DANA CORP
Form 10-Q
November 07, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended: September 30, 2007
Commission File Number: 1-1063
Dana Corporation
(Exact name of registrant as specified in its charter)

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

(419) 535-4500
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)
Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

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

Class	Outstanding at October 31, 2007
Common stock, $1 par value	149,823,595

DANA CORPORATION FORM 10-Q
FOR THE QUARTERLY PERIOD
ENDED SEPTEMBER 30, 2007

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FORWARD-LOOKING INFORMATION

Statements in this report that are not entirely historical constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forwarding-looking statements are indicated by words such as anticipates, expects, believes, intends, plans, estimates, projects and similar expressions. These stateme the present expectations of Dana Corporation (Dana, we or us) and its consolidated subsidiaries based on our current information and assumptions. Forward-looking statements are inherently subject to risks and uncertainties. Our plans, actions and actual results could differ materially from our present expectations due to a number of factors, including those discussed below and elsewhere in this report, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (our 2006 Form 10-K), our quarterly reports on Form 10-Q for the quarterly periods ended March 31, 2007 and June 30, 2007 and in our other filings with the Securities and Exchange Commission (SEC).

Bankruptcy-Related Risk Factors

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

Our ability to fund and execute our business plan;

Our ability to maintain satisfactory terms with our customers, vendors and service providers;

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

Our ability to successfully complete the implementation of the reorganization initiatives discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in Item 2 of Part I of this report; and

Our ability to obtain confirmation of a plan of reorganization as required under the terms of: (a) the Investment Agreement dated as of July 26, 2007 between Centerbridge Capital Partners, L.P.(Centerbridge), CBP Parts Acquisition Co. LLC and Dana (the Investment Agreement) and (b) the Plan Support Agreement dated as of July 26, 2007 by and among Dana; United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (the USW); the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (the UAW); Centerbridge and certain creditors of Dana (the Plan Support Agreement). If a plan of reorganization does not become effective by February 28, 2008, certain individual supporting creditors may withdraw their support, and if one does not become effective by May 1, 2008, our Plan Support Agreement will expire.

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Risk Factors in the Vehicle Markets We Serve

High fuel prices and interest rates;

The cyclical nature of the heavy-duty commercial vehicle market;

Shifting consumer preferences in the United States (U.S.) from pickup trucks and sport utility vehicles (SUVs) to cross-over vehicles (CUVs) and passenger cars;

Market share declines, production cutbacks and potential vertical integration by our larger customers, including Ford Motor Company (Ford), General Motors Corporation (GM) and Chrysler LLC (Chrysler);

The ratification by Ford unionized employees of a tentative collective bargaining agreement thereby averting potential strike-related production interruptions;

High costs of commodities used in our manufacturing processes, such as steel, other raw materials and energy, particularly costs that cannot be recovered from our customers;

Competitive pressures on our sales from other vehicle component suppliers; and

Adverse effects that could result from any divestitures, consolidations or bankruptcies of our customers, vendors and competitors.

Company-Specific Risk Factors

Changes in business relationships with our major customers and/or in the timing, size and duration of their programs for vehicles with Dana content;

Price reduction pressures from our customers;

Our vendors ability to maintain projected production levels and furnish us with critical components for our products and other necessary goods and services;

Adverse effects that could result if U.S. federal legislation relating to asbestos personal injury claims were enacted; and

Adverse effects that could result from increased costs of environmental remediation and compliance.

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PART I FINANCIAL INFORMATION
(In millions, except per share amounts)

