted accounting principles. We have cured those defaults with the filing of the 2004 Form 10-K/A and the concurrent filing of our Forms 10-Q/A for the first and second quarters of 2005.

By a notice dated November 25, 2005, an agent for the holders of at least 25% in the aggregate of outstanding notes issued under our 1997 Indenture, notified us that the agent deems our failure to timely file and deliver our Form 10-Q for the quarterly period ended September 30, 2005 (the Third Quarter Report) to be a default and asked us to remedy the default. Subsequently, by notices dated December 1, 2005, the trustee under our 1997 and 2004 Indentures notified us that defaults had occurred due to our failure to timely file and deliver the Third Quarter Report and asked us to remedy the defaults. We expect to file and deliver the Third Quarter Report within the 60-day cure periods provided in the 1997 and 2004 Indentures.

The lenders under our five-year bank facility have waived any default arising from the delayed delivery of our Third Quarter Report. This waiver will expire 56 days following our receipt of the above-described default notices from the trustee under the 1997 and 2004 Indentures, unless we file the Third Quarter Report and deliver a copy to the trustee within this period.

Failure to file the Third Quarter Report within the cure period provided under our 1997 and 2004 Indentures would constitute an event of default under those indentures and under the bank facility. In such event, the trustee or the holders of 25% or more of the outstanding notes under the 1997 and 2004 Indentures would have the right to accelerate the maturity of those notes. In addition, the agent under the bank facility, at the request or with the consent of the lenders holding more than 50% of the amounts drawn, could declare the total amount drawn to be immediately payable.

During the third quarter of 2005, we determined that it was unlikely that we would be able to comply with the financial covenants in our bank facility, as amended in June 2005, and in the fourth quarter of 2005 we obtained waivers of these financial covenants extending through May 31, 2006. Since non-compliance would trigger cross-acceleration provisions in some of our indenture agreements, under the accounting requirements for debt

classification, beginning with the filing of the Form 10-Q/A for the period ended June 30, 2005 we have reclassified $1,768 of our long-term debt that is subject to cross-acceleration as debt payable within one year.

We expect to file and deliver the Third Quarter Report within the applicable cure period and we are in discussions with our bank group about modifications to our bank facility or a successor facility. However, there can be no assurance of the outcome of these matters. If we do not file the Third Quarter Report as anticipated or amend or replace our bank facility as contemplated, and if our lenders were to exercise their rights, we would experience liquidity problems which would have a material adverse effect on the company, unless we obtained additional waivers, forbearance or restructuring of our debt or unless we refinance our debt.

Note 3: New Accounting Pronouncement

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment. SFAS No. 123R requires recognition of the cost of employee services provided in exchange for stock options and similar equity instruments based on the fair value of the instrument at the date of grant. The effective date for this guidance was recently delayed for public companies until January 1, 2006. Accordingly, we will begin recognizing compensation expense related to stock options in the first quarter of 2006. The requirements of SFAS No. 123R will be applied to stock options granted subsequent to December 31, 2005 as well as the unvested portion of prior grants.

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

Note 4. Common Shares

The following table reconciles our average shares outstanding for purposes of calculating basic and diluted net income per share.

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

Note 5. Equity-Based Compensation

In accordance with our accounting policy for stock-based compensation, we have not recognized any expense relating to our stock options. If we had used the fair value method of accounting, the alternative policy set out in SFAS No. 123, Accounting for Stock-Based Compensation, the after-tax expense relating to the stock options would have been $3 in the first quarter of both 2005 and 2004.

During the quarter ended March 31, 2005, we changed the method used to value stock options grants from the Black-Scholes method to the binomial method. The new method is being applied to stock options granted after December 31, 2004, including approximately 1,800,000 options granted in February 2005. The fair value of prior grants determined using the Black-Scholes method has been retained for those grants. Because the binomial method considers the possibility of early exercises of options, our historical exercise and termination experience, we believe it provides a fair value that is more representative of our experience.

The fair value of the options granted in February 2005 was $4.28 per share under the binomial method, using a market value at date of grant of $15.94 and the following assumptions: risk-free interest rates of 2.84% to 4.08%, a dividend yield of 2.64%, volatility of 30% to 31.5%, expected forfeitures of 17.5% and an expected life of 6.7 years.

The following table presents stock compensation expense currently included in our financial statements related to restricted stock, restricted stock units, performance shares and stock awards, as well as the pro forma information showing results as if stock option expense had been recorded under the fair value method.

	Three Months Ended March 31,	
	2005	2004
	(Restated)	**(Restated)**
Stock compensation expense, as reported	**$ 1**	$ 0
Stock option expense, pro forma	**3**	3
Stock compensation expense, pro forma	**$ 4**	$ 3
Net income, as reported	**$ 16**	$ 58
Net income, pro forma	**13**	55

Basic earnings per share		
Net income, as reported	**$ 0.11**	$ 0.39
Net income, pro forma	**0.09**	0.37
Diluted earnings per share		
Net income, as reported	**$ 0.11**	$ 0.39
Net income, pro forma	**0.09**	0.37

Note 6. Pension and Other Postretirement Benefits

As discussed in Note 1, the results of operations for the three months ended March 31, 2004 were restated in connection with the adoption of Staff Position FAS No. 106-2 in the third quarter of 2004. The components of net periodic benefit costs for the three months ended March 31, 2004 in the Other Benefits table below reflect these adjustments.

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

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

We made $9 in pension contributions to our defined benefit plans during the three months ended March 31, 2005 and expect to contribute approximately $75 during the last nine months of the year.

Note 7. Comprehensive Income

Comprehensive income includes net income and components of other comprehensive income, such as foreign currency translation and minimum pension liability adjustments that are charged or credited directly to shareholders equity. The deferred translation loss reported for the three months ended March 31, 2005 was $60 and resulted primarily from the strengthening of the U.S. dollar relative to the euro ($39), the British pound ($6), the South African rand ($5) and the Swedish krona ($5). Changes in the relative value of the euro ($14 loss) and the British pound ($10 gain) were largely offsetting during the three months ended March 31, 2004.

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

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

Total comprehensive income (loss)	**$ (40)**	$ 56

Note 8. Income Taxes

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

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

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

To the extent that asset sales or other transactional activities result in capital gains, the tax liability on the capital gains is offset by the release of a portion of the valuation allowance recorded against the deferred tax asset related to our existing capital loss carryforward. The release of the valuation allowance is recognized when sales of assets or other capital gain transactions are determined to be more likely than not to occur.

Deferred tax assets at March 31, 2005, net of valuation allowances, approximated $1,001, including $856 of U.S. federal and state deferred income taxes. We evaluate the carrying value of deferred tax assets quarterly. Excluding the capital loss carryover, the most significant portion of our deferred tax assets relates to the tax benefits recorded for U.S.-based other post-employment employee benefits (OPEB) and net operating loss (NOL) carryforwards in the U.S. Although full realization of our deferred tax assets is not assured, based on our current evaluation, we believe that realization is more likely than not achievable through a combination of improved operating results and changes in our business operating model. Failure to achieve expected results in 2005 or the inability to project such results in the U.S. beyond 2005 may change our assessment regarding the recoverability of these deferred U.S. tax assets and could result in a valuation allowance against such assets.

Note 9. Business Segments

Our segments for the first quarter of 2005 consist of our business units the Automotive Systems Group (ASG) and the Heavy Vehicle Technologies and Systems Group (HVTSG) and DCC.

In accordance with plans announced in October 2001, we have been divesting DCC s businesses and assets; these sales continued during the first quarter of 2005. As a result of sales and the continuing collection of payments, DCC s total portfolio assets were reduced by $75 during the quarter, leaving assets of approximately $755 at March 31, 2005. While we are continuing to pursue the sale of many of the remaining DCC assets, we expect to retain certain assets for varying periods of time because tax attributes and/or market conditions make disposal uneconomical at this time. As of March 31, 2005, our expectation was that we would retain approximately $400 of the $755 of DCC assets held at that date; however, changes in market conditions may result in a change in our expectation. DCC s retained liabilities include certain asset-specific financing and general obligations that are uneconomical to pay off in advance of their scheduled maturities. We expect that the cash flow generated from DCC assets, including proceeds from asset sales, will be sufficient to service DCC s debt.

