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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A
(Amendment No. 1)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2004
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 No.)*
4500 Dorr Street, Toledo, Ohio	**43615**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code
(419) 535-4500
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, $1 par value	New York Stock Exchange The Pacific Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ

Indicate by check mark if 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. þ

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant at February 28, 2005, was approximately $2,156,240,000.

There were 150,160,000 shares of registrant s common stock, $1 par value, outstanding at February 28, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Document	**Where Incorporated**
Proxy Statement for 2005 Annual Meeting of Shareholders	Part III

Explanatory Note

We are filing this Amendment No. 1 on Form 10-K/A to Dana Corporation s Annual Report on Form 10-K for the fiscal year ended December 31, 2004, which was originally filed with the Securities and Exchange Commission (the SEC) on March 9, 2005 (the Original Form 10-K), to reflect the restatement of our consolidated financial statements for each of the three years in the period ended December 31, 2004, and the Selected Financial Data for the years ended December 31, 2001 and 2000, in Item 6 of this Form 10-K/A.

We reported the decisions to restate this information in Current Reports on Form 8-K which were filed with the SEC on October 14 and November 16, 2005. The decisions to restate were based on the findings of internal investigations conducted by Dana s management and the Audit Committee of the Board of Directors. This Form 10-K/A contains more information about these restatements in Note 2. Restatement of Financial Statements and Financing Update, which accompanies the financial statements in Item 8, and more information about the internal investigations in Item 9A.

Although this Form 10-K/A contains the Original Form 10-K in its entirety, it amends and restates only Items 1, 6, 7, 8 and 9A and Exhibits 23, 31-A, 31-B and 32, as referred to in Item 15 of the Original Form 10-K, in each case solely as a result of and to reflect the restatements. Also reflected in this Form 10-K/A are the items described in the *Financing Update* in Note 2 to the consolidated financial statements included herein. No other information in the Original Form 10-K is amended hereby. In addition, this Form 10-K/A has been repaginated and references to Form 10-K have been revised to refer to Form 10-K/A.

Except for the foregoing amended information, this Form 10-K/A continues to speak as of March 9, 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-K, and other disclosures necessary to reflect subsequent events, have been or will be addressed in our amended Quarterly Reports for the quarterly periods ended March 31 and June 30, 2005, which are being filed concurrently with this Form 10-K/A, and/or in other reports filed with the SEC subsequent to the date of the Original Form 10-K.

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PART I
(Dollars in millions, except per share amounts)

Item 1 ***Business***

Dana Corporation is one of the world s largest independent suppliers of modules, systems and components for light, commercial and off-highway vehicle original equipment (OE) manufacturers globally and for related OE service customers. Dana is focused on being an essential partner to our customers. Our products are used in passenger cars and vans; sport-utility vehicles (SUVs); light, medium and heavy trucks; recreational vehicles and motor homes; and a wide range of off-highway vehicles. From our introduction of the automotive universal joint in 1904 to the development of high-performance products for the 21st century, we have been focused on technological innovation. We are also highly focused on product quality, delivery and service, as evidenced by our numerous supplier quality awards. As a result, we have developed successful long-standing business relationships with thousands of customers worldwide.

In addition, Dana has long served as one of the largest suppliers to the North American aftermarket. Nearly all of our automotive aftermarket operations were conducted through our Automotive Aftermarket Group (AAG). In December 2003, we announced our intention to sell substantially all of the AAG. That portion of the AAG has been presented in our financial statements as a discontinued operation. The sale was completed on November 30, 2004. The remaining portion of the AAG, which distributes engine hard parts, has become a part of our engine and fluid management operations, within our Automotive Systems Group (ASG).

In the first quarter of 2004, we combined the ASG and the former Engine and Fluid Management Group (EFMG) into a single business unit which retained the ASG name. The combined operations produce components primarily for the light vehicle original equipment (OE) manufacturer market. The combination enables their global operations serving these markets to focus resources on their common customers. The consolidation of sales, marketing and similar functions makes it impractical to continue evaluating these units as separate operations. Accordingly, our continuing operations are now organized into the following market-focused business units:

ASG manufactures and sells drivetrain modules, systems and components, consisting of axles, driveshafts, structures, and chassis and steering products, for the automotive and light vehicle markets, as well as driveshafts for the commercial vehicle market and sealing, thermal management, fluid transfer, and engine power products for the automotive, light and commercial vehicle and leisure and outdoor power equipment markets. The group also provides systems assembly, management, and integration services and related service parts. In 2004, ASG generated sales (including inter-segment sales) of $6,845 and its largest customers were Ford Motor Company (Ford), DaimlerChrysler AG (DaimlerChrysler) and General Motors Corporation (General Motors). At December 31, 2004, ASG had 148 major facilities, operated in 25 countries and employed 36,200 people.

Heavy Vehicle Technologies and Systems Group (HVTSG) manufactures and sells axles, brakes, driveshafts, chassis and suspension modules, ride controls and related modules and systems for the commercial and off-highway vehicle markets and transaxles, transmissions and electronic controls for the off-highway market. In 2004, HVTSG generated sales (including inter-segment sales) of $2,304 and its largest customers were PACCAR Inc, Volvo Group, and International Truck & Engine Corp. At December 31, 2004, HVTSG had 20 major facilities, operated in 12 countries and employed 8,000 people.

For nearly two decades, we were a leading provider of lease financing services in selected markets through our wholly owned subsidiary, Dana Credit Corporation (DCC). However, in October 2001, we determined that the sale of DCC s businesses would enable us to more sharply focus on our core businesses. Over the last three years, we have sold significant portions of DCC, reducing the total portfolio assets of $2,200 at the end of 2001 to approximately $830 at the end of 2004. While certain assets of DCC will be retained within Dana, other assets remain for sale. During 2005, we will continue our effort to maximize the value of these assets to Dana and its shareholders.

You can find more information about the operating results of our business units in Note 23. Business Segments in Item 8 of this Form 10-K/A.

Strategy

Our overall strategic direction is set out in our *Vision 2010* plan for strategic growth. Our goals under this plan represent an increased emphasis on anticipating the needs of our markets and serving our customers.

Vision 2010 provides an over-arching direction for the key elements of our strategic business plan. These elements include:

Focus and Expand Core Businesses. We believe that our core businesses are the key to the long-term profitable growth of our company. These core businesses focus on the development, design and manufacture of our core products: axles, driveshafts, structures, fluid systems, and bearing and sealing products. These businesses have leading market positions and brand equity and provide our customers with value-added solutions and products.

Our OE customers continue to target improved asset utilization, speed to market, lower cost, lower investment risk, and greater flexibility and to look for outsourcing alternatives. We expect that our global presence and technological and engineering capabilities, as well as our experience, scale of operations and long-standing relationships with major OE customers, will enable us to continue to take advantage of this opportunity. We project net new business, based on our review of our customers production estimates, will add approximately $410 to our sales revenue in 2005 and approximately $960 for the period 2005-2007. The new business is not only with our traditional U.S.-based OE customers, but also with OE manufacturers such as BMW, Isuzu, Nissan and Toyota.

Focus on Capital and Operating Efficiency. In 2004, we continued to focus on opportunities to optimize our resources and reduce manufacturing costs and undertook initiatives to maximize our return on invested capital and to improve cash flow. As part of our effort to optimize resources, we have taken significant actions to leverage our global strategic sourcing efforts by eliminating duplication, driving commonality and achieving economies of scale in purchased goods and services. We are also standardizing operational processes, such as information technology, and manufacturing and quality initiatives to promote greater sharing of best practices and deliver consistently high performance across our enterprise.

Evaluate Strategic Alliances, Joint Ventures and Selected Divestiture and Acquisition Opportunities. Among the keys to our business plan is the concept of capitalizing on strategic alliances and joint ventures. Such relationships offer opportunities to expand our capabilities with a reduced level of investment and enhance our ability to provide the full scope of services required by our customers. We have a number of strategic alliances, including our Roadranger marketing program with Eaton Corporation and programs with GETRAG Cie, to strengthen our portfolio of advanced axle technologies; Motorola Inc., to integrate its electronic expertise into the development of advanced technology for traditionally mechanical components; Bühler Motor Inc., to provide advanced automotive motor-module technologies and manufacturing expertise to support our product applications, Emerson Electric Co. to develop a series of actuator products and related components for the global electronic steering market, and Bendix Commercial Vehicle Systems LLC, to combine complementary technologies for wheel-end braking systems.

In 2003, we expanded our existing partnership with GETRAG to encompass a joint venture with Volvo Car Corporation to produce all-wheel-drive and chassis systems and components for passenger cars and sport utility vehicles.

Our divestiture activities in 2004 are described elsewhere in this report. We will continue to evaluate non-core operations for divestiture in the future. We will also evaluate potential acquisition candidates that have product platforms complementary to our core OE businesses, strong operating potential and strong existing management teams. We believe that targeted acquisitions will help us achieve our long-term objectives.