ITEM 1. FINANCIAL STATEMENTS

DANA CORPORATION
(DEBTOR IN POSSESSION)
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net sales	$ 2,130	$ 2,009	$ 6,564	$ 6,506
Costs and expenses				
Cost of sales	2,017	1,952	6,201	6,209
Selling, general and administrative expenses	79	85	263	315
Realignment charges, net	6	2	159	4
Impairment of assets		211		226
Other income, net	30	44	108	114
Income (loss) from continuing operations before interest, reorganization items and income taxes	58	(197)	49	(134)
Interest expense (contractual interest of $54 and $51 for the three months ended September 30, 2007 and 2006 and $159 and $151 for the nine months ended September 30, 2007 and 2006)	27	24	78	89
Reorganization items, net	98	25	173	114
Loss from continuing operations before income taxes	(67)	(246)	(202)	(337)
Income tax benefit (expense)	3	(20)	(15)	(78)
Minority interest expense	(4)	(2)	(10)	(5)
Equity in earnings (loss) of affiliates	4	(4)	22	12
Loss from continuing operations	(64)	(272)	(205)	(408)
Loss from discontinued operations	(5)	(84)	(89)	(102)
Net loss	$ (69)	$ (356)	$ (294)	$ (510)
Basic loss per common share				
Loss from continuing operations	$ (0.42)	$ (1.81)	$ (1.36)	$ (2.72)
Loss from discontinued operations	(0.04)	(0.56)	(0.60)	(0.68)
Net loss	$ (0.46)	$ (2.37)	$ (1.96)	$ (3.40)
Diluted loss per common share				
Loss from continuing operations	$ (0.42)	$ (1.81)	$ (1.36)	$ (2.72)
Loss from discontinued operations	(0.04)	(0.56)	(0.60)	(0.68)
Net loss	$ (0.46)	$ (2.37)	$ (1.96)	$ (3.40)

Average shares outstanding	Basic	150	150	150	150
Average shares outstanding	Diluted	150	150	150	150

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

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DANA CORPORATION
(DEBTOR IN POSSESSION)
CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

	September 30, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 1,035	$ 704
Restricted cash	12	15
Accounts receivable		
Trade, less allowance for doubtful accounts of $22 in 2007 and $23 in 2006	1,410	1,131
Other	290	235
Inventories		
Raw materials	348	290
Work in process and finished goods	495	435
Assets of discontinued operations	52	392
Other current assets	157	122
Total current assets	3,799	3,324
Investments and other assets	1,099	1,079
Investments in equity affiliates	207	555
Property, plant and equipment, net	1,741	1,776
Total assets	$ 6,846	$ 6,734
Liabilities and shareholders deficit		
Current liabilities		
Notes payable, including current portion of long-term debt	$ 192	$ 293
Debtor-in-possession financing	900	
Accounts payable	1,135	886
Liabilities of discontinued operations	21	195
Other accrued liabilities	838	712
Total current liabilities	3,086	2,086
Liabilities subject to compromise	3,687	4,175
Deferred employee benefits and other non-current liabilities	493	504
Long-term debt	21	22
Debtor-in-possession financing		700
Commitments and contingencies (Note 14)		
Minority interest in consolidated subsidiaries	95	81
Total liabilities	7,382	7,568
Shareholders deficit	(536)	(834)

Total liabilities and shareholders deficit	$	6,846	$	6,734

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

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

	Nine Months Ended September 30,	
	2007	**2006**
Operating activities		
Net loss	$ (294)	$ (510)
Depreciation and amortization	209	206
Impairment and divestiture-related charges	3	325
Non-cash portion of U.K. pension charge	60	
Reorganization items, net of payments	59	49
Payments to VEBAs for postretirement benefits	(27)	
Changes in working capital	(183)	29
Other	(68)	(85)
Net cash flows provided by (used in) operating activities	(241)	14
Investing activities		
Purchases of property, plant and equipment	(148)	(239)
Proceeds from sale of businesses	400	
Proceeds from sale of DCC assets and partnership interests	104	
Proceeds from sale of other assets	7	54
Acquisition of business, net of cash acquired		(17)
Payments received on leases and loans	8	20
Decrease in restricted cash	3	
Other	53	33
Net cash flows provided by (used in) investing activities	427	(149)
Financing activities		
Net change in short-term debt	(11)	(553)
Proceeds from debtor-in-possession facility	200	700
Proceeds from European Securitization Program	30	
Reduction in DCC Medium Term Notes	(129)	
Net cash flows provided by financing activities	90	147
Net increase in cash and cash equivalents	276	12
Cash and cash equivalents beginning of period	704	762
Effect of exchange rate changes on cash balances	61	6
Net change in cash of discontinued operations	(6)	5
Cash and cash equivalents end of period	$ 1,035	$ 785

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

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DANA CORPORATION
(DEBTOR IN POSSESSION)
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Notes to Condensed Consolidated Financial Statements
(In millions, except per share amounts)

Note 1. Basis of Presentation

In management s opinion, the accompanying financial statements include all normal recurring adjustments necessary for a fair presentation of Dana s financial condition, results of operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of full-year results.

The financial statements in this report should be read in conjunction with the audited consolidated financial statements and accompanying notes in our 2006 Form 10-K.