Management evaluates the operating segments and geographic regions as if DCC were accounted for on the equity method of accounting rather than on the fully consolidated basis used for external reporting. This is done because DCC is not homogeneous with our manufacturing operations, its financing activities do not support the sales of our other operating segments and its financial and performance measures are inconsistent with those of our other operating segments. Moreover, the financial covenants contained in Dana s long-term bank facility are measured with DCC accounted for on an equity basis.

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

	Three Months Ended March 31,				
	External Sales (Restated)	Inter-Segment Sales (Restated)	EBIT (Restated)	Operating PAT (Restated)	Net Profit (Loss) (Restated)
2005					
ASG	**$ 1,810**	**$ 37**	**$ 59**	**$ 41**	**$ 5**
HVTSG	**666**	**1**	**31**	**18**	**1**
DCC				**6**	**6**
Other	**8**	**14**	**(66)**	**(54)**	**(1)**
Total operations	**2,484**	**52**	**24**	**11**	**11**
Unusual items excluded from performance measures				**1**	**1**
Effect of change in accounting				**4**	**4**
Consolidated	**$ 2,484**	**$ 52**	**$ 24**	**$ 16**	**$ 16**
North America	**$ 1,582**	**$ 30**	**$ 14**	**$ 7**	**$ (22)**
Europe	**516**	**34**	**36**	**25**	**15**
South America	**209**	**59**	**23**	**14**	**10**
Asia Pacific	**177**	**13**	**12**	**8**	**4**
DCC				**6**	**6**
Other			**(61)**	**(49)**	**(2)**
Total operations	**2,484**	**136**	**24**	**11**	**11**
Unusual items excluded from performance measures				**1**	**1**
Effect of change in accounting				**4**	**4**
Consolidated	**$ 2,484**	**$ 136**	**$ 24**	**$ 16**	**$ 16**
2004					
ASG	$ 1,712	$ 45	$ 100	$ 70	$ 38
HVTSG	573	1	38	23	9
DCC				7	7
Other	26	16	(56)	(53)	(7)
Total continuing operations	2,311	62	82	47	47
Discontinued operations			20	9	9
Total operations	2,311	62	102	56	56
Unusual items excluded from performance measures			(1)	2	2

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

Operating profit after tax (PAT) is the key internal measure of performance used by management, including our chief operating decision maker, as a measure of segment profitability. With the exception of DCC, Operating PAT represents earnings before interest and taxes (EBIT), tax-effected at 39% (our estimated long-term effective rate), plus equity in earnings of affiliates. Net Profit (Loss), which is Operating PAT less allocated corporate expenses and net interest expense, provides a secondary measure of profitability for our segments that is more comparable to that of a free-standing entity. The allocation is based on segment sales because it is readily calculable, easily understood and, we believe, provides a reasonable distribution of the various components of our corporate expenses among our business units.

The Other category includes businesses unrelated to the segments, trailing liabilities for closed plants and corporate administrative functions. For purposes of presenting Operating PAT, Other also includes interest expense net of interest income, elimination of inter-segment income and adjustments to reflect the actual effective tax rate. In the Net Profit (Loss) column, Other includes the net profit

or loss of businesses not assigned to the segments and closed plants (but not discontinued operations), minority interest in earnings and the tax differential.

The following table reconciles the EBIT amount reported for our segments, excluding DCC, to our consolidated income before income taxes as presented in the condensed consolidated statement of income.

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

Our presentation of segment information includes separate reporting of Unusual items excluded from performance measures. These items include, among other things, gains and losses on divestitures and related expenses and restructuring expenses such as severance, lease continuation and asset impairment charges. The following table describes the Unusual items excluded from performance measures for the three months ended March 31, 2005 and 2004.

	Three Months Ended March 31, 2005		Three Months Ended March 31, 2004	
	EBIT	**OPAT**	**EBIT**	**OPAT**
Expenses related to DCC asset sales	**$**	**$**	**$ (1)**	**$**
Gain on DCC asset sales		**1**		**2**
	$	**$ 1**	**$ (1)**	**$ 2**

The gains and losses recorded by DCC are not presented as Unusual items excluded from performance measures in the preceding EBIT reconciliation table since we do not include DCC s results in EBIT for segment reporting. However, the pre-tax portion of such amounts is included within DCC s pre-tax loss in the table.

Note 10. Discontinued Operations

In December 2003, we announced our intention to sell substantially all of our Automotive Aftermarket Group (AAG). These operations comprise the discontinued operations reported in our financial statements for the period ended March 31, 2004. The $9 of income of discontinued operations consisted of pre-tax income of $20 and tax expense of $11. The sale of these operations was completed in November 2004 and had no impact on income for the three months ended March 31, 2005.

Note 11. Cash Deposits

At March 31, 2005, we maintained cash deposits of $94 to provide credit enhancement for certain lease agreements and to support surety bonds that allow us to self-insure our workers compensation obligations. These financial instruments are expected to be renewed each year. A total of $89 of the deposits may not be withdrawn.

Note 12. Goodwill

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

	Balance at	**Effect of**

	December 31, 2004	Currency and Other	Balance at March 31, 2005
ASG	$ 454	$ (8)	**$ 446**
HVTSG	123	(1)	**122**
Other	16		**16**
	$ 593	$ (9)	**$ 584**

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

Note 13. Restructuring of Operations

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

	Employee Termination Benefits	Exit Costs	Total
Balance at December 31, 2004	$ 55	$ 15	$ 70
Activity during the quarter:			
Charges to expense	1	2	3
Cash payments	(5)	(3)	(8)
Balance at March 31, 2005	$ 51	$ 14	$ 65

The above amounts include charges included in operating performance which are related to the continuation of previously announced actions.

At March 31, 2005, $65 of restructuring charges remained in accrued liabilities. This balance was comprised of $51 for the termination of employees, including the announced termination of approximately 1,100 employees scheduled for the remainder of 2005, and $14 for lease terminations and other exit costs. We estimate the related cash expenditures will be approximately $39 in the remainder of 2005, $18 in 2006 and $8 thereafter. The amount of estimated cash expenditures for each period approximates the midpoint of the estimated range of cash expenditures for such period. We believe that our liquidity and future cash flows will be more than adequate to satisfy these obligations related to our restructuring plans.

Note 14. Contingencies

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 our pending legal proceedings, including the probable outcomes, our reasonably anticipated costs and expenses, the availability and limits of our insurance coverage, 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. We had approximately 120,000 active pending asbestos-related product liability claims at March 31, 2005, compared to 116,000 at December 31, 2004. Included at both dates were 10,000 claims that were settled but awaiting final documentation and payment. We had accrued $143 for indemnity and defense costs for these claims at March 31, 2005, compared to $139 at December 31, 2004. The amounts accrued are based on our assumptions and estimates about the values of the claims and the likelihood of recoveries against us derived from our historical experience and current information. We cannot estimate possible losses in excess of those for which we have accrued because we cannot predict how many additional claims may be brought against us in the future, the allegations in such claims or their probable outcomes.

We have agreements with our insurance carriers providing for the payment of a significant majority of the defense and indemnity costs for the pending claims, as well as claims which may be filed against us in the future. We had recorded $122 as an asset for probable recovery from our insurers for these claims at March 31, 2005, compared to $118 at December 31, 2004. In addition to amounts related to pending claims, we had a net amount recoverable from our insurers and others of $28 at March 31, 2005, compared to $26 at December 31, 2004. This recoverable represents reimbursements for settled asbestos-related product liability claims and related defense costs, including billings in progress and amounts subject to alternate dispute resolution (ADR) proceedings with some of our insurers.

Other Product Liabilities We had accrued $9 for contingent non-asbestos product liability costs at March 31, 2005, compared to $11 at December 31, 2004, with no recovery expected from third parties at either date. The difference between our minimum and maximum estimates for these liabilities was $10 at both March 31, 2005 and December 31, 2004. 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. If there is a range

of equally probable outcomes, we accrue the lower end of the range.