Other elements of our *Vision 2010* plan are as follows:

Customers. We will be an essential partner with our customers by identifying and delivering innovative solutions within global, diversified customer, and product portfolios. We will focus on knowing our customers expectations, nurturing enduring relationships through trust and collaboration, and employing rigorous program management to produce flawless launches.

People. We will build a faster and more capable Dana with diverse, energized, and passionate people thriving on performance. We will cultivate a learning organization that values education and personal growth; create and build upon teamwork, shared ideas, and processes; and recognize and reward our people for results.

Financial Performance. We will deliver industry-leading shareholder value by consistently growing profits through world-class lean methods and supply chain excellence with fact-based decision making. We will deliver consistent top- and bottom-line growth, focus on sustainability of cash flow, and maintain a strong balance sheet.

2004 Overview

The sale of our automotive aftermarket business in November was a major development in 2004. The proceeds from the sale ($968), in combination with proceeds from a new issuance of debt ($450), were used in part to repurchase long-term debt having a face value of approximately $900 and to make an extra contribution of approximately $200 to our pension funds, improving the funding status of our pension plans. These actions significantly strengthened our financial position. Our ratio of net debt to capital, excluding Dana Credit Corporation, approximated 35% at December 31, 2004 down from 45% at the start of the year. By repurchasing the debt, we removed high yield covenants that limited certain actions thereby increasing our financial flexibility. Following these actions, two leading credit rating agencies returned us to investment grade in December 2004.

In terms of our 2004 results from operations, net income of $62 was negatively impacted by $151 of unusual net charges. The repurchase of debt discussed in the previous paragraph resulted in an after-tax charge of $96. The sale of the aftermarket business, net of gains from the sale of Dana Credit Corporation assets, produced a net loss of $14. And, we incurred an after-tax charge of $54 on additional realignment actions.

Exclusive of unusual net charges, these results compare favorably to our results in 2003, when net income totaled $228, but included $35 of net gains from unusual items. Contributing to the significant improvement in year-over-year net income exclusive of unusual items were margin from higher sales, benefits from cost reduction initiatives and favorable tax benefits. These items more than offset the impact of higher steel costs in 2004, which reduced net income by approximately $70 when compared to steel costs in 2003.

In summary, we improved our balance sheet and our operational performance in 2004 despite a challenging operating environment, positioning the company for future growth.

Geographic Areas

We maintain administrative organizations in four regions North America, Europe, South America and Asia Pacific to facilitate financial and statutory reporting and tax compliance on a worldwide basis and to support our business units.

Our operations are located in the following countries (shown by the regions in which we administer them):

North America	Europe		South America	Asia Pacific
Canada	Austria	Slovakia	Argentina	Australia
Mexico	Belgium	Spain	Brazil	China
United States	France	Sweden	Colombia	India
	Germany	Switzerland	South Africa	Indonesia
	Italy	Turkey	Uruguay	Japan
		United Kingdom	Venezuela	South Korea
				Taiwan
				Thailand

Our non-U.S. subsidiaries and affiliates manufacture and sell a number of products similar to those we produce in the U.S. In addition to normal business risks, operations outside the U.S. may be subject to a greater risk of changing political, economic and social environments, changing governmental laws and regulations, currency revaluations and market fluctuations.

Consolidated non-U.S. sales were $3,911, or 43% of our 2004 consolidated sales. Our non-U.S. net income was $280, as compared to consolidated net income of $62 in 2004. These amounts include $30 of equity in earnings of non-U.S. affiliates.

You can find more information about our regional operating results in Note 23. Business Segments in Item 8 of this Form 10-K/A.

Customer Dependence

We have thousands of customers around the world and have developed long-standing business relationships with many of them. Ford and General Motors were the only individual customers accounting for 10% or more of our consolidated sales in 2004. We have been supplying products to these companies and their subsidiaries for many years. As a percentage of total sales, sales to Ford were 25%, 27% and 26% in 2004, 2003 and 2002, and sales to General Motors were 11%, 9% and 9%. Loss of all or a substantial portion of our sales to Ford, General Motors or other large volume customers would have a significant adverse effect on our financial results until such lost sales volume could be replaced. There would be no assurance, in such event, that the lost volume would be replaced.

Products

The following table presents the relative sales of our continuing operations by core product for the last three years:

	Percentage of Consolidated Sales		
	2004	**2003**	**2002**
Types of Products			
Axle	43%	43%	44%
Driveshaft	14	13	13
Structural	12	11	10
Bearings and sealing	10	10	9
Fluid systems	9	10	11
	88	87	87
Other	12	13	13
	100%	100%	100%

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None of our other products individually accounted for 10% of sales in these periods.

Sources and Availability of Raw Materials

We use a variety of raw materials in the production of our products, including steel and products containing steel, forgings, castings and bearings. Other commodity purchases include aluminum, brass, copper and plastics. Our operating units purchase most of the raw materials they require from suppliers located within their local geographic regions. Generally, these materials are available from multiple qualified sources in quantities sufficient for our needs. However, some of our operations are dependent on single sources for some raw materials as a result of the consolidations we have been making in our supply base in order to manage and reduce our production costs. While our suppliers have generally been able to support our needs, our operations may experience shortages and delays in the supply of raw material, from time to time, due to strong demand, capacity limitations and other problems experienced by the suppliers. A significant or prolonged shortage of critical components from any of our suppliers could adversely impact our ability to meet our production schedules and to deliver our products to our customers when they have requested them.

Increasing steel and other raw material costs, primarily resulting from limited capacity and high demand among steel suppliers, had a major adverse effect on our results of operations during 2004, as discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K/A.

Seasonality

Our businesses are generally not seasonal. However, our sales are closely related to production schedules of our OE manufacturing customers and historically those schedules have been weakest in the third quarter of the year.

Backlog

Generally, our products are not on a backlog status. They are produced from materials that are generally available in ample quantities and have a relatively short manufacturing cycle. Each operating unit maintains its own inventories and production schedules and some of our products are available from more than one facility.

Competition

Within each of our continuing operating segments, we compete with a variety of independent suppliers and distributors, as well as the in-house operations of certain OE manufacturers. We compete primarily on the basis of price, product quality, technology, delivery and service.

A summary by operating segment is set forth below:

Automotive Systems Group We are one of the primary independent suppliers in torque and traction technologies (axles, driveshafts, and drivelines), structural solutions (frames) and system integration technologies (including advanced modularity concepts and systems). Our primary competitors include American Axle, in-house operations of DaimlerChrysler, GKN, Magna, Tower Automotive, ThyssenKrupp, Visteon and ZF Group. We are also one of the leading independent suppliers of sealing systems (gaskets and cam covers), thermal management (thermal acoustical shields, heat exchangers, and small radiators), fluid transfer (fuel rails, brake lines and HVAC routing) and power products (piston rings and engine bearings). On a global basis, our primary competitors in sealing systems are ElringKlinger, Federal Mogul and Freudenberg NOK. Competitors in thermal management include Behr, Delphi, Modine and Valeo. On the fluid transfer side of the business, we compete against companies such as Delphi, Eaton, Valeo and Visteon. Primary competitors on the power products side of the business include Federal Mogul and Mahle.

Heavy Vehicle Technologies and Systems Group We are one of the primary independent suppliers of axles, driveshafts and brakes for both the medium and heavy truck markets, as well as various off-highway segments. With regard to the off-highway markets specifically, we also specialize in the manufacturing of transmissions. Our primary competition in North America includes ArvinMeritor in the medium and heavy truck markets and Hendrickson in the trailer market. Other major competitors in Europe include OE manufacturers vertically integrated operations in the heavy truck markets, as well as Carraro, ZF Group and OE manufacturers vertically integrated operations in the off-highway markets.

Patents and Trademarks

Our proprietary drivetrain, engine parts, chassis, structural components, fluid power systems and industrial power transmission product lines have strong identities in the markets we serve. Throughout these product lines, we manufacture and sell our products under a number of patents which have been obtained over a period of years and expire at various times. We consider each of these patents to be of value and aggressively protect our rights throughout the world against infringement. Because we are involved with many product lines, the loss or expiration of any particular patent would not materially affect our sales and profits.

We own or have licensed numerous trademarks which are registered in many countries, enabling us to market our products worldwide. Our Spicer®, Victor Reinz®, Clevite®, Glacier® and Vandervell® trademarks, among others, are widely recognized in their respective industries.

Research and Development

Our objective is to be a leader in offering superior quality, technologically advanced products to our customers at competitive prices. To enhance quality and reduce costs, we use statistical process control, cellular manufacturing, flexible regional production and assembly, global sourcing and extensive employee training.

In addition, we engage in ongoing engineering, research and development activities to improve the reliability, performance and cost-effectiveness of our existing products and to design and develop disruptive products for existing and new applications. We are integrating related operations to create a more innovative environment, speed product development, maximize efficiency and improve communication and information sharing among our research and development operations. One example of locations where these efforts are being integrated is our new ASG Technology Center that opened in late 2003. At December 31, 2004, ASG had 22 technical centers and HVTSG had 4. Our spending on engineering, research and development and quality control programs was $269 in 2004, $252 in 2003 and $248 in 2002.