Accounting Requirements

As discussed in Note 2, Dana Corporation and forty of its wholly-owned subsidiaries (collectively, the Debtors) are reorganizing under the Bankruptcy Code. American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7), which is applicable to companies operating under Chapter 11, generally does not change the manner in which financial statements are prepared. However, SOP 90-7 does require that the financial statements for periods subsequent to the filing of a Chapter 11 petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business.

We adopted SOP 90-7 effective March 3, 2006 (the Filing Date) and prepare our financial statements in accordance with its requirements. Revenues, expenses, realized gains and losses and provisions for losses that can be directly associated with the reorganization and restructuring of our business are reported separately as reorganization items in our statement of operations. Our balance sheet distinguishes pre-petition liabilities subject to compromise both from those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. Liabilities that may be affected by the plan of reorganization are reported at the amounts expected to be allowed by the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court), although they may ultimately be settled for different amounts. In addition, cash provided by or used for reorganization items is disclosed separately in our statement of cash flows. See Note 3 for further information about our financial statement presentation under SOP 90-7.

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Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115. SFAS No. 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS No. 159 permits companies to choose to measure eligible items at fair value at specified election dates. Companies must report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 must be adopted effective January 1, 2008, and we are evaluating the effect, if any, that adoption will have on our consolidated financial statements in 2008.

In September 2006, the FASB Emerging Issues Task Force (EITF) promulgated Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF No. 06-4). In March 2007, the EITF promulgated Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements (EITF No. 06-10). EITF Nos. 06-4 and 06-10 require a company that provides a benefit to an employee under an endorsement or collateral assignment split-dollar life insurance arrangement that extends to postretirement periods to recognize a liability and related compensation costs. We will adopt EITF Nos. 06-4 and 06-10 effective in the first quarter of 2008 and are evaluating the effect, if any, that adoption will have on our consolidated financial statements in 2008.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States (GAAP) and expands disclosures about fair value measurements. We will adopt SFAS No. 157 as of January 1, 2008 and are evaluating the effect, if any, that adoption will have on our consolidated financial statements for 2008 and subsequent periods.

We expect to emerge from bankruptcy following the confirmation of our plan of reorganization and to adopt fresh start reporting as defined in SOP 90-7. Fresh start reporting would require that we adjust our balance sheet at the date of emergence to equal the reorganization value as determined in connection with the Bankruptcy Court approved plan of reorganization. Reorganization value is the estimated fair value of the assets available to satisfy the allowed bankruptcy claims and postpetition liabilities. Accumulated depreciation, accumulated deficit and accumulated other comprehensive income will be reset to zero. The reorganization value will be allocated to our individual assets and liabilities based on their fair value at the date of emergence. Items such as current liabilities, accounts receivable and cash will generally remain at the amounts reported prior to emergence. Items such as inventory; property, plant and equipment; long-term assets and long-term liabilities may be significantly adjusted from amounts currently reported. The variance between reorganization value and the fair value of assets and liabilities may be treated in accordance with FAS 141, Business Combinations. SOP 90-7 also requires that changes in accounting principles that the emerging entity must adopt within twelve months of the date of emergence must be adopted at the time fresh start reporting is adopted.

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Note 2. Reorganization Under Chapter 11 of the Bankruptcy Code

The Bankruptcy Cases

The Debtors are operating under Chapter 11 of the Bankruptcy Code. The Debtors Chapter 11 cases (collectively, the Bankruptcy Cases) have been consolidated in the Bankruptcy Court under the caption *In re Dana Corporation, et al.*, Case No. 06-10354 (BRL). Neither Dana Credit Corporation (DCC) and its subsidiaries nor any of Dana s non-U.S. affiliates are Debtors.

During the bankruptcy proceedings, investments in Dana securities are highly speculative. Although shares of our common stock continue to trade on the OTC Bulletin Board under the symbol DCNAQ, the opportunity for any recovery by shareholders under a confirmed plan of reorganization is uncertain. If our Third Amended Plan of Reorganization of Debtors and Debtors in Possession (the Plan) which was filed with the Bankruptcy Court on October 23, 2007 is ultimately confirmed, Dana common shares will be cancelled and shareholders with allowed interests will be entitled to a pro rata share of the assets, if any, that remain after the holders of allowed unsecured claims have been paid in full, with interest. There is no assurance that the Plan will be confirmed or, if it is, that there will be any residual assets for the benefit of holders of Dana common shares. In fact, the Debtors do not currently anticipate that the holders of Dana common shares will receive any distribution under the Plan.