Environmental Liabilities We had accrued $68 for contingent environmental liabilities at March 31, 2005, compared to $73 at December 31, 2004, with an estimated recovery of $10 from other parties recorded at both March 31, 2005 and December 31, 2004. The difference between our minimum and maximum estimates for these liabilities was $1 at both dates. 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.

Included in these accruals are amounts relating to the Hamilton Avenue Industrial Park Superfund site in New Jersey, where we are now one of four potentially responsible parties (PRPs). The site has three Operable Units. At March 31, 2005, we estimated our liability for future remedial work and past costs incurred by the United States Environmental Protection Agency (EPA) relating to off-site soil contamination at Unit 1 to be approximately $1, based on the remediation performed at this Unit to date and our assessment of the likely allocation of costs among the PRPs. At that date, we also estimated our liability for future remedial work relating to on-site soil contamination at Unit 2 to be approximately $14, taking into consideration the $69 remedy proposed by the EPA in a Record of Decision issued in September 2004 and our assessment of the most likely remedial activities and allocation of costs among the PRPs, and our liability for the costs of a remedial investigation and feasibility study pertaining to groundwater contamination at Unit 3 to be less than $1, based on our expectations about the study that is likely to be performed and the likely allocation of costs among the PRPs.

Other Liabilities 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 that year, the CCR was reorganized and discontinued negotiating shared settlements. Since then, we have independently controlled our legal strategy and settlements, using Peterson Asbestos Consulting Enterprise (PACE), a unit of Navigant Consulting, Inc., to administer our claims, bill our insurance carriers and assist us in claims negotiation and resolution. Some former CCR members 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 to resolve these issues. Due to the application in December 2004 of a portion of the payment received under the previously reported insurance settlement agreement, at March 31, 2005, we expected to pay a total of $50 in connection with these matters, including $47 already paid, and to recover a total of $42, including $29 already received. These amounts are unchanged from those reported as of December 31, 2004.

Assumptions The amounts we have recorded for contingent 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 Dana could differ materially from our current expectations if our assumptions about the nature of the pending unresolved bodily injury claims and the claims relating to the CCR-negotiated settlements, the costs to resolve those claims and the amount of available insurance and surety bonds prove to be incorrect, or if currently proposed U.S. federal legislation impacting asbestos personal injury claims is enacted.

Note 15. Financing Agreements

We are party to two interest rate swap agreements under which we have agreed to exchange the difference between fixed rate and floating rate interest amounts on notional amounts corresponding with our August 2011 notes. Converting the fixed interest rate to a variable rate is intended to provide a better balance of fixed and variable rate debt. Our current fixed-for-variable swap agreements have both been designated as fair value hedges of the August 2011 notes. Based on the aggregate fair value of these agreements, we recorded a $4 non-current liability at March 31, 2005, which was offset by a decrease in the carrying value of long-term debt. This adjustment of long-term debt, which does not affect the scheduled principal payments, will fluctuate with the fair value of the agreements and will not be amortized if the swap agreements remain open. Additional adjustments to the carrying value of long-term debt resulted from the modification or replacement of swap agreements, which generated cash receipts prior to 2004. These valuation adjustments, which are being amortized as a reduction of interest expense over the remaining life of

the notes, totaled $10 at March 31, 2005.

As of March 31, 2005, the interest rate swap agreements provided for us to receive an average fixed rate of 9.0% on a notional amount of $114 and pay variable rates based on the London interbank offered rate (LIBOR), plus a spread. The average variable rate under these contracts approximated 8.1% as of March 31, 2005. The agreements expire in August 2011.

On March 4, 2005, we entered into a new $400 long-term credit facility that will mature on March 4, 2010. The return of our bonds to an investment grade rating by two of the major rating agencies, the repurchase of nearly $900 of our outstanding notes and the reduction in amounts available under the accounts receivable securitization program led to the replacement of the prior credit facility ahead of its November 2005 maturity. The interest rates under this new facility equal the London interbank offered rate (LIBOR) or the prime rate, plus a spread that varies depending on our credit ratings. The new facility requires us to meet specified financial ratios as of the end of calendar quarters, including the ratio of net senior debt to tangible net worth; the ratio of earnings before interest, taxes and depreciation and amortization (EBITDA) less capital spend to interest expense; and the ratio of net senior debt to EBITDA. The initial ratios were: (i) net senior debt to tangible net worth of not more than 1.10:1; (ii) EBITDA (as defined in the facility) minus capital expenditures to interest expense of not less than 2.00:1 through September 30, 2005 and 2.50:1 thereafter; and (iii) net senior debt to EBITDA of not greater than 2.75:1 through September 30, 2005 and 2.50:1 thereafter. Prior to the end of March, we amended the facility and modified the EBITDA minus capital expenditures to interest expense ratio applicable to March 31, 2005 to 1.5:1; the net senior debt to EBITDA ratio requirement as of March 31, 2005 was changed to 3:1. We were in compliance with all the covenants, including the original ratios detailed in (ii) and (iii) above, as of March 31, 2005. The ratio calculations are based on Dana s consolidated financial statements with DCC accounted for on an equity basis.

Based primarily on the levels of EBITDA and capital spend in the fourth quarter of 2004 and the first quarter of 2005, we expect that we will be required to further amend the facility to revise the covenants as of June 30 and September 30, 2005 as compliance with these covenants will be determined based on rolling four-quarter results. Noncompliance with these covenants would constitute an event of default, allowing the lenders to accelerate the repayment of any borrowings outstanding under the facility. We have initiated negotiations with the banks regarding the revision of the ratios. While no assurance can be given, we believe that we will be able to successfully negotiate amended covenants. However, if an event of default were to occur under the long-term credit facility, defaults might occur under our other debt instruments. Our business, results of operations and financial condition could be adversely affected if we were unable to successfully negotiate amended covenants or obtain waivers on acceptable terms.

We also have an accounts receivable securitization program. That program was modified in early January 2005 to reduce the maximum borrowing available from $400 to $200, reflecting the formal reduction in the program following the sale of the majority of our automotive aftermarket businesses. We entered into a new program in April that provides up to $275 in borrowings. The amounts available under the program are subject to reduction based on adverse changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the underlying accounts receivable.

Refer also to *Financing Update* in Note 2.

Note 16. Warranty Obligations

We record a liability for estimated warranty obligations at the date products are sold. Adjustments are made as new information becomes available. Changes in our warranty liability for the three months ended March 31, 2005 and 2004 follow.

	Three Months Ended March 31,	
	2005 (Restated)	2004 **(Restated)**
Balance, beginning of period	**$ 80**	$ 82
Amounts accrued for current period sales	**8**	8
Adjustments of prior accrual estimates		1
Change in accounting	**(6)**	
Settlements of warranty claims	**(9)**	(10)
Foreign currency translation	**(1)**	
Balance, end of period	**$ 72**	$ 81

In June 2005, we changed our method of accounting for warranty liabilities from estimating the liability based on the credit issued to the customer, to accounting for warranty liabilities based on our costs to settle the warranty claim. Management believes that this is a change to a preferable method. The change in method of accounting was made to more accurately reflect the cost of settling the warranty liability. In accordance with generally accepted accounting principles, the $4 after-tax cumulative effect of the change is effective as of January 1, 2005 and the financial statements for the three months ended March 31, 2005 have been restated to reflect this change. The impact of the accounting change was not material to the first quarter results of operations.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Dollars in millions

Restatement

As discussed more fully in Note 2 to the consolidated financial statements in Item 1 of Part I, we have restated our previously reported consolidated financial statements for the first and second quarters of 2005 and for the year 2004.

This discussion and analysis (MD&A) should be read in conjunction with the restated financial statements and notes appearing elsewhere in this Report and our 2004 Form 10-K/A.

Market Outlook

Our industry is prone to fluctuations in demand over the business cycle. Production levels in our key markets for the past three years, along with our outlook for 2005, are shown below.