Employment

Our worldwide employment (including consolidated subsidiaries) was approximately 45,900 at December 31, 2004. This represents a 35% reduction from the number of people reported at the end of 2001, which is attributable to our restructuring activities and divestitures.

Environmental Compliance

We make capital expenditures in the normal course of business as necessary to ensure that our facilities are in compliance with applicable environmental laws and regulations. The cost of environmental compliance was not a material part of our capital expenditures and did not have a material adverse effect on our earnings or competitive position in 2004. We do not anticipate that future environmental compliance costs will be material. You can find more information in Environmental Compliance and Remediation under Note 1. Summary of Significant Accounting Policies and under Note 19. Commitments and Contingencies of Item 8 of this Form 10-K/A.

Risk Factors

Among the risks that could materially adversely affect our business, financial condition or results of operations are the following:

Our business is affected by the cyclical nature of the OE markets that we serve. Our financial performance depends, in large part, on the varying conditions in the global automotive, commercial vehicle and off-highway OE markets that we serve. Demand in these markets fluctuates in response to overall economic conditions and is particularly sensitive to changes in interest rate levels and, in the vehicular markets, changes in fuel costs. Our sales of vehicular products are also impacted by OE manufacturer inventory levels and production schedules. In North America, our largest market, while light duty production levels have remained relatively stable for the past few years, the OE manufacturers have increasingly used incentives to stimulate and maintain demand levels. Whether these incentives and the demand levels can be maintained indefinitely is uncertain.

We are faced with increasing commodity costs that we may be unable to fully recover. Increasing steel and other raw material costs had a significant impact on our results and those of others in our industry in 2004. As a result of limited capacity and high demand, steel suppliers began assessing price surcharges and increasing base prices during the fourth quarter of 2003. The increased costs continued throughout 2004, impacting us most significantly during the second half of the year. Our purchases of steel were approximately $1,700 in 2004, with about 30% in the form of raw steel from mills and processors and the balance coming from components or products containing steel. Compared to our costs at the end of 2003, steel cost surcharges and price increases, net of recoveries from our customers, reduced our net income by $55 after tax in our continuing operations during 2004, and we expect to experience an additional adverse impact during 2005.

We could be adversely affected if we experience shortages of components from our suppliers. We spend approximately $4,500 annually for purchased goods and services. In an effort to manage and reduce these costs, we have been consolidating our supply base. As a result, we are dependent on single sources of supply for some components of our products. We select our suppliers based on total value (including price, delivery and quality), taking into consideration their production capacities and financial condition, and we expect that they will be able to support our needs. However, there can be no assurance that strong demand, capacity limitations or other problems experienced by our suppliers will not result in occasional shortages or delays in their supply of components to us. If we were to experience a significant or prolonged shortage of critical components from any of our suppliers, particularly those who are sole sources, and could not procure the components from other sources, we would be unable to meet our production schedules for some of our key products and to ship such products to our customers in timely fashion, which would adversely affect our revenues, margins and customer relations.

A few customers account for a significant share of our business. Sales to Ford, General Motors and DaimlerChrysler accounted for 44% of our sales in 2004 and sales to PACCAR, Navistar, Renault-Nissan, Volvo Truck and Toyota accounted for another 18%. Sales to these customers are made under various contracts with differing expiration dates, generally relating to particular vehicle models. The loss of any of these companies as a customer, the loss of business with respect to one or more of the vehicle models that use our products, or a significant decline in the production levels of such vehicles could have an adverse effect on our business, results of operations and financial condition.

We are faced with continued price reduction pressure from our customers. A challenge that we and other suppliers to the vehicular markets face is the effect of continued price reduction pressure from our customers. Our largest customers, the U.S.-based light vehicle OE manufacturers, in particular have experienced market share erosion to non-U.S.-based light vehicle manufacturers over the past few years, thereby putting pressure on their profitability. To the extent this trend continues, we expect the price reduction pressures that we face will be ongoing. Our realignment and outsourcing initiatives have helped position us for this situation. While ongoing cost reduction and lean manufacturing programs are important to sustaining and improving our margins, there is no assurance that we will be able to maintain or improve our historical levels of profitability.

The competitive environment in our OE automotive and commercial vehicle sectors is evolving. In recent years, the competitive environment among suppliers to the global OE manufacturers has changed significantly as these

manufacturers have sought to outsource more vehicular components, modules and systems. In addition, these sectors have experienced substantial consolidation. We expect to respond to these changes in our markets through strategic alliances, joint ventures, acquisitions and divestitures, as well as through other initiatives intended to maintain our competitiveness. However, there is no assurance that our efforts will be successful or that new or larger competitors will not significantly impact our business, results of operations and financial condition.

Sources of financing may become unavailable to us. We have a long-term credit facility in the amount of $400 which matures in March 2010. This facility requires us to attain specified financial ratios as of the end of each quarter, 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, as such terms are defined in the facility.

We have an accounts receivable securitization program that provides up to $200 to help meet our periodic demands for short-term financing. The amounts available under this program are subject to reduction based on adverse changes in our credit rating or those of our customers, customer concentration levels or certain characteristics of the underlying accounts receivable. This program is subject to termination by the lenders if our credit ratings are lowered below B1 by Moody s Investor Service and B+ by Standard and Poor s.

Because our financial performance is impacted by various economic, financial and industry factors, we cannot say with certainty whether we will satisfy the covenants under these facilities in the future. Noncompliance with these covenants would constitute an event of default, allowing the lenders to accelerate the repayment of any borrowings outstanding under the facilities. While no assurance can be given, we believe that we would be able to successfully negotiate amended covenants or obtain waivers if an event of default were imminent; however, we might be required to provide collateral to the lenders or make other financial concessions. Any default under our credit facilities or any of our significant note agreements may result in defaults 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.

While we can give no assurances, we expect to be able to continue to secure short-term financing, but may be forced to adjust our programs if adequate funds are not available on acceptable terms or at all. In the event that we are unable to obtain short-term financing or such financing is not available on acceptable terms, our business, results of operations and financial condition may be adversely affected.

We may not realize the deferred tax assets carried on our balance sheet. We evaluate the carrying value of our deferred tax assets quarterly. Excluding a capital loss carryforward generated in 2002 in connection with the sale of one of our subsidiaries, the most significant portion of our deferred tax assets consists of tax benefits recorded for operations in the United States. Our net federal and state deferred tax assets in the U.S. totaled $756 at December 31, 2004. To ensure realization of these assets, we must generate approximately $1,600 of pre-tax income in future years, assuming a 35% federal statutory tax rate. Although we currently believe that it is more likely than not that we will generate sufficient U.S.-based taxable income to realize these deferred tax assets, the full realization of these assets is not assured. If, as a result of changes in our competitive, operating, economic or regulatory environments, we conclude that it is more likely than not that we will be unable to fully realize these assets, we would be required to provide a full or partial valuation allowance against these deferred tax assets at that time. Providing such a valuation allowance would have an adverse effect on net income and shareholders equity, the amount of which is likely to be material.

We could be adversely affected by product liability claims, including those related to asbestos exposure. Currently, product liability claims are not material to our financial condition. However, we have exposure to asbestos-related claims and litigation because, in the past, some of our automotive products contained asbestos. At the end of 2004, we had approximately 116,000 active pending asbestos-related product liability claims, including 10,000 that were settled and awaiting documentation and payment. 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. A substantial increase in the number of new claims or the costs to resolve them or changes in the amount of available insurance could adversely impact us, as could the enactment of currently proposed U.S. federal legislation relating to asbestos personal injury claims.

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We could be adversely impacted by environmental laws and regulations. Our operations are subject to U.S. and non-U.S. environmental laws and regulations governing emissions to air; discharges to water; the generation, handling, storage, transportation, treatment and disposal of waste materials; and the cleanup of contaminated properties. Currently, environmental costs with respect to our former, existing or subsequently acquired operations are not material, but there is no assurance that we will not be adversely impacted by such costs, liabilities or claims in the future either under present laws and regulations or those that may be adopted or imposed in the future.

Available Information

We make available free of charge on or through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Internet address is http://www.dana.com.

Executive Officers

The following table contains information about our current executive officers and their positions. All positions are with Dana unless otherwise indicated. The first five of these individuals are currently members of Dana s Executive Committee, which is responsible for our corporate strategies and partnership relations, as well as the development of our people, policies and philosophies.

Name	Age	Title
Michael J. Burns	52	Chairman of the Board, Chief Executive Officer, President and Chief Operating Officer
Bernard N. Cole	62	President Heavy Vehicle Technologies and Systems Group
Charles F. Heine	52	President Technology Development and Diversified Products
James M. Laisure	53	President Automotive Systems Group
Robert C. Richter	53	Vice President and Chief Financial Officer of Dana and Chairman Dana Credit Corporation
Richard J. Dyer	49	Chief Accounting Officer

Mr. Burns has been Chief Executive Officer, President and a director of Dana since March 2004, and Chairman of the Board and Chief Operating Officer since April 2004. He was previously President of General Motors Europe from 1998 to 2004.