The Bankruptcy Cases are being jointly administered, with the Debtors managing their businesses as debtors in possession subject to the supervision of the Bankruptcy Court. We are continuing normal business operations during the bankruptcy process and taking steps to reduce costs, increase efficiency and enhance productivity so that we can emerge from bankruptcy as a stronger, more viable company.

Official committees of the Debtors unsecured creditors (the Creditors Committee) and retirees not represented by unions (the Retiree Committee) have been appointed in the Bankruptcy Cases. The Debtors bear certain of the committees costs and expenses, including those of their counsel and other professional advisors. An official committee of Dana s equity security holders was also appointed and subsequently disbanded.

Under the Bankruptcy Code, the Debtors have the right to assume or reject executory contracts (*i.e.*, contracts that are to be performed by the parties after the Filing Date) and unexpired leases, subject to Bankruptcy Court approval and other limitations. The Bankruptcy Court has approved the Debtors assumption and rejection of certain executory contracts and unexpired leases. The Plan and certain procedures approved by the Bankruptcy Court address the proposed treatment of outstanding executory contracts and unexpired leases upon the Debtors emergence from bankruptcy.

The Bankruptcy Court has entered an order establishing procedures for trading in claims and equity securities that is designed to protect the Debtors potentially valuable tax attributes (such as NOL carryforwards). Under the order, holders or acquirers of 4.75% or more of Dana s common stock are subject to certain notice and consent procedures prior to acquiring or disposing of the shares. Holders of claims against the Debtors that would entitle them to more than 4.75% of the common shares of reorganized Dana under a confirmed plan of reorganization utilizing the tax benefits provided under Section 382(l)(5) of the Internal Revenue Code may be required to sell down the excess claims if necessary to implement such a plan of reorganization. However, in accordance with the agreement with the new investors, the Plan contemplates utilizing tax benefits under Section 382(l)(6) of the Internal Revenue Code, rather than Section 382(I)(5). Accordingly, under the Plan, no sell-down of claims will be required.

Pre-petition Claims

Most persons and entities asserting pre-petition claims (with the exception of, among others, asbestos-related personal injury claims and claims resulting from the future rejection of executory contracts and unexpired leases) against the Debtors were required to file proofs of claim in the Bankruptcy Cases by September 21, 2006. Proofs of claim in a total amount of approximately $27,215 (as well as certain unliquidated amounts) were filed by that date. In addition, another $48 in liabilities, for which no proof of claim was filed, is listed in our schedules of assets and liabilities as undisputed, non-contingent and liquidated, and thus is deemed to be asserted as claims under the Bankruptcy Code.

Of the claims filed, the Debtors have identified claims totaling approximately $24,468 that they believe should be disallowed, primarily because they appear to be amended, duplicative, withdrawn by the creditor, without basis for the claim, late filed or are interests and solely equity-based. Of these claims (or portions of claims), approximately $22,244 had been disallowed by the Bankruptcy Court, withdrawn by the creditors or eliminated by settlement through October 2007. The Debtors are continuing to evaluate the remaining filed claims and, as appropriate, to file and prosecute additional claim objections with the Bankruptcy Court or to address claims through settlement or alternate dispute resolution procedures. The Plan addresses the proposed treatment of allowed claims and provides for the resolution of remaining claims after emergence from Chapter 11.

Claims have been filed for matters such as contract disputes, litigation and environmental remediation and related costs. The amounts recorded as liabilities subject to compromise for the remaining claims are, in most cases, significantly lower than the amount claimed based on the Debtors assessment of the probable and estimable liabilities. Since receipt of the filed claims, the Debtors have been actively evaluating the merits of the claims and obtaining additional information to ascertain their validity. The Debtors are in settlement discussions with substantially all of the remaining claimants and are seeking to reach agreement as to the allowed claim amounts. Agreements to settle these claims could be for amounts in excess of the liability currently recorded. The remaining claims to be settled are primarily EPA and other environmental claims in excess of our estimated liability. As of the present date, these additional amounts do not meet the probable and estimable standards for recognition in the financial statements.

Under the Plan, the Debtors propose that asbestos-related personal injury claims be reinstated upon emergence and that the reorganized Debtors will defend, settle and resolve such pending and future claims in the ordinary course of business. In addition, certain pension liabilities will remain an obligation of the reorganized Debtors.