	Production in Units			
	2002	2003	2004	Dana s Outlook 2005
Light vehicle (in millions):				
North America	16.4	15.9	15.8	15.7
Europe	20.8	19.6	20.5	20.7
Asia Pacific	18.1	20.5	21.8	22.7
South America	1.9	1.9	2.4	2.6
North American commercial vehicle (in thousands):				
Medium-duty (Class 5-7)	189	196	232	256
Heavy-duty (Class 8)	181	177	259	293
Off-Highway (in thousands)*				
North America	260	281	325	353
Europe	466	452	450	453
Asia-Pacific	443	480	526	549
South America	55	61	65	69

* Wheeled vehicles in construction, agriculture, mining, material handling and forestry applications.

Although North American light-duty production levels have been relatively stable in recent years, a number of factors are negatively impacting our activity in this market. First-quarter 2005 production levels were down compared to last year. In total, light vehicle production year over year was down about 5%, with light truck production being down about 6% and passenger cars down about 3%. Our primary segment of the market is light trucks. In recent years, the light truck market has generally been stronger than passenger cars as consumer interest in sport utility and crossover vehicles increased. However, negatively impacting today s light truck market is the higher price of gasoline. The larger sport utility vehicles in particular have experienced a significant drop in demand, with production of a number of these vehicles down year over year more than 20%.

Negatively impacting us, as well, in this market has been the continuing market share decline experienced by our two biggest customers Ford and GM. Whereas total light truck production in the first quarter of 2005 is down about 6%, light truck production of Ford and GM vehicles is down about 9% and 14%, respectively. Overall, inventories of light trucks continue to be somewhat higher than normal, raising the possibility of additional production cutbacks over the remainder of 2005. In an effort to minimize continued loss of market share, Ford and GM have continued to use incentives to stimulate sales. As light trucks have been important to Ford and GM profitability, the decline in production and use of incentives have put increasing pressure on their financial performance.

A challenge that we and others in the light vehicle market face as a result of their declining profitability is the effect of continued price reduction pressure from our customers. Our largest customers in this market the U.S.-based OE manufacturers have experienced market share erosion to other international light vehicle manufacturers over the past few years. The more recent fall off in their light truck demand has intensified the situation even more. To the extent this trend continues, we expect the price reduction pressure will be ongoing. Our restructuring, divestitures and outsourcing initiatives have helped position us for this increasingly competitive landscape. As such, ongoing cost reduction programs, like our lean manufacturing and six sigma blackbelt programs, will continue to be important to improving our margins.

Given the current environment high gas prices, higher than normal light truck inventories and the erosion of market share of our biggest customers there is considerable uncertainty surrounding production levels in this market for the remainder of the year.

The commercial vehicle market, on the other hand, is relatively strong. In our biggest market, North America, first quarter 2005 Class 8 production approximated 75,000 units, up about 39% from the 54,000 units produced last year. The North American medium-duty commercial vehicle market has similarly been strong, with first quarter 2005 production up about 14% from a year ago. With inventories relatively stable and a strong order backlog, production for the remainder of the year in this market is expected to continue to be strong. A shortage of a key component during March delayed our production of certain heavy axles and adversely affected the volume of our shipments. Production of the component is stabilizing and we expect to reach maximum capacity for several months as we work to reduce the backlog of orders.

In our other markets off highway, European commercial and light vehicles and light vehicles in the Asia Pacific and South American regions we expect either stable or improving production demand in the remainder of 2005.

Commodity Costs

Steel and other raw material costs have had a significant impact on our results and those of others in our industry this year. With steel particularly, suppliers began assessing price surcharges and increasing base prices during the first quarter of 2004, and these have continued throughout the current year. The surcharges, as well as base prices, which increased over most of 2004, have leveled off in the past two quarters. A frequently used leading indicator for steel cost trends is the Tri-Cities #1 bundles scrap steel price index. Prices on this index more than doubled over the course of 2004 peaking at $431 per ton in the fourth quarter. At the end of this year s first quarter, the spot price of scrap steel on this index had declined to $246. The price rose to $269 in early April, but has remained close to that level ever since. With this decline in market scrap prices and some moderation of demand for steel, we are hopeful that steel costs will come down as we move through the year. However, the situation continues to be volatile and uncertain. As such, our forecast for the remainder of the year does not assume a significant drop in steel costs.

Of our annual $1,200 in steel purchases, about 30% are in the form of raw steel from mills and processors, with the balance coming from components or products containing steel. While leverage is clearly on the side of the steel suppliers at the present time, we are managing the situation by consolidating purchases and taking advantage of OE manufacturers resale programs where possible. We are also working with our customers to recover the cost of steel increases, either in the form of increased selling prices or reductions in price-downs that they expect from us.

For the three months ended March 31, 2005, steel cost surcharges and price increases, net of recoveries from our customers, reduced our net income by approximately $36 as compared to the first quarter of 2004.

Other Key Factors

Given the margin pressure from today s higher raw material costs and the continued pricing demands of our customers, an area of critical focus for us is reducing our cost structure. Actions underway today include global purchasing initiatives, deployment of lean manufacturing techniques, standardizing administrative processes and pursuing value engineering activities by working with our customers to redesign existing components.

In our markets, concentration of business with certain customers is common, so our efforts to achieve additional diversification are important. In the light vehicle market, we have been successful in gaining new business with several international manufacturers over

the past few years. We expect greater customer diversity as more of this business comes on stream and we gain additional business with these customers.

Broadening our global presence is also increasingly important. Global sourcing presents opportunities to improve our competitive cost position, as well as to take advantage of the higher expected growth in emerging markets such as China and India.

Another key factor in our future success is technology. We are continuing to invest in advanced product and process technologies as we believe that they, as much as any factor, are critical to improving our competitive position and profitability. In keeping with these efforts, our recent moves to focus even more on our core OE markets will enable us to capitalize on the continuing trends toward modularity and systems integration in these markets.

New Business

Another major focus for us today is growing our top line revenue faster and profitably.

In the OE vehicular business, new programs are generally awarded to suppliers well in advance of the expected start of production. The amount of lead time varies based on the nature of the product, size of the program and required start-up investment. The awarding of new business usually coincides with model changes on the part of vehicle manufacturers. Given the cost and service concerns associated with changing suppliers, we expect to retain any awarded business over the vehicle life, which is typically several years.

We expect net new business to contribute approximately $470 to our 2005 sales and a total of $1,100 in 2005 through 2007. The majority of this new business is outside North America with non-Big Three customers. Our efforts continued during this year s first quarter, as we added $170 to our net new business coming on stream in the future. We are currently pursuing a number of additional opportunities which could further increase new business coming on stream for 2005, 2006 and later years.

Liquidity and Capital Resources

Cash Flows (First Three Months 2005 versus First Three Months 2004)

	Three Months Ended March 31,		Dollar Change
	2005 (Restated)	2004 (Restated)	(Restated)
Cash Flows Operating Activities:			
Net income	$ 16	$ 58	$ (42)
Depreciation and amortization	83	93	(10)
Gains on divestitures and asset sales	(1)	(4)	3
Increase in operating working capital	(266)	(212)	(54)
Other	(44)	(1)	(43)
Net cash flows used in operating activities	$(212)	$ (66)	$(146)

Net income for the first three months of 2005 dropped significantly when compared to the first quarter of 2004 with the effect of steel price increases accounting for $36 of the decline and the divestiture of the automotive aftermarket businesses accounted for as discontinued operations in 2004 another $9. Depreciation and amortization was $10 lower in the first quarter of 2005, primarily the result of the recent divestiture of our automotive aftermarket businesses. Working capital increased as seasonal factors pushed trade receivables higher. We also purchased larger amounts of steel as a precaution against shortages and prepared to meet the backlog related to a component shortage, key factors behind the increase in inventory. The Other component in 2005 includes unremitted equity earnings, deferred tax benefits and a decrease in deferred compensation. Overall, cash flows used in operations totaled $212 in the first three months of 2005, a $146 increase from the $66 used in the same period in 2004.