Mr. Cole has been President Heavy Vehicle Technologies and Systems Group since 2002. He was previously President Commercial Vehicle Systems during 2002 and President Off-Highway Systems Group from 1997 to 2002. He has been Chairman of Dana India Pvt. Ltd., a wholly-owned Dana subsidiary, since 2001.

Mr. Heine has been President Technology Development and Diversified Products since 2001. He was previously President Engine Systems Group from 1998 to 2001.

Mr. Laisure has been President Automotive Systems Group since March 2004. He was previously President Engine and Fluid Management Group from 2001 to 2004, President Fluid Systems Group from 2000 to 2001, and Group Vice President Fluid Systems Group from 1999 to 2000.

Mr. Richter has been Vice President and Chief Financial Officer of Dana since 1999 and Chairman of Dana Credit Corporation since 2002.

Mr. Dyer has been Chief Accounting Officer since March 2005. He was previously Director-Corporate Accounting from 2002 to 2005 and Manager-Corporate Accounting from 1997 to 2002.

Some of the above officers are appointed by the Board annually at its organizational meeting, as provided in our By-Laws, and hold office until their successors are appointed or their earlier death, retirement, resignation or

removal. Others are appointed by the Board or designated by the Chief Executive Officer from time to time and serve, as applicable, at the pleasure of the Board or the Chief Executive Officer.

Item 2 ***Properties***

As shown in the following table, at December 31, 2004, our continuing operations had 254 manufacturing, distribution, sales branches and office facilities worldwide. We own the majority of our manufacturing and larger distribution facilities. We lease certain manufacturing facilities and most of our smaller distribution outlets, sales branches and offices.

Dana Facilities by Geographic Region

Type of Facility	North America	Europe	South America	Asia/ Pacific	Total
Manufacturing	90	39	29	11	169
Distribution	18	1	14		33
Sales branches and offices	34	9	3	6	52
Total	142	49	46	17	254

Item 3 ***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.

Environmental Proceedings We previously reported an environmental proceeding involving our plant on Sanford Street in Muskegon, Michigan. In 2002, that facility received a notice of an enforcement action and proposed consent order from the Michigan Department of Environmental Quality (MDEQ), alleging various air permit and rule violations. Negotiations with the MDEQ resulted in a final consent order with a fine of $0.12. That consent order has been finalized and this matter is now closed.

We have also reported an environmental matter in which the U.S. Department of Justice (DOJ) proposed a consent decree and a fine in connection with alleged violations of the U.S. Clean Water Act at our facility on Harvey Street in Muskegon, Michigan. We submitted a proposal to the DOJ to undertake certain supplemental environmental projects to reduce or offset the amount of the proposed fine. The DOJ reviewed our proposal and reduced the proposed fine to $0.15, taking into account some of these projects and other mitigating factors. Discussions are continuing with the DOJ to finalize the consent order for this matter.

Litigation We have previously reported various lawsuits that were filed in connection with the $15.00 per share cash tender offer for all of the outstanding shares of our common stock that was commenced by Delta Acquisition Corp., a subsidiary of ArvinMeritor, Inc. (ArvinMeritor), on July 9, 2003, raised to $18.00 per share on November 17, 2003 and withdrawn on November 23, 2003 (the Offer). Of these lawsuits, two purported shareholder derivative actions filed against Dana and its directors in 2003 remain pending. There have been no court filings or actions in either case since September 2003. In the first case, *In re Dana Corporation Shareholder Litigation,* filed in the Circuit Court for the City of Buena Vista, Virginia, the plaintiffs allege that Dana s director-defendants breached their fiduciary duties in connection with ArvinMeritor s private proposal in June 2003 and that the Offer and the disclosures in Dana s Schedule 14D-9 omitted certain material information. In the second case, *Kincheloe v. Dana Corp., et al.*, filed in the U.S. District Court for the Western District of Virginia, the plaintiffs alleged that Dana s director-defendants breached their fiduciary duties to Dana s shareholders in connection with the Offer. Dana and the director-defendants believe the allegations in both lawsuits are without merit.

You can find more information about our legal proceedings under Note 19. Commitments and Contingencies in Item 8 and Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K/A.

Item 4 ***Submission of Matters to a Vote of Security Holders***

-None-

PART II

Item 5 ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities***

Our common stock is listed on the New York Stock Exchange and The Pacific Exchange. On February 28, 2005, there were approximately 37,400 shareholders of record.

We have paid quarterly cash dividends on our common stock since 1942. Information regarding the quarterly ranges of our stock price and dividends declared and paid during 2004 and 2003 is presented in the following table.

	Stock Price						Cash Dividends Declared and Paid	
	2004			2003				
Quarter Ended	**High**	**Low**	**Close**	**High**	**Low**	**Close**	**2004**	**2003**
March 31	**$ 23.20**	**$ 17.65**	**$ 19.86**	$ 12.58	$ 6.15	$ 7.06	**$ 0.12**	$ 0.01
June 30	**22.00**	**17.32**	**19.60**	11.94	6.99	11.56	**0.12**	0.01
September 30	**19.75**	**16.50**	**17.69**	17.19	11.14	15.43	**0.12**	0.01
December 31	**18.59**	**13.86**	**17.33**	18.40	14.60	18.35	**0.12**	0.06

The following table provides information about our purchases of equity securities that are registered pursuant to Section 12 of the Exchange Act during the quarter ended December 31, 2004:

Month	**Total Number of Shares Purchased**	**Average Price Paid Per Share**
October 2004	277	$ 20.81
December 2004	4,108	17.08
	4,385	$ 17.31

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Item 6 ***Selected Financial Data***

The following tables set forth selected financial information for our company. The financial information for the years ended December 31, 2004, 2003 and 2002 and as of December 31, 2004 and 2003 has been derived from our restated consolidated financial statements included elsewhere in this report. The financial information for the years ended 2001 and 2000 and as of December 31, 2002, 2001, and 2000, has also been restated, primarily for the matters described in Note 2 to the consolidated financial statements. The historical selected financial information may not be representative of our future performance and should be read in conjunction with the information contained in Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included in Items 7 and 8, respectively, of this Form 10-K/A.

	Year Ended December 31,						
(Dollars in millions, except per share amounts)	**2004(a)**	**2003(a)**	**2002(a)**	**2001(b)**		**2000(b)**	
	Restated-See Note 2	**Restated-See Note 2**	**Restated-See Note 2**	**As Reported**	**As Restated**	**As Reported**	**As Restated**
Summary of Operations:							
Net Sales	**$ 9,048**	$ 7,918	$ 7,507	$ 7,480	$ 7,476	$ 9,282	$ 9,279
Cost of Sales	**8,372**	7,249	6,826	6,844	6,822	8,121	8,108
Pre-Tax Income (Loss) of Continuing Operations	**(180)**	80	(118)	(348)	(338)	385	399
Income (Loss) from Continuing Operations	**66**	171	18	(205)	(197)	280	289
Income (Loss) from Discontinued Operations	**(4)**	57	49	(93)	(64)	54	28
Effect of Change of Accounting			(220)				
Net Income (Loss)	**62**	228	(153)	(298)	(261)(c)	334	317(d)
Income (Loss) per Common Share Basic							
Continuing Operations	**0.44**	1.15	0.12	(1.38)	(1.34)	1.84	1.90
Discontinued Operations	**(0.03)**	0.39	0.32	(0.63)	(0.43)	.36	0.18
Effect of Change in Accounting			(1.48)				
Net Income (Loss)	**0.41**	1.54	(1.04)	(2.01)	(1.77)	2.20	2.08
Income (Loss) per Common Share Diluted							
Continuing Operations	**0.44**	1.14	0.12	(1.38)	(1.33)	1.83	1.89
Discontinued Operations	**(0.03)**	0.39	0.32	(.63)	(0.43)	.35	0.18
Effect of Change in Accounting			(1.47)				
Net Income (Loss)	**0.41**	1.53	(1.03)	(2.01)	(1.76)	2.18	2.07
Cash Dividends per Common Share	**0.48**	0.09	0.04	.94	0.94	1.24	1.24
Common Stock Data:							
Average Number of Shares Outstanding (in millions)							
Basic	**149**	148	148	148	148	152	152
Diluted	**151**	149	149	148	148	153	153
Stock Price							
High	**$ 23.20**	$ 18.40	$ 23.22	$ 26.90	$ 26.90	$ 33.25	$ 33.25
Low	**13.86**	6.15	9.28	10.25	10.25	12.81	12.81
Close	**17.33**	18.35	11.76	13.88	13.88	15.31	15.31

(Dollars in millions, except per share amounts)	As of December 31,						
	2004(a)	**2003(a)**	**2002(a)**	**2001(b)**		**2000(b)**	
	Restated-See Note 2	**Restated-See Note 2**	**Restated-See Note 2**	**As Reported**	**As Restated**	**As Reported**	**As Restated**
Summary of Financial Condition:							
Total Assets	**$ 9,019**	$ 9,485	$ 9,515	$ 10,207	$ 10,124	$ 11,236	$ 11,132
Short-Term Debt	**155**	493	287	1,120	1,120	1,945	1,945
Long-Term Debt	**2,054**	2,605	3,215	3,008	3,008	2,649	2,649
Total Shareholders Equity	**2,411**	2,050	1,450	1,958	1,913	2,628	2,558(e)
Book Value per Common Share	**16.19**	13.85	9.79	13.18	12.93	17.77	16.82

(a) This Selected Financial Data has been derived from the company s financial statements which, as described in Note 2 to the consolidated financial statements contained in Item 8 of this Form 10-K/A, have been restated.