In August 2007, the Bankruptcy Court approved a settlement agreement with Sypris Solutions, Inc. (Sypris) under which Sypris has been granted an allowed general unsecured claim of $90 in the Bankruptcy Cases. The settlement amount primarily covers damages alleged by Sypris in connection with the termination of existing supply agreements. As part of the settlement, Sypris and Dana have executed a new long-term supply agreement at prices more favorable to Dana than those in the prior agreements and Sypris has released Dana from all filed and asserted claims other than the general unsecured claim described above.

In August 2007, we entered into a settlement agreement with the Toledo-Lucas County Port Authority (Port Authority) under which we intend to amend a lease on an office facility to market rate terms and grant a general unsecured claim to the Port Authority of $15. The Port Authority has received a secured claim on the property of $19 which, under the Plan, is proposed to be satisfied by our entry into an amended lease upon emergence.

Pre-petition Debt

Our bankruptcy filing triggered the immediate acceleration of certain of the direct financial obligations of the Debtors, including, among others, an aggregate of $1,623 in principal and accrued interest on outstanding unsecured notes issued under our 1997, 2001, 2002 and 2004 indentures. Such amounts are characterized as unsecured debt for purposes of the reorganization proceedings and the related obligations are classified as liabilities subject to compromise in our consolidated balance sheet as of September 30, 2007. In accordance with SOP 90-7, following the Filing Date, we discontinued recording interest expense on debt classified as liabilities subject to compromise. The Plan addresses the proposed treatment of the claims of the holders of these notes upon our emergence.

Reorganization Initiatives

It is critical to the Debtors successful emergence from bankruptcy that they: (i) maintain positive margins for their products through substantial price increases obtained from their customers, (ii) continue to recover or otherwise provide for increased material costs through renegotiation or rejection of various customer programs, (iii) realize the restructured wage and benefit programs from settlement agreements with two primary unions which eliminate the excessive cash requirements of the legacy pension and other postretirement benefit liabilities accumulated over the years, (iv) realize the benefits of changes in the manufacturing footprint that eliminated excess capacity, closed and consolidated facilities and repositioned operations in lower cost countries and (v) continue the permanent reduction and realignment of their overhead costs. The steps that the Debtors have taken to accomplish these goals are discussed in Item 2 of Part I.

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Plan of Reorganization

The Debtors filed the Plan and the related Third Amended Disclosure Statement with Respect to Joint Plan of Reorganization of Debtors and Debtors in Possession (the Disclosure Statement) with the Bankruptcy Court on October 23, 2007. On October 23, 2007, the Bankruptcy Court approved the Disclosure Statement authorizing the Debtors to begin soliciting votes from their creditors to accept or reject the Plan. By that order, the Bankruptcy Court determined that the Disclosure Statement contains adequate information for creditors who are entitled to vote on the Plan. The hearing at which the Bankruptcy Court will consider confirmation of the Plan is scheduled to commence on December 10, 2007. Copies of these documents are contained in a Current Report on Form 8-K that Dana filed with the SEC on November 2, 2007.

The Plan and Disclosure Statement describe the anticipated organization, operations and financing of the reorganized Debtors if the Plan is confirmed by the Bankruptcy Court and becomes effective. Among other things, the Plan incorporates certain provisions of the following agreements that are discussed in Note 19 to our condensed consolidated financial statements in Item 1 of Part I of our second-quarter 2007 Form 10-Q as well as in the Current Report on Form 8-K that Dana filed with the SEC on October 25, 2007: (i) the settlement agreements with the USW and the UAW (Settlement Agreements); (ii) the Investment Agreement with Centerbridge and a Centerbridge affiliate that provides for the Centerbridge affiliate to purchase $250 in Series A convertible preferred shares of reorganized Dana, with qualified creditors of the Debtors (*i.e.*, creditors who meet specified criteria) having an opportunity to purchase up to $540 in Series B convertible preferred shares on a pro rata basis and with Centerbridge agreeing to purchase up to $250 in any Series B convertible preferred shares that are not purchased by the qualified creditors; and (iii) a letter agreement dated October 18, 2007 with Dana, specified members of the ad hoc steering committee of bondholders and their affiliates (the Backstop Investors) (the Backstop Commitment Letter) who severally agreed to purchase up to $290 in Series B convertible preferred shares of reorganized Dana that are not subscribed for by qualified supporting creditors in the offering or purchased by Centerbridge in accordance with its obligations under the Investment Agreement. Through these arrangements, reorganized Dana has obtained contractual assurance that it will raise $790 through the offering to qualified investors and the commitments of Centerbridge and the Backstop Investors. Under the Plan Support Agreement, if a plan of reorganization does not become effective by February 28, 2008, certain individual supporting creditors may withdraw their support and if one does not become effective by May 1, 2008, our Plan Support Agreement will expire.