	Three Months Ended March 31, 2005 (Restated)	2004 (Restated)	Change (Restated)
Cash Flows Investing Activities:			
Purchases of property, plant and equipment	$ (60)	$ (77)	$ 17
Payments received on leases and loans	4	4	
Asset sales	35	103	(68)
Payments from partnerships	63	8	55
Other	1	(5)	6
Net cash flows from investing activities	$ 43	$ 33	$ 10

Capital spending in the first quarter of 2005 was $17 less than the expenditures made in the comparable period in 2004 as we maintained tight control over expenditures. Proceeds from asset sales were significantly below the $103 generated in the same period in 2004; however, the vast majority of payments received from partnerships represent proceeds from the sale of assets by a DCC investee. Overall, we generated $43 from our investing activities in the first quarter of 2005, slightly more than the $33 generated in the comparable period in 2004.

	Three Months Ended March 31, 2005	2004	Change
Cash Flows Financing Activities:			
Net change in short-term debt	$ 164	$ 115	$ 49
Payments on long-term debt	(20)	(259)	239
Proceeds from long-term debt		5	(5)
Dividends paid	(18)	(18)	
Other	(1)	5	(6)
Net cash flows from (used in) financing activities	$ 125	$ (152)	$ 277

We made draws on the accounts receivable securitization program and the long-term facility to meet our working capital needs during the first quarter of 2005. The remainder of our debt transactions was generally limited to $20 of debt repayments, including a $10 scheduled payment at DCC, while dividend payments were even with the first quarter of 2004.

Our estimate of cash outlays related to restructuring activities is approximately $39 for the remainder of 2005. Exclusive of our restructuring activities, we expect to reduce working capital by $100 for the year.

Financing Activities Committed and uncommitted credit lines enable us to make borrowings to supplement the cash flow generated by our operations. Excluding DCC, we had committed and uncommitted borrowing lines of $1,173 at March 31, 2005. This amount included our new long-term credit facility in the amount of $400, which matures in March 2010. The interest rates under this facility equal the London interbank offered rate (LIBOR) or the bank prime rate, plus a spread that varies depending on our credit ratings. We also have an accounts receivable securitization program to help meet our periodic demands for short-term financing. The program in place at March 31, 2005 provided up to a maximum of $200 in borrowings, reflecting a formal reduction in the program following the sale of the majority of our automotive aftermarket businesses. We entered into a new program in April that provides up to $275 in borrowings. The amount available under the new program is subject to reduction based on adverse changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the underlying accounts receivable. This program is subject to possible termination by the lenders in the event our credit

ratings are lowered below Ba3 by Moody s and BB- by S&P. As of March 31, 2005, we were rated Ba2 by Moody s and BBB- by S&P. At March 31, 2005, borrowings outstanding under the various Dana lines consisted of $87 drawn by non-U.S. subsidiaries against uncommitted lines, $100 outstanding under the accounts receivable program and $75 under the long-term credit facility.

Dana s long-term credit facility requires us to attain specified financial ratios as of the end of certain specified quarters, including the ratio of net senior debt to tangible net worth; the ratio of earnings before interest, taxes and depreciation and amortization (EBITDA) less capital spend to interest expense; and the ratio of net senior debt to EBITDA, with all terms as defined in the long-term credit facility. Specifically, the ratios are: (i) net senior debt to tangible net worth of not more than 1.1:1; (ii) EBITDA (as defined in the facility) minus capital expenditures to interest expense of not less than 1.5:1 at March 31, 2005, 2:1 at June 30 and September 30, 2005 and 2.5:1 at December 31, 2005 and thereafter; and (iii) net senior debt to EBITDA of not greater than 3:1 at March 31, 2005, 2.75:1 at June 30 and September 30, 2005 and 2.5:1 at December 31, 2005 and thereafter. The facility was initially amended during March 2005 to modify two of the ratio requirements at March 31, 2005. The EBITDA minus capital expenditures to interest expense

ratio was changed from 2:1 to 1.5:1 and the requirement under the net senior debt to EBITDA ratio was changed from 2.75:1 to 3:1. The ratio calculations are based on Dana s consolidated financial statements with DCC accounted for on an equity basis. We were in compliance with all ratio requirements at March 31, 2005, including the covenants that existed prior to the March amendment.

Based primarily on the levels of EBITDA and capital spend in the fourth quarter of 2004 and the first quarter of 2005, we expect that we will be required to further amend the facility to revise the covenants as of June 30 and September 30, 2005 as compliance with these covenants will be determined based on rolling four-quarter results. Noncompliance with these covenants would constitute an event of default, allowing the lenders to accelerate the repayment of any borrowings outstanding under the facility. We have initiated negotiations with the banks regarding the revision of the ratios. While no assurance can be given, we believe that we will be able to successfully negotiate amended covenants. However, if an event of default were to occur under the long-term credit facility, defaults might occur under our other debt instruments. Our business, results of operations and financial condition could be adversely affected if we were unable to successfully negotiate amended covenants or obtain waivers on acceptable terms.

We expect our cash flows from operations, combined with our long-term credit facility, amended as contemplated above, and our accounts receivable securitization program, to provide sufficient liquidity to fund our debt service obligations, projected working capital requirements, restructuring obligations and capital spending for a period that includes the next twelve months.

Refer also to *Financing Update* in Note 2.

Hedging Activities At March 31, 2005, we had a number of open forward contracts to hedge against certain anticipated cross-currency purchase and sale commitments. These forward contracts are for a short duration and none extends beyond the first quarter of 2006. The aggregate fair value of these contracts is a favorable amount of less than $1. These contracts have been valued by independent financial institutions using the exchange spot rates on March 31, 2005, plus or minus quoted forward basis points, to determine a settlement value for each contract.

In order to provide a better balance of fixed and variable rate debt, we have two interest rate swap agreements in place to effectively convert the fixed interest rate on a portion of our August 2011 notes to variable rates. These swap agreements have been designated as fair value hedges and the impact of the change in their value is offset by an equal and opposite change in the carrying value of the notes. Under these agreements, we receive an average fixed rate of interest of 9.0% on notional amounts of $114 and we pay a variable rate based on LIBOR, plus a spread. As of March 31, 2005, the average variable rate under these agreements was 8.1%. The swap agreements expire in August 2011, coinciding with the term of the hedged notes. Based on the aggregate fair value of these agreements at March 31, 2005, we recorded a non-current liability of $4 and offset the carrying value of long-term debt. This adjustment of long-term debt, which does not affect the scheduled principal payments, will fluctuate with the fair value of the swap agreements and will not be amortized if the swap agreements remain open.

Cash Obligations Under various agreements, we are obligated to make future cash payments in fixed amounts. These include payments under our long-term debt agreements, rent payments required under operating lease agreements and payments for equipment, other fixed assets and certain raw materials.

The following table summarizes our fixed cash obligations over various future periods as of March 31, 2005.

		Payments Due by Period			
Contractual Cash Obligations	**Total**	**Less than 1 Year**	**1 3 Years**	**4 5 Years**	**After 5 Years**
Principal of Long-Term Debt	$ 2,089	$ 44	$ 597	$ 431	$ 1,017
Operating Leases	410	78	124	94	114
Unconditional Purchase Obligations	92	85	7		
Other Long-Term Liabilities	1,382	211	260	264	647
Total Contractual Cash Obligations	$ 3,973	$ 418	$ 988	$ 789	$ 1,778

The unconditional purchase obligations presented are comprised principally of commitments for procurement of fixed assets and the purchase of raw materials.

We have a number of sourcing arrangements with suppliers for various component parts used in the assembly of certain of our products. These arrangements include agreements to procure certain outsourced components that we had manufactured ourselves in earlier years. These agreements do not contain any specific minimum quantities that we must order in any given year, but generally

require that we purchase the specific component exclusively from the supplier over the term of the agreement. Accordingly, our cash obligations under these agreements are not fixed.

Other Long-Term Liabilities include estimated obligations under our retiree healthcare programs and the estimated 2005 contributions to our U.S. defined benefit pension plans. Obligations under the retiree healthcare programs are not fixed commitments and will vary depending on various factors, including the level of participant utilization and inflation. Our estimates of the payments to be made through 2009 considered recent payment trends and certain of our actuarial assumptions. We have not estimated pension contributions beyond 2005 due to the significant impact that return on plan assets and changes in discount rates might have on such amounts.