(b) This Selected Financial Data has been restated primarily for the matters described in Note 2 to the consolidated financial statements contained in Item 8 of this Form 10-K/A.

(c) Net loss as originally

reported was $298. The primary items restated were in discontinued operations where restated income, after-tax, increased $29 ($0.20 per share). The restatements in discontinued operations were principally to correct reductions to income for warranty and inventory reserves recorded in 2001 which should have been recognized in earlier periods.

(d) Net income as originally reported was $334. The primary items restated were in discontinued operations where income, after-tax, decreased $26 ($0.18 per share). The restatements in discontinued operations were principally to reduce income for under accrual of liabilities for customer

rebates and sales returns and for adjustments to remanufactured core inventory and associated liabilities.

(e) As described in Note 2 of the consolidated financial statements included in this report, out-of-period items were corrected as part of the restatement. The restatement of these items affected the timing of reported income, but did not significantly impact the cumulative net income for the periods affected. In this regard, $56 of the out-of-period corrections related to periods prior to 2000. This amount has been reflected in Shareholders Equity as a reduction to beginning retained earnings in 2000. The items applicable to years prior to 2000 were

primarily to adjust for inventory valuation reserves, customer rebates and allowances and other accruals, which were determined to be attributable to prior periods as a result of stand alone audits of sold businesses. These were largely accrued in 2000 - 2002 giving rise to offsetting increases to originally reported income in these years (See (a) and (b) above and Note 2 to the consolidated financial statements included in Item 8 of this report.)

SFAS No. 142, Goodwill and Other Intangible Assets, which we adopted effective January 1, 2002, does not provide for restatement of prior periods. The amounts below present the amount of goodwill amortization, net of the related income-tax benefits, included in reported net income (loss) and pro forma net income (loss) as if SFAS No. 142 had been adopted prior to the earliest year presented.

	2001	**2000**
Net income (loss)	$ (261)	$ 317
Goodwill amortization	32	33
Adjusted net income (loss)	$ (229)	$ 350

Item 7 ***Management s Discussion and Analysis of Financial Condition and Results of Operations (Dollars in millions)***

Restatement

As discussed more fully in Note 2 in Item 8 of this Form 10-K/A, we have restated our previously issued consolidated financial statements for the first and second quarters of 2005 and for years 2002 through 2004, as well as

our financial results for years 2000 and 2001.

This discussion and analysis (MD&A) should be read in conjunction with the restated consolidated financial statements and notes appearing in Item 8 of this Form 10-K/A.

Overview

Strategic Actions

During the past year, we made significant moves to sharpen our strategic focus on global original equipment customers in the light vehicle, commercial vehicle and off-highway markets. We simplified our business structure by reducing the number of business units from three market-focused groups to two Automotive Systems and Heavy Vehicle Technologies and Systems. In November 2004, we completed the sale of substantially all of our former Automotive Aftermarket Group, which had sales of more than $2,000 in 2003 and employed approximately 14,000 people.

A number of non-strategic businesses were also divested in 2003 and 2002. In June 2003, we completed the sale of our engine management aftermarket business, which had annual sales of approximately $300. In the fourth quarter of 2002, we completed the divestiture of several businesses with aggregate sales exceeding $500, including the Boston Weatherhead industrial hose and fitting operations and the brake and clutch actuation systems operations of FTE. During the last three years, we have divested businesses that previously reported annual sales of more than $3,000.

Additionally, in 2001 we began to divest a major portion of our leasing operation, Dana Credit Corporation (DCC). Through the end of 2004, divestitures and normal run-off have reduced DCC s portfolio assets by $1,370. We expect continued asset dispositions over the next few years.

As a result of divesting these non-strategic businesses, we have been able to significantly strengthen our balance sheet. Our consolidated debt at the end of 2004 is nearly $900 lower than at the end of 2003. At December 31, 2004, our consolidated net debt-to-capital ratio is 40% compared to 54% at the end of 2003. Additionally, we made an extra contribution of $198 to our pension funds in 2004. Our improved balance sheet served as a catalyst for two major credit rating agencies elevating us to investment grade. Our strengthened financial position will allow us to pursue reinvestment opportunities in our core businesses.

Strategic Partnerships

Strategic alliances continue to be an important component of our strategy, either in supporting our global expansion, enhancing our technology or improving our cost competitiveness.

During 2003, we signed a new joint venture agreement with GETRAG (one of our European partners) and Volvo Car Corporation to produce all-wheel-drive systems in Europe. Another important strategic partnership entered in 2003 was our agreement with the United Auto Workers. This agreement established collective bargaining and representation principles governing our automotive assembly and manufacturing facilities in the United States (U.S.) that serve DaimlerChrysler AG, Ford Motor Company and General Motors Corporation. The cooperative approach embodied in this agreement is expected to contribute to our business growth, improve our productivity and enhance our operational cost efficiency.

In 2004, we formed a North American joint venture with Bendix Commercial Vehicle Systems LLC, a member of Knorr-Bremse Group. This joint venture integrates the braking systems expertise from Bendix and Knorr-Bremse with our axle and brake integration capability.

During the first half of 2005, we expect to finalize our previously announced joint venture with Dongfeng Motor Co., Ltd., to develop and produce commercial vehicle products, primarily axles, in China.

Strategic Goals

Our strategies include achieving profitable sales growth, accelerating cost and productivity initiatives and maintaining a strong balance sheet. With regard to revenue, our objective is to grow our sales at twice the rate of the global vehicle market. We accomplished that in 2004 with a sales increase of 14%. In addition to growing revenues, we are targeting both geographic and customer diversification. Whereas approximately 35% of our current sales are

outside North America, our goal is to achieve 50% by 2009. The traditional Detroit Big 3 automotive companies currently account for approximately 44% of our sales. While we expect to grow the volume of business with the Big 3, we are striving to grow at a faster rate with other customers.

To improve our competitiveness, we are aggressively pursuing cost reductions and productivity gains. In the past, we have operated as a decentralized company. Today, we re driving more standardization across the organization, leveraging our purchasing and administrative activities, and deploying lean manufacturing as well as value analysis/value engineering globally. Becoming more cost competitive is essential to achieving our growth objectives.

Market Outlook

Based on 2004, sales to our three key markets approximate: 60% to light vehicle, 25% to commercial vehicle and 15% to off-highway. 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 Dana s 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**	**15.8**
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**
Commercial Vehicle (in thousands):				
North America				
Class 5-7	189	196	**232**	**256**
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.

North American light-duty production levels have been relatively stable over the past few years. A significant development in this market since 2001 has been the increased use of incentives by our customers to stimulate and maintain demand levels, although recent trends have suggested that incentives may be having less of an impact on consumer demand. Dealer inventories of light vehicles at the end of 2004 were somewhat higher than normal for December. As such, overall market indicators point to a relatively flat 2005 in both North America and Europe.

A challenge that we and others in the light vehicle market face is the continued price reduction pressure from our customers. Our largest customers in this market the U.S.-based original equipment manufacturers have experienced market share loss to other international light vehicle manufacturers over the past few years, thereby adding pressure on their profitability. To the extent that this trend continues, we expect the price reduction demands on us to continue. Our restructuring, divestitures and outsourcing initiatives have helped position us for this increasingly competitive

landscape. Ongoing cost reduction programs, like our lean manufacturing and Six Sigma Black Belt programs, will continue to be important to sustaining and improving our margins.

The commercial vehicle market hit the bottom of its business cycle in 2001 and has rebounded during the past three years. Orders in both the medium- and heavy-duty North American markets have been strong, outpacing production and pushing the unfilled order backlog higher. The fundamentals in this market point to a strong 2005.

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

Rising Commodity Prices

Higher steel and other metal costs had a significant impact on our 2004 financial results. Net of amounts recovered from our customers, steel costs reduced our 2004 net income by approximately $70 $55 in continuing operations and $15 in discontinued operations. Steel prices increased over the course of 2004 with over 75% of the impact occurring in the second half of the year. Although the market price for scrap steel has come down recently, the impact on the steel prices charged by our supply base remains uncertain. Assuming a continuation of steel prices in effect during the fourth quarter of 2004 and to date in 2005, higher steel costs are expected to further reduce 2005 net income of our continuing operations as measured against 2003 year-end price levels.