In addition to fixed cash commitments, we may have future cash payment obligations under arrangements where we are contingently obligated if certain events occur or conditions were present. We have guaranteed $1 of short-term borrowings of a non-U.S. affiliate accounted for under the equity method of accounting. We have also guaranteed the performance of a wholly-owned consolidated subsidiary under several operating leases. The operating leases require the subsidiary to make monthly payments at specified amounts and guarantee, up to a stated amount, the residual value of the assets at the end of the lease. The guarantees are for periods of from five to seven years or until termination of the lease. We have recorded a liability and corresponding prepaid amount of $3 relating to these guarantees. In the event of a default by our subsidiary, we would be required to fulfill its obligations under the operating lease.

We procure tooling from a variety of suppliers. In certain instances, in lieu of making progress payments on tooling that our customer will eventually own, we may guarantee a tooling supplier s obligations under its credit facility secured by the specific tooling purchase order. Our Board authorization permits us to issue tooling guarantees up to $80 for these programs. There were no guarantees outstanding under these programs at March 31, 2005.

Included in cash and cash equivalents at March 31, 2005 are cash deposits of $94 to provide credit enhancement of certain lease agreements and to support surety bonds that allow us to self-insure our workers compensation obligations. A total of $89 of the deposits may not be withdrawn. These financial instruments are expected to be renewed each year. We accrue the estimated liability for workers compensation claims, including incurred but not reported claims. Accordingly, no significant impact on our financial condition would result if the surety bonds were called.

In connection with certain of our divestitures, there may be future claims and proceedings instituted or asserted against us relative to the period of our ownership or pursuant to indemnifications or guarantees provided in connection with the respective transactions. The estimated maximum potential amount of payments under these obligations is not determinable due to the significant number of divestitures and lack of a stated maximum liability for certain matters. In some cases, we have insurance coverage available to satisfy claims related to the divested businesses. We believe that payments, if any, in excess of amounts provided or insured related to such matters are not reasonably likely to have a material adverse effect on our liquidity, financial condition or results of operations.

Contingencies 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 our pending legal proceedings, including the probable outcomes, our reasonably anticipated costs and expenses, the availability and limits of our insurance coverage, 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. We had approximately 120,000 active pending asbestos-related product liability claims at March 31, 2005, compared to 116,000 at December 31, 2004. Included at both dates were 10,000 claims that were settled but awaiting final documentation and payment. We had accrued $143 for indemnity and defense costs for these claims at March 31, 2005, compared to $139 at December 31, 2004. The amounts accrued are based on our assumptions and estimates about the values of the claims and the likelihood of recoveries against us derived from our historical experience and current information. We cannot estimate possible losses in excess of those for which we have accrued because we cannot predict how many additional claims may be brought against us in the future, the allegations in such claims or their probable outcomes.

We have agreements with our insurance carriers providing for the payment of a significant majority of the defense and indemnity costs for the pending claims, as well as claims which may be filed against us in the future. We had recorded $122 as an asset for

probable recovery from our insurers for these claims at March 31, 2005, compared to $118 at December 31, 2004. In addition to amounts related to pending claims, we had a net amount recoverable from our insurers and others of $28 at March 31, 2005, compared to $26 at December 31, 2004. This recoverable represents reimbursements for settled asbestos-related product liability claims and related defense costs, including billings in progress and amounts subject to alternate dispute resolution (ADR) proceedings with some of our insurers.

Other Product Liabilities We had accrued $9 for contingent non-asbestos product liability costs at March 31, 2005, compared to $11 at December 31, 2004, with no recovery expected from third parties at either date. The difference between our minimum and maximum estimates for these liabilities was $10 at both March 31, 2005 and December 31, 2004. 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. If there is a range of equally probable outcomes, we accrue the lower end of the range.

Environmental Liabilities We had accrued $68 for contingent environmental liabilities at March 31, 2005, compared to $73 at December 31, 2004, with an estimated recovery of $10 from other parties recorded at both March 31, 2005 and December 31, 2004. The difference between our minimum and maximum estimates for these liabilities was $1 at both dates. 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.

Included in these accruals are amounts relating to the Hamilton Avenue Industrial Park Superfund site in New Jersey, where we are now one of four potentially responsible parties (PRPs). The site has three Operable Units. At March 31, 2005, we estimated our liability for future remedial work and past costs incurred by the United States Environmental Protection Agency (EPA) relating to off-site soil contamination at Unit 1 to be approximately $1, based on the remediation performed at this Unit to date and our assessment of the likely allocation of costs among the PRPs. At that date, we also estimated our liability for future remedial work relating to on-site soil contamination at Unit 2 to be approximately $14, taking into consideration the $69 remedy proposed by the EPA in a Record of Decision issued in September 2004 and our assessment of the most likely remedial activities and allocation of costs among the PRPs, and our liability for the costs of a remedial investigation and feasibility study pertaining to groundwater contamination at Unit 3 to be less than $1, based on our expectations about the study that is likely to be performed and the likely allocation of costs among the PRPs.

Other Liabilities 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 that year, the CCR was reorganized and discontinued negotiating shared settlements. Since then, we have independently controlled our legal strategy and settlements, using Peterson Asbestos Consulting Enterprise (PACE), a unit of Navigant Consulting, Inc., to administer our claims, bill our insurance carriers and assist us in claims negotiation and resolution. Some former CCR members 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 to resolve these issues. Due to the application in December 2004 of a portion of the payment received under the previously reported insurance settlement agreement, at March 31, 2005, we expected to pay a total of $50 in connection with these matters, including $47 already paid, and to recover a total of $42, including $29 already received. These amounts are unchanged from those reported as of December 31, 2004.

Assumptions The amounts we have recorded for contingent 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 Dana could differ materially from our current expectations if our assumptions about the nature of the pending unresolved bodily injury claims and the claims relating to the CCR-negotiated settlements, the costs to resolve those claims and the amount of available insurance and surety bonds prove to be incorrect, or if currently proposed U.S. federal legislation impacting asbestos personal injury claims is enacted.

27

Critical Accounting Estimates

General

The preparation of interim financial statements involves the use of certain estimates that differ from those used in the preparation of the annual financial statements, the most significant of which relates to income taxes. For purposes of preparing our interim financial statements we utilize an estimated annual effective tax rate for ordinary items that is re-evaluated each period based on changes in the components used to determine the annual effective rate. Except as described below, our critical accounting estimates, as described in our 2004 Form 10-K/A, are unchanged.

Change in Stock Option Valuation Method

As discussed in Note 5, we modified the method used to determine the fair value of stock options in the first quarter of 2005 to the binomial method.

Change in Accounting for Warranty

As discussed in Note 16, we changed our method for accounting for warranty liabilities from estimating the liability based on the credit issued to the customer, to accounting for warranty liabilities based on our costs to settle the warranty claim.

Results of Operations (First Quarter 2005 versus First Quarter 2004)

We are organized into two market-focused business units Automotive Systems Group (ASG) and Heavy Vehicle Technologies and Systems Group (HVTSG). Accordingly, our segments are our business units and DCC.

Sales of our continuing operations by region for the first quarter of 2005 and 2004 were as follows:

	Three Months Ended March 31,		Dollar	%	Dollar Change Due To		
	2005	2004	Change	Change	Currency Effects	Acquisitions/ Divestitures	Organic Change & Other
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
North America	**$ 1,582**	$ 1,594	$ (12)	(1)%	$ 16		$ (28)
Europe	**516**	427	89	21%	26		63
South America	**209**	130	79	61%	15		64
Asia Pacific	**177**	160	17	11%	3	9	5
	$ 2,484	$ 2,311	$ 173	7%	$ 60	$ 9	$ 104

Organic change presented in the table is the residual change in sales after excluding the effects of acquisitions, divestitures and currency movements. The strengthening of certain international currencies against the U.S. dollar since the first quarter of 2004 played a significant role in increasing our 2005 sales. In North America, the stronger Canadian dollar helped cushion the sales decline, but overall sales in the region were down. In Europe, the euro and the British pound strengthened, while in Asia Pacific the increase was led by the effect of the stronger Australian dollar.

The net decrease in organic sales in North America is due primarily to lower production levels in the light vehicle market. First quarter production of all light vehicles was down approximately 5%. Production in the light truck segment our primary light-duty market was down by about 6%. Partially offsetting the sales decline associated with lower light vehicle production were higher production levels in both the medium-duty and heavy-duty commercial vehicle markets. The Class 8 commercial vehicle market in North America experienced an increase in production to approximately 75,000 units in the first quarter of 2005 from 54,000 units in the same period in 2004. While not as significant as in the Class 8 segment, growth in the medium-duty segment was also strong as unit production increased around 14% from the same period last year.

In Europe, the organic sales growth resulted from stronger commercial vehicle and off-highway markets, and from new business that came on stream in 2004 and 2005. In South America, the organic sales increase reflects new business in ASG as well as stronger light vehicle production.

Sales by segment for 2005 and 2004 are presented in the following table. DCC did not record sales in either year. The Other category in the table represents facilities that have been closed or sold and operations not assigned to a segment, but excludes discontinued operations.

Business Unit Sales Analysis

	Three Months Ended March 31,				Dollar Change Due To		
	2005	2004	Dollar Change	% Change	Currency Effects	Acquisitions/ Divestitures	Organic Change & Other
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
ASG	**$ 1,810**	$ 1,712	$ 98	6%	$ 46	$ 9	$ 43
HVTSG	**666**	573	93	16%	14		79
Other	**8**	26	(18)	(69)%			(18)
	$ 2,484	$ 2,311	$ 173	7%	$ 60	$ 9	$ 104

ASG principally serves the light vehicle market, with some driveshaft sales to the commercial vehicle market. The organic sales increase was due primarily to the stronger commercial vehicle market, which experienced higher Class 8 production of about 39% and higher medium-duty production of around 14% in North America and stronger overall light-duty markets in South America and Asia Pacific. This more than offset the lower production levels in ASG s primary market the North American light truck market which was down about 6% compared to the first quarter of last year.

HVTSG focuses on the commercial vehicle and off highway markets. More than 90% of HVTSG s sales are in North America and Europe. In the commercial vehicle markets in both North America and Europe, production levels were much stronger, with the North American Class 8 and medium-duty segments being up significantly, as previously noted. In off highway, global production levels in our key market segments, including construction, agricultural and material handling, were higher in the first quarter when compared to the same period last year and looking ahead are expected to be up about 4% in 2005. Most of our sales are in North America and Europe where certain segments are experiencing even higher production demands. Our off highway business is also benefiting from new customer programs which added to current year sales.

	2005 (Restated)	**2004 (Restated)**	**Dollar Change (Restated)**
Revenue from lease financing and other income	**$ 34**	$ 14	$ 20

Leasing revenue is $7 higher, primarily due to last year s results including pre-tax losses on the sale of lease assets by DCC. Interest income increased $5, due in part to interest on a note receivable obtained in connection with our sale of the majority of our automotive aftermarket businesses in November 2004.

An analysis of our 2005 and 2004 gross and operating margins and selling, general and administrative expenses relative to sales is presented in the following table.

Gross and Operating Margin Analysis	As a Percentage of Sales		Increase /	%
Three Months Ended March 31,	**2005**	2004	(Decrease)	Change
	(Restated)	(Restated)	(Restated)	(Restated)
Gross Margin:				
ASG	**4.59%**	6.43%	(1.84)%	(28.63)%
HVTSG	**7.51%**	11.52%	(4.01)%	(34.82)%
Consolidated	**5.92%**	8.74%	(2.82)%	(32.30)%
Selling, general and administrative expenses:				
ASG	**4.09%**	3.91%	0.17%	4.47%
HVTSG	**4.95%**	5.76%	(0.80)%	(13.96)%
Consolidated	**5.56%**	5.67%	(0.11)%	(1.99)%
Operating margin:				
ASG	**0.50%**	2.51%	(2.01)%	(80.20)%
HVTSG	**2.55%**	5.76%	(3.21)%	(55.68)%
Consolidated	**0.36%**	3.07%	(2.71)%	(88.21)%

In the ASG, the reduction in gross margins was due mainly to a year-over-year increase in steel costs of $38. Outside North America, ASG had some success recovering higher steel costs from customers. However, the major North American automotive companies have generally resisted accepting any price increases associated with steel surcharges. Adjusting for the higher steel costs, ASG s gross margins in 2005 would have been 6.7%. Although sales were higher, the mix of business, pricing reductions, and inflationary cost increases also negatively impacted 2005 margins. The negative impact to margin from these factors was partially offset by various process cost reduction initiatives from programs like lean manufacturing and Six Sigma.

HVTSG margins were similarly reduced by higher year-over-year steel costs, net of customer recoveries, of approximately $21. Removing the impact of higher net steel costs, HVTSG gross margins were 10.7%. Additionally, margins were negatively impacted by a component shortage from a principal supplier in March of this year which resulted in reduced shipments of heavy-duty axles and higher operating costs. Absent these two factors, gross margins in HVTSG approximated those of the prior year. Production inefficiencies in our Commercial Vehicle group largely offset the margin improvement otherwise expected on higher sales.

Consolidated selling, general and administrative (SG&A) expenses of $138 in the first quarter of 2005 were up from $131 in the comparative period in 2004. SG&A expenses within our manufacturing operations remained flat as a percentage of sales. Within the gradual phase-out of our leasing operations, SG&A expenses at DCC were lower, resulting in a lower consolidated SG&A expense as a percent of sales.

	2005	**2004**	**Dollar Change**
	(Restated)	**(Restated)**	**(Restated)**
Income before income taxes	**$ 1**	$ 33	$ (32)

Operating margin was $9 in the first quarter of 2005, down from $71 in the same period in 2004. As discussed previously, gross margins in our two manufacturing business segments were negatively impacted by higher steel cost, net of customer recoveries, of $59. The lower operating margin was partially offset by higher other income of $20 (previously discussed) and by lower interest expense of $10 due primarily to lower overall debt levels.

Dollar

	2005 (Restated)	2004 (Restated)	Change (Restated)
Income tax benefit	**$ 5**	$ 4	$ 1

We recognized income tax benefits in the first quarter of both 2005 and 2004 that resulted in net tax provisions that were more favorable than would be expected at the U.S. statutory rate of 35%. The income tax benefit of $5 reported for the first quarter of 2005 was $5 more favorable than the expense expected using a 35% rate. The primary factor generating this additional benefit was the release of $4 of valuation allowances against tax assets resulting from net operating losses of our Japanese subsidiary whose profitability outlook was determined to no longer require any valuation allowance. For the same period in 2004, the income tax benefit of $4 was $16 more favorable than an anticipated expense provision of $12 derived by applying a 35% rate. The most significant favorable impact in 2004 related to utilization of capital loss carryforwards. Since the benefit of capital losses can only be realized by generating capital gains, a valuation allowance was recorded against the deferred tax asset representing the unused capital loss benefit. The valuation allowance is subsequently reduced when transactions generating capital gains occur, or are more likely than not to occur. The estimated annual effective tax rate estimated for interim tax purposes does not include any estimate for the utilization of the capital loss carryforward because we treat qualifying asset sales as discrete events. During the first quarter of 2004, we released $8 of the valuation allowance against our capital loss carryforward due primarily to the sale of certain DCC assets.

	2005 (Restated)	**2004 (Restated)**	**Dollar Change (Restated)**
Equity in earnings of affiliates	**$ 9**	$ 15	$ (6)

Equity earnings from our two largest equity affiliates were down $6, due primarily to higher costs for steel and other raw materials and lower sales volume.