New Business

In the OE vehicular business, new programs are generally awarded to suppliers well in advance of the expected start of production. With shorter design cycles, 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 often coincides with model changes on the part of vehicle manufacturers. Given our past experience and our focus on quality, delivery and service, we expect to retain any awarded business over the vehicle life, which is typically several years.

During 2004, more than $400 of our sales increase resulted from the addition of net new business. During 2004, we added approximately $700 in incremental new business new business opportunities in excess of lost business through 2007. At January 31, 2005, the aggregate amount of new business over the next three years included $410 coming on stream in 2005, another $250 in 2006 and an additional $300 in 2007.

Other Key Factors

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 will also be increasingly important in the months ahead. Global sourcing presents opportunities to improve our competitive cost position, as well as take advantage of 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 original equipment markets will enable us to capitalize on the continuing trends toward modularity and systems integration in these markets.

Summary

Over the last several years, we have repositioned the organization through divestitures, realignment, outsourcing and strategic partnerships to be more strategically focused and more competitive. In the process, we have downsized from a company with sales in excess of $13,000 (before adjustments to reflect discontinued businesses) to a company with 2004 sales of slightly more than $9,000. At the same time, we have improved our overall profitability and financial position. With a more focused strategy and improved financial situation, we are better positioned to grow the business in our core markets.

Liquidity and Capital Resources

Cash Flows (2004 versus 2003)

	2004	2003	Dollar Change
Cash Flows from Operating Activities:			
Net income	**$ 62**	$ 228	$ (166)
Depreciation and amortization	**358**	394	(36)
Loss (gain) on note repurchases	**96**	(9)	105
Deferred income taxes	**(125)**	(35)	(90)
Unremitted earnings of affiliates	**(36)**	(49)	13
Losses (gains) on divestitures and asset sales	**18**	(38)	56
Asset impairment charges	**37**	21	16
Minority interest	**13**	9	4
	423	521	(98)
Increase in working capital	**(294)**	(143)	(151)
Other	**(56)**	(28)	(28)
Cash flows from operating activities	**$ 73**	$ 350	$ (277)

Net income of $62 reported for 2004 reflects a substantial decline from the $228 reported a year ago. Included among the factors driving the decline were two significant transactions that provide greater financial and operating flexibility as we enter 2005. First is the divestiture of our automotive aftermarket businesses that we completed in November. Second is the repurchase of nearly $900 of our notes, funded with a portion of the proceeds from the divestiture and the issuance of $450 of 5.85% notes due in January 2015. Including the related expenses incurred throughout 2004, the divestiture reduced net income by $43. The notes, which were issued in 2001 and 2002 when we had fallen below an investment grade rating, were repurchased at a substantial premium. After considering valuation adjustments, unamortized issuance costs and other related balance sheet items, we recognized an after-tax loss of $96 on the transaction. The cash impact of these items is described below.

Depreciation and amortization declined again in 2004, the result of tightened capital spend and recent divestitures. Deferred income tax benefits, which do not impact cash, are also a significant element of the net charges related to the note repurchase, divestitures and asset sales and impairments, which are presented net of the related tax benefits. Other deferred tax benefits, recognized in 2004 but not benefiting cash flow, totaled $125. The amount by which equity earnings exceeded dividends received from our equity affiliates decreased by $13 in 2004. The amount of impairment charges added back as a non-cash item increased in 2004. Our working capital rose significantly in 2004. Robust sales late in the year and a tendency to inventory higher quantities of steel were key elements in the increase in accounts receivable and inventory which were the primary reasons for the $294 increase in working capital. Other receivables at the end of 2004 included a higher amount recoverable from insurers, as the settlement agreement entered in December with a number of our carriers is expected to accelerate the payment of claims. Working capital in 2004 and 2003 was negatively affected by payments against restructuring accruals of $83 and $145, respectively. Overall, cash flows from operations totaled $73 in 2004.

	2004	2003	Dollar Change
Cash Flows from Investing Activities:			
Purchases of property, plant and equipment	**$ (329)**	$ (323)	$ (6)
Divestitures	**968**	145	823
Proceeds from sales of leasing subsidiary assets	**289**	193	96

Proceeds from sales of other assets	**61**	89	(28)
Other	**(73)**	90	(163)
Cash flows from investing activities	**$ 916**	$ 194	$ 722

Capital spending rose less than two percent in 2004 and remained below depreciation expense for the year. The 2004 outlays were again focused on opportunities to leverage technology and support new customer programs.

Capital spending in 2005 is expected to remain flat overall, suggesting an increase of about $30 for our existing operations after factoring in the sale of the automotive aftermarket businesses.

The sale of the automotive aftermarket businesses in November 2004 represents the largest divestiture in our history. The transaction generated cash proceeds of $968 at closing. Supplementing those proceeds was the $61 of cash generated on asset sales within the manufacturing operations. We also continued to reduce our lease investment portfolio at DCC, generating $289 from sales of those assets in 2004.

	2004	2003	Dollar Change
Cash Flows from Financing Activities:			
Net change in short-term debt	**$ (31)**	$ (113)	$ 82
Issuance of long-term debt	**455**		455
Payments and repurchases of long-term debt	**(1,457)**	(272)	(1,185)
Dividends paid	**(73)**	(14)	(59)
Other	**16**	17	(1)
Cash flows used in financing activities	**$ (1,090)**	$ (382)	$ (708)

In December 2004, we used $1,086 of cash, including the proceeds from the issuance of $450 of new notes, to repurchase $891 face value of our March 2010 and August 2011 notes. Prior to the fourth quarter, we had used available cash to meet scheduled maturities of long-term debt $239 on the manufacturing side and $166 within DCC. In 2003, we spent $140 to repurchase notes having a face amount of $158, generating a pre-tax gain of $15 after considering the unamortized issuance costs and original issuance discount. Maintaining a quarterly dividend rate of $.12 per share throughout 2004 pushed dividends up by $59.

Managing our cash remains a high priority. Our estimate of cash outlays related to restructuring activities is $58 for 2005 and we expect to reduce working capital, exclusive of our restructuring activities, by $100 based on the projected levels of production for 2005. Capital spending is expected to approximate the 2004 outflows.

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 $1,469 at December 31, 2004. This amount included our five-year credit facility in the amount of $400, which was to mature in November 2005. This facility contained certain financial covenants which we were in compliance with as of the end of the year.

On March 4, 2005, we entered into a new bank facility, also for $400, that will mature on March 4, 2010 and replaces the five-year credit facility. 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. Dana s new long-term credit facility requires us to improve upon 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. Specifically, the ratios are: (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. The ratio calculations are based on Dana s consolidated financial statements with DCC accounted for on an equity basis.

We also have an accounts receivable securitization program. That program was modified in early January 2005 to reduce the maximum available under it from $400 to $200. 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.

At the end of 2004, borrowings outstanding under the various Dana lines consisted of $98 drawn against uncommitted lines. No amounts were outstanding under the accounts receivable program or the bank facility.

DCC, no longer having a need to borrow short-term funds, allowed its committed bank facility to expire in June 2004.

During 2001, Dana issued $575 and 200 of 9% unsecured notes due August 15, 2011. During 2002, we issued $250 of 10.125% unsecured notes due March 15, 2010. The indenture agreements related to these notes placed certain limits on the borrowings, payments and transactions that we could undertake. In December 2004, using a portion of the cash received from the sale of the majority of our automotive aftermarket businesses and the proceeds of an issue of $450 of 5.85% unsecured notes due January 15, 2015, we tendered for and repurchased $891 (or the equivalent) of the March 2010 and August 2011 notes. Specifically, we repurchased $175 of the March 2010 notes and $460 and 193 (the equivalent of $256) of the August 2011 notes. As part of the tender process, the respective note holders consented to the modification of the indentures governing the March 2010 and August 2011 notes, effectively eliminating the limits on borrowings, payments and transactions that we could undertake.

Because our financial performance is impacted by various economic, financial and industry factors, we cannot say with certainty whether we will satisfy the covenants under these credit facilities in the future. Noncompliance with these covenants would constitute an event of default, allowing the lenders to accelerate the repayment of any borrowings outstanding under the facilities. While no assurance can be given, we believe that we would be able to successfully negotiate amended covenants or obtain waivers if an event of default were imminent; however, we might be required to provide collateral to the lenders or make other financial concessions. Default under the credit facilities or any of our significant note agreements may result in defaults 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.