Forward-Looking Information

Forward-looking statements in this report are indicated by words such as anticipates, expects, believes, intends, plans, estimates, projects and similar expressions. These statements represent our expectations based on current information and assumptions. Forward-looking statements are inherently subject to risks and uncertainties. Our actual results could differ materially from those which are anticipated or projected due to a number of factors. These factors include national and international economic conditions; adverse effects from terrorism or hostilities; the strength of other currencies relative to the U.S. dollar; increases in commodity costs, including steel, that cannot be recouped in product pricing; changes in business relationships with our major customers and in the timing, size and continuation of their programs; the ability of our customers and suppliers to achieve their projected sales and production levels; the continued availability of necessary goods and services from our suppliers; competitive pressures on our sales and pricing; the continued success of our cost reduction and cash management programs, long-term transformation and U.S. tax loss carryforward utilization strategies and other factors set out elsewhere in this report, including those discussed under the captions *Financing Activities* and *Contingencies* within Liquidity and Capital Resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our exposures to market risk since December 31, 2004.

The financing activities of the first three months of 2005 are described in Management s Discussion and Analysis of Financial Condition and Results of Operations within this Form 10-Q/A.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures We maintain controls and procedures designed to ensure that the information disclosed in the reports that we file with the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

In the second quarter of 2005, senior management at our corporate office identified an unsupported asset sale transaction in our Commercial Vehicle business unit and recorded the necessary adjustments to correct for the accounting related to this matter before the accounting and reporting was completed for the quarter. During the third quarter, management initiated an investigation into the matter, corporate management found other incorrect accounting entries related to a customer agreement within the same business unit, and informed the Audit Committee of the Board of Directors of its findings.

In September 2005, the Audit Committee engaged outside counsel to conduct an independent investigation of the situation. The independent investigation included interviews with nearly one hundred present and former employees with operational and financial management responsibilities for each of the company s business units.

The investigations also included a review and assessment of accounting transactions identified through the interviews noted above, and through other work performed by the company and the independent investigators engaged by the Audit Committee. The independent investigators also reviewed and assessed certain items identified as part of the annual audit performed by the company s independent registered public accounting firm.

In announcements during October and November 2005, we reported on the preliminary findings of the ongoing management and Audit Committee investigations, including the determination that we would restate our consolidated financial statements for the first and second quarters of 2005 and for years 2002 through 2004.

The investigations are now complete, and management, under the direction of our CEO and CFO, has re-evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2005. Based upon this re-evaluation and the investigations described above, and as a result of the material weaknesses discussed in Item 9A of our 2004 Form 10-K/A, management, including our CEO and CFO, has concluded that our disclosure controls and procedures were not effective as of March 31, 2005.

You can find more information about the investigations, the material weaknesses and their impact on our disclosure controls and procedures and our internal control over financial reporting, and the actions that we have taken or are planning to take to remediate the material weaknesses in Item 9A of our 2004 Form 10-K/A, which is incorporated by reference into this Item 4.

Changes in Internal Control Over Financial Reporting Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements in accordance with GAAP. With the participation of our CEO and CFO, our management evaluates any changes in our internal control over financial reporting that occurred during each fiscal quarter which have materially affected, or are reasonably likely to materially affect, such internal control. Apart from the ongoing deployment of our account reconciliation software to our major facilities to allow access and review of reconciliations from a central location, discussed in Item 9A of our 2004 Form 10-K/A, there were no changes that occurred during the quarter ended March 31, 2005, that have materially affected or were reasonably likely to materially affect Dana s internal control over financial reporting.

CEO and CFO Certifications The Certifications of our CEO and CFO which are attached as Exhibits 31-A and 31-B to this report include information about our disclosure controls and procedures and internal control over financial reporting. These Certifications should be read in conjunction with the information contained in this Item 4, including the information incorporated by reference to our 2004 Form 10-K/A, for a more complete understanding of the matters covered by the Certifications.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are a party to various pending judicial and administrative proceedings arising in the ordinary course of business. After reviewing the proceedings that are currently pending (including the probable outcomes, reasonably

anticipated costs and expenses, availability and limits of our insurance coverage, 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.

Since our annual report on Form 10-K/A for the year ended December 31, 2004, there have not been any material developments in our previously reported pending litigation and environmental proceedings or any new litigation or environmental proceedings that are required to be reported in this quarterly report.

You can find more information about our legal proceedings under Note 14. Contingencies and Management s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Period	Total Number of Shares Purchased	Average Price Paid per Share
January 2005	2,882	$16.94
February 2005		
March 2005	17,520	14.36
	20,402	$14.72

The above shares were repurchased in connection with (1) the vesting of restricted stock grants to satisfy the required payment of withheld income taxes and (2) the exercise of stock options to satisfy the payment of the exercise price and/or withheld income taxes.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The results of voting by shareholders present in person or represented by proxy at our annual meeting on April 18, 2005 are as follows.

Proposal 1. Election of Directors. The following persons were elected to serve as directors of Dana until the next annual meeting or until their successors are elected:

	Votes For	Votes Withheld
A. C. Baillie	124,046,713	3,244,995
D. E. Berges	124,504,730	2,786,978
M. J. Burns	123,401,140	3,890,568
E. M. Carpenter	123,464,933	3,826,775
R. M. Gabrys	124,475,264	2,816,444
S. G. Gibara	124,451,162	2,840,545
C. W. Grisé	124,504,602	2,787,105
J. P. Kelly	124,538,597	2,753,111
M. R. Marks	122,846,749	4,444,958
R. B. Priory	124,453,269	2,838,438

Proposal 2. Ratification of Selection of Independent Auditors. The selection of PricewaterhouseCoopers LLP as Dana s independent auditors for fiscal year 2005 was ratified. There were 124,695,595 votes for ratification, 2,368,217 votes against, 227,895 votes abstaining and no broker non-votes.

ITEM 6. EXHIBITS

The Exhibits listed in the Exhibit Index are filed with or furnished as a part of this report. Exhibit No. 10-D(3) is a compensatory plan in which directors participate.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DANA CORPORATION

Date: December 30, 2005

/s/ Robert C. Richter

Robert C. Richter
Chief Financial Officer

EXHIBIT INDEX

NO.	DESCRIPTION	METHOD OF FILING
4-T	Indenture for Senior Securities between Dana Corporation, as Issuer, and Citibank, N.A., as Trustee, dated as of December 10, 2004	Filed by reference to Exhibit 4-T to Amendment No. 1 to our Registration Statement No. 333-123924 filed on April 25, 2005
4-T(1)	First Supplemental Indenture between Dana Corporation, as Issuer, and Citibank, N.A., as Trustee, dated as of December 10, 2004	Filed by reference to Exhibit 4-T(1) to Amendment No. 1 to our Registration Statement No. 333-123924 on filed April 25, 2005
4-T(2)	Form of Rule 144A Global Notes and Regulation S Global Notes (form of exchange securities) for 5.85% Notes due January 15, 2015	Filed by reference to Exhibit 4T(2) to Amendment No. 1 to our Registration Statement No. 333-123924 filed on April 25, 2005
10-D(3)	Third Amendment to Director Deferred Fee Plan	Filed by reference to Exhibit 99.1 to our Form 8-K filed on April 12, 2005
10-U(1)	Sale and Purchase Agreement for the Acquisition of Fifty Percent (50%) of the Registered Capital of Dongfeng Axle Co., Ltd. among Dongfeng Motor Co., Ltd., Dongfeng (Shiyan) Industrial Company, Dongfeng Motor Corporation and Dana Mauritius Limited, dated March 10, 2005	Filed by reference to Exhibit 10-U(1) to our Form 10-Q for the quarter ended March 31, 2005, filed on May 6, 2005
10-U(2)	Equity Joint Venture Contract between Dongfeng Motor Co., Ltd. and Dana Mauritius Limited, dated March 10, 2005	Filed by reference to Exhibit 10-U(2) to our Form 10-Q for the quarter ended March 31, 2005, filed on May 6, 2005
10-V	Human Resources Management and Administration Master Services Agreement between Dana Corporation and International Business Machines Corporation, dated March 31, 2005	Filed by reference to Exhibit 10-V to our Form 10-Q for the quarter ended March 31, 2005, filed on May 6, 2005
31-A	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer	Filed with this report
31-B	Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer	Filed with this report
32	Section 1350 Certifications	Furnished with this report