Based on our rolling six-quarter forecast, we expect our cash flows from operations, combined with these credit facilities and the 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 December 31, 2004, we had a number of open forward currency contracts to hedge against certain anticipated net purchase and sale commitments. These contracts are for a short duration and none of the contracts open at December 31, 2004 extends beyond January 2006. The net fair value of these contracts is a favorable amount approximating $2. These contracts have been valued by independent financial institutions using the exchange spot rate on December 31, 2004, 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 interest rate swap agreements in place to effectively convert the fixed interest rate on certain of our 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 change in the carrying value of the notes. Under the current agreements, we receive a fixed rate of 9.0% on an aggregate notional amount of $114 and we pay a variable rate based on LIBOR, plus a spread. As of December 31, 2004, the average variable rate under these agreements approximated 7.49%. These agreements expire in August 2011, coinciding with the terms of the hedged notes. Based on the aggregate fair value of these agreements at December 31, 2004, we recorded a non-current liability of $1 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. The fair values of the swap agreements were determined by obtaining pricing estimates from independent financial institutions.

In 2003 and 2002, we received $90 in connection with terminating swap agreements. Because these agreements had been designated as fair value hedges of the corresponding notes, the carrying value of the notes had been adjusted to offset the recent increases in the fair value of the swap agreements. This valuation adjustment was being amortized as a reduction of interest expense over the remaining life of the notes. In connection with our repurchase of approximately $900 of these notes in December 2004, we reduced the remaining valuation adjustment by $52. This served to offset a portion of the premium paid for the notes.

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.

		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	$ 2,111	$ 57	$ 451	$ 506	$ 1,097
Operating Leases	402	80	125	87	110
Unconditional Purchase Obligations	238	192	46		
Other Long-Term Liabilities	1,383	211	260	265	647
Total Contractual Cash Obligations	$ 4,134	$ 540	$ 882	$ 858	$ 1,854

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 obligation under these agreements is not fixed. However, if we were to estimate volumes to be purchased under these agreements based on our forecasts for 2005 and assume that the volumes were constant over the respective contract periods, the annual purchases from those agreements where we estimate the annual volume would exceed $20 would be as follows: $521 in 2005; $835 in 2006 and 2007 combined; $727 in 2008 and 2009 combined; and $824 thereafter.

Other Long-Term Liabilities include estimated obligations under our retiree healthcare programs and the estimated 2005 contribution 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 are present. We have guaranteed $1 of short-term borrowings of a non-U.S. affiliate accounted for under the equity method of accounting.

We procure tooling from a variety of suppliers. In certain instances, in lieu of making progress payments on the tooling, 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. At December 31, 2004, there were no guarantees outstanding under this program. We expect activity under this program in 2005 beginning in the first quarter.

Dana has 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. Dana has recorded a liability and corresponding prepaid amount of $3 relating to these guarantees. In the event of a default by our subsidiary the parent would be required to fulfill the obligations under the operating lease.

At December 31, 2004, we maintained cash balances of $105 on deposit with financial institutions, of which $89 may not be withdrawn, to support surety bonds and provide credit enhancements for certain lease agreements. These surety bonds enable us to self-insure our workers compensation obligations. 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 light of the improvement in our credit ratings in 2004, we plan to pursue a reduction of certain of these arrangements.

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 At December 31, 2003, we reported approximately 149,000 active pending asbestos-related product liability claims, including 10,000 that were settled and awaiting documentation and payment. This number did not include 16,000 cases in New York City which, based on advice of counsel, we considered to be inactive because a court ruling in this jurisdiction prohibited them from being assigned trial dates. Since then, there have been new laws or court orders with a similar impact in the city of Baltimore, Maryland, the state of Ohio and the federal court system. Accordingly, claims affected by the new requirements in these jurisdictions have been classified as inactive. As a result, at December 31, 2004, we had approximately 116,000 active pending claims, including 10,000 that were settled and awaiting documentation and payment, and 58,000 inactive claims. In estimating liability for these claims, we do not attribute any indemnity or defense expense to the inactive claims since we do not believe, based on our historical experience and an opinion of our counsel, that these claims will require the expenditure of funds to settle or resolve.

We review our claims database annually and adjust our loss estimate as appropriate based on our litigation and our claims settlement and dismissal history and excluding inactive claims. At December 31, 2004, we had accrued $139 for indemnity and defense costs for our pending claims, compared to $133 at December 31, 2003. The amounts accrued are based on 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.

At December 31, 2004, we had recorded $118 as an asset for probable recovery from our insurers for asbestos-related product liability claims, compared to $113 at December 31, 2003. 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. In December 2004, we signed a settlement agreement with certain of our insurers. The agreement provides for the insurers to make cash payments to us in exchange for our release of all rights under the settled insurance policies. The payment received in December under the agreement was applied to reduce recoverable amounts, as reported as of September 30, 2004. This included a reduction of the $54 recoverable for settled asbestos-related product liability claims and related defense costs as well as a reduction of the estimated $30 recoverable for claims relating to defaults by some former members of the Center for Claims Resolution (CCR) on the payment of their shares of CCR-negotiated settlements in connection with asbestos-related product liability claims. See *Other Liabilities* below. The agreement also provided for cash to be escrowed and released to Dana in 2005. There are conditions associated with the release; however, we believe the conditions will be satisfied and expect to apply the payments to reduce the $118 recoverable recorded at December 31, 2004.

At December 31, 2003, we had a net amount recoverable from our insurers and others of $33, representing reimbursements for settled asbestos-related product liability claims and related defense costs. This amount included billings in progress and amounts subject to alternate dispute resolution (ADR) proceedings with some of our insurers. After applying the payment described above, the net amount recoverable was $26 at December 31, 2004.

Other Product Liabilities At December 31, 2004, we had accrued $11 for contingent non-asbestos product liability costs, compared to $12 at December 31, 2003, with no recovery expected from third parties at either date. The difference between our minimum and maximum estimates for these liabilities was $10 in 2004 and $8 in 2003. 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 At December 31, 2004, we had accrued $73 for contingent environmental liabilities, compared to $67 at December 31, 2003, with an estimated recovery of $10 from other parties recorded in 2004. The difference between our minimum and maximum estimates for these liabilities was $1 at December 31, 2004, and $6 at December 31, 2003. 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 December 31, 2004, we had estimated our liability for future remedial work and past costs incurred by the United States Environmental Protection Agency (EPA) at Unit 1 involving off-site soil contamination 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; our liability for future remedial work at Unit 2 involving on-site soil contamination 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 site investigation and feasibility study pertaining to possible 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. At December 31, 2003, we had estimated our total liability to be $48, of which we had already paid $24, and the amount recoverable to be $30. At December 31, 2004, due to favorable rulings in ADR proceedings involving these issues, settlements with some of the former CCR members and cash received under the settlement agreement referred to above, we expect to pay a total of $50, including $47 already paid, and recover a total of $42, including $29 already received, in connection with these matters.

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.

Realignment

In October 2001, we announced the largest realignment initiative in our history. These realignment actions were designed to quicken our pace of reducing our capacity and fixed cost structure to generate improved margins at lower expected levels of production. As well, certain actions positioned us to complete the aforementioned divestiture of non-strategic businesses. The realignment actions called for in the 2001 Plan were substantially completed in 2003. The after-tax cost associated with these actions was $442. Upon completion, we had closed 39 facilities and reduced the workforce by more than 12,500 people. During the second half of 2004, we announced additional realignment actions. These actions resulted in 2004 realignment charges of $54 after tax. The actions are expected to be completed in 2005 and include two facility closures and a gross reduction in our workforce of approximately 1,000 people. See a discussion of these restructuring actions and the related costs in our consolidated financial statements under Note 24. Realignment of Operations in Item 8 of this Form 10-K/A.

Critical Accounting Estimates

The following discussion of accounting estimates is intended to supplement the Summary of Significant Accounting Policies presented as Note 1 to the consolidated financial statements. These estimates were selected because they are broadly applicable within our operating units. In addition, these estimates are subject to a range of amounts because of inherent imprecision that may result from applying judgment to the estimation process. The expenses and accrued liabilities or allowances related to certain of these policies are initially based on our best estimates at the time of original entry in our accounting records. Adjustments are recorded when our actual experience differs from the expected experience underlying the estimates. These adjustments could be material if our experience were to change significantly in a short period of time. We make frequent comparisons of actual experience and expected experience in order to mitigate the likelihood of material adjustments.

Asset Impairment We perform periodic impairment analyses on our long-lived assets such as property, plant and equipment, carrying amount of investments and goodwill. We also evaluate the carrying amount of our inventories on a recurring basis for impairment due to lower of cost or market issues, and for excess or obsolete quantities.

We perform impairment analyses of our recorded long-lived assets whenever events and circumstances indicate that they may be impaired. When the undiscounted cash flows, without interest or tax charges, are less than the carrying value of the assets being reviewed for impairment, the assets are written down to fair market value. During 2004, 2003 and 2002 we recorded long-lived tangible asset impairment provisions of $29, $21 and $42, respectively which resulted in part from excess capacity caused by the downturn in our markets and the resulting restructuring of our operations.

On January 1, 2002, we adopted SFAS No. 142 and, in connection with the adoption, discontinued the amortization of goodwill. Under our previous accounting policy for goodwill, we amortized goodwill on a straight-line basis over the periods of expected benefit which ranged from 10 to 40 years.

We tested goodwill for impairment as of the date of adoption. In lieu of amortizing goodwill, we have tested for impairment annually since the date of adoption. We have not experienced any significant changes in our businesses or other developments that would require more frequent testing.

Our initial impairment test indicated that the carrying amounts of some of our reporting units exceeded the corresponding fair values, which were determined based on the discounted estimated future cash flows of the reporting units. The implied fair value of goodwill in these reporting units was then determined through the allocation of the fair value to the underlying assets and liabilities. The January 1, 2002 carrying amount of the goodwill in these reporting units exceeded its implied value by $289; accordingly, the recorded goodwill was written down by this amount. The goodwill included in our December 31, 2001 financial statements, which included the $289, was supported by the undiscounted estimated future cash flows of the related operations. Our annual tests for impairment subsequent to the adoption of SFAS No. 142 have resulted in only de minimis impairment charges.

SFAS No. 142 also applies to other intangible assets. We did not have a significant amount of intangible assets other than goodwill at December 31, 2004 and 2003.

Inventories are valued at the lower of cost or market. Cost is generally determined on the last-in, first-out basis for U.S. inventories and on the first-in, first-out or average cost basis for non-U.S. inventories. Where appropriate, standard cost systems are utilized for purposes of determining cost; the standards are adjusted as necessary to ensure they approximate actual costs. Estimates of lower of cost or market value of inventory are determined at the reporting unit level and are based upon the inventory at that location taken as a whole. These estimates are based upon current economic conditions, historical sales quantities and patterns and, in some cases, the specific risk of loss on specifically identified inventories.

We also evaluate inventories on a regular basis to identify inventory on hand that may be obsolete or in excess of current and future projected market demand. For inventory deemed to be obsolete, we provide a reserve on the full value of the inventory. Inventory that is in excess of current and projected use is reduced by an allowance to a level that approximates our estimate of future demand.

Warranty Estimated costs related to product warranty are accrued at the time of sale and included in cost of sales. Estimated costs are based upon past warranty claims and sales history. These costs are then adjusted, as required, to reflect subsequent experience. Warranty expense related to continuing operations totaled $35, $29 and $52 in 2004, 2003 and 2002, respectively. Our 2002 expense included provisions of $34 that related to adjustments of estimates made in prior years. Accrued liabilities for warranty obligations at December 31, 2004 and 2003 were $80 and $82, respectively.

Pension and Postretirement Benefits Other Than Pensions Annual net periodic expense and benefit liabilities under our defined benefit plans are determined on an actuarial basis. Each year, we compare the actual experience to the more significant assumptions used; if warranted, we make adjustments to the assumptions. The healthcare trend rates are reviewed with our actuaries based upon the results of their review of claims experience. Discount rates are based upon an expected benefit payments duration analysis and the equivalent average yield rate for high-quality fixed-income investments. Pension benefits are funded through deposits with trustees and satisfy, at a minimum, the applicable funding regulations. The expected long-term rates of return on fund assets are based upon actual historical returns modified for known changes in the market and any expected changes in investment policy. Postretirement benefits are not funded, with our policy being to pay these benefits as they become due.

Certain accounting guidance, including the guidance applicable to pensions, does not require immediate recognition of the effects of a deviation between actual and assumed experience or the revision of an estimate. This approach allows the favorable and unfavorable effects that fall within an acceptable range to be netted. Although this netting occurs outside the basic financial statements, the net amount is disclosed as an unrecognized gain or loss in the footnotes to our financial statements. At December 31, 2004, we had an unrecognized loss related to our pension plans of $593 compared to an unrecognized loss of $574 at the end of 2003. The increase in the unrecognized actuarial loss in 2004 is primarily the result of changing the discount rate used in the U.S. from 6.25% in 2003 to 5.75% in 2004. This impact was partially offset by the portion of our earnings on pension plan assets that exceeded the amount derived by applying our long-term estimated rate of return. A small portion of the unrecognized loss was also recognized in 2004 expense, reducing the balance. A portion of the December 31, 2004 unrecognized loss will be amortized into earnings in 2005. The effect on years after 2005 will depend in large part on the actual experience of the plans in 2005 and beyond.

Our pension plan discount rate assumption is evaluated annually. Long-term interest rates on high quality debt instruments, which are used to determine the discount rate, declined in 2004 and 2003. Accordingly, we reduced the discount rate used to determine our pension benefit obligation on our U.S. plans in both years. We utilized a composite discount rate of 5.75% at December 31, 2004 compared to a rate of 6.25% at December 31, 2003. Our discount rate assumption at December 31, 2002 was 6.75%. In addition, the weighted average discount rate utilized by our non-U.S. plans was also reduced, moving to 5.54% at December 31, 2004 from 5.63% at December 31, 2003. The discount rate used at December 31, 2002 for our non-U.S. plans was 5.99%. Overall, a change in the discount rate of 25 basis points would result in a change in our obligation of approximately $75 and a change in pension expense of approximately $4.

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Besides evaluating the discount rate used to determine our pension obligation, we also evaluate our assumption relating to the expected return on U.S. plan assets annually. This rate, which is used in the determination of pension expense for the following year, was last revised at the end of 2002, when it was lowered to 8.75% from 9.50%. We revised our expected rate of return on plan assets at that time, in part, because the rate of return on pension assets had declined significantly in 2002. The rate of return assumption for U.S. plans as of December 31, 2004, which will be used for determining pension expense for 2005, is unchanged based on an evaluation performed during the fourth quarter of 2004. The weighted average expected rate of return assumption used for determining pension expense of our non-U.S. plans in 2004 and 2003 was 6.8% and 7.06%, respectively. The weighted average expected rate of return assumption to be used to determine pension expense for non-U.S. plans in 2005 will be 6.66%. A 25 basis point change in the rate of return would change pension expense by approximately $7. Lastly, in 2003, we revised the assumed interest crediting rate applied to participants balances in our cash balance pension plans from 7% to 5%. The impact of this change was to reduce 2003 pension expense by $10.

We expect that the 2005 pension expense of U.S. plans, after considering all relevant assumptions, will decrease by approximately $20 when compared to the amount recognized in 2004, which included $17 of curtailment and settlement charges.

Notwithstanding the decline in the discount rates used to determine both our U.S. and non-U.S. pension obligations at December 31, 2004 from those used at December 31, 2003, the minimum pension liability decreased by $222 during 2004. This decrease is largely attributable to the increases in pension plan assets, principally in the U.S., Canada and the United Kingdom, resulting from favorable investment returns and the additional $198 contributed to our plans following the completion of the automotive aftermarket divestiture.

We made contributions of $289 to our pension plans in 2004, including $196 to U.S. plans, compared to $72 in 2003, including $38 to U.S. plans.

Assumptions are also a key determinant in the amount of the obligation and expense recorded for postretirement benefits other than pension (OPEB). Nearly 95% of the total obligation for these postretirement benefits relates to U.S. plans. The discount rate used to determine the obligation for these benefits decreased to 5.76% at December 31, 2004 from 6.24% at December 31, 2003. If there were a 25 basis point change in the discount rate, our OPEB expense would change by $2 and our obligation would change by $42. The healthcare costs trend rate is also an important assumption in determining the amount of the OPEB obligation. We decreased the initial weighted healthcare cost trend rate from 12.3% at December 31, 2002 to 11.81% at December 31, 2003 to reflect a modest easing of the rates of inflation in medical costs, particularly inflation in prescription drug costs. In 2004, we lowered the initial trend rate again to 10.31%. These assumption changes had a direct influence on the OPEB obligation only increasing from $1,699 at December 31, 2002 to $1,759 at December 31, 2003 and decreasing to $1,746 at December 31, 2004. In addition to the reduction in the initial trend rate, the Medicare Part D subsidy reduced the obligation by $68 and expense by $8 in 2004. A plan amendment reduced our obligation by $121 in 2003 and the aggregate actuarial loss from 2002 to 2003 by $119. OPEB expense was $143 in 2004, $158 in 2003 and $145 in 2002. If there were a 100 basis point increase in the assumed healthcare trend rates, our OPEB expense would increase by $7 and our obligation would increase by $117. If there were a 100 basis point decrease in the trend rates, our OPEB expense would decrease by $8 and our obligation would decrease by $96.

Income Taxes Accounting for income taxes involves matters that require estimates and the application of judgment. These include an evaluation of the realizability of recorded deferred tax benefits and assessment of potential tax liability relating to areas of potential dispute with various tax regulatory agencies. We have operations in numerous jurisdictions around the world, each with its own unique tax laws and regulations. This adds further complexity to the process of accounting for income taxes. Our income tax estimates are adjusted in light of changing circumstances, such as the progress of our tax audits and our evaluations of the realizability of our tax assets.

At December 31, 2004, we had net operating loss (NOL) carryforwards in a number of tax jurisdictions, including the U.S. and certain of its states. We also have net deferred tax assets, primarily related to our U.S. OPEB liability, which will be deductible on our tax returns when benefits are paid in the future. We have evaluated the potential realization of these deferred tax benefits on a jurisdiction by jurisdiction basis. The standard of realization