The Disclosure Statement contains certain information about the Debtors pre-petition operating and financial history, the events leading up to the commencement of the Bankruptcy Cases and significant events that have occurred during the Bankruptcy Cases. The Disclosure Statement also describes the terms and provisions of the Plan, including certain effects of confirmation of the Plan, certain risk factors associated with securities to be issued under the Plan, certain alternatives to the Plan, the manner in which distributions will be made under the Plan and the confirmation process and the voting procedures that holders of claims and interests entitled to vote under the Plan must follow for their votes to be counted.

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Continuation as a Going Concern

Our financial statements have been prepared on a going-concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. As a result of our bankruptcy filing, such realization of assets and liquidation of liabilities is subject to uncertainty. While operating as debtors in possession under the protection of Chapter 11 of the Bankruptcy Code, the Debtors may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those recorded in our financial statements, subject to Bankruptcy Court approval or as otherwise permitted in the ordinary course of business. Our financial statements as of September 30, 2007 do not give effect to all the adjustments to the carrying value of assets and liabilities that may become necessary as a consequence of our reorganization.

Our continuation as a going concern is contingent upon our ability to: (i) comply with the terms and conditions of the Senior Secured Superpriority Debtor-In-Possession Credit Agreement to which Dana, as borrower, and our Debtor U.S. subsidiaries, as guarantors, are parties (the DIP Credit Agreement) (see Note 13); (ii) obtain confirmation of a plan of reorganization under the Bankruptcy Code; (iii) generate sufficient cash flow from operations and (iv) obtain financing sources to meet our future obligations. Although we are taking steps to achieve these objectives, there is no assurance that we will be successful in doing so or that any measures that are achievable will result in sufficient improvement to our financial position. Accordingly, until such time as we emerge from bankruptcy, there is no certainty about our ability to continue as a going concern. If our reorganization is not completed successfully, we could be forced to sell a significant portion of our assets to retire debt outstanding or, under certain circumstances, to cease operations.

DCC Notes

At the time of our bankruptcy filing, DCC had outstanding notes totaling approximately $399. In December 2006, DCC and most of its noteholders executed a Forbearance Agreement under which: (i) the forbearing noteholders agreed not to exercise their rights or remedies with respect to the DCC notes for a period of 24 months (or until the effective date of Dana s plan of reorganization), during which time DCC is endeavoring to sell its remaining asset portfolio in an orderly manner and use the proceeds to pay down the notes and (ii) DCC agreed to pay the forbearing noteholders their pro rata share of any cash it maintains in the U.S. greater than $7.5 on a quarterly basis. At September 30, 2007, the amount of principal outstanding under the DCC notes was $138. In October 2007, DCC made a $5 payment to the forbearing noteholders, consisting of $2 of principal and $3 of interest.

Contemporaneously with the execution of the Forbearance Agreement, Dana and DCC executed a Settlement Agreement whereby they agreed to the discontinuance of a tax sharing agreement between them and to a stipulated amount of a general unsecured claim owed by Dana to DCC of $325 (the DCC Claim). Under the Plan, upon emergence, the Debtors propose to satisfy DCC s outstanding liability under the then-outstanding DCC notes in full satisfaction of the DCC Claim.

Liabilities Subject to Compromise

As required by SOP 90-7, we have recorded liability amounts for the claims that can be reasonably estimated and which we believe are probable of being allowed by the Bankruptcy Court. Such claims are subject to future adjustments that may result from, among other things, negotiations with creditors, and rejection of executory contracts and unexpired leases. Liabilities subject to compromise may change due to reclassifications, settlements or reorganization activities that give rise to new claims or increases in existing claims.

Liabilities subject to compromise in the consolidated balance sheet include those of our discontinued operations and consisted of the following at September 30, 2007 and December 31, 2006:

	September 30, 2007	December 31, 2006
Accounts payable	$ 290	$ 290
Pension and other postretirement obligations	1,069	1,687
Debt (including accrued interest of $39)	1,623	1,623
Other	705	575
Consolidated liabilities subject to compromise	3,687	4,175
Payables to non-Debtor subsidiaries	401	402
Debtor liabilities subject to compromise	$ 4,088	$ 4,577

Other includes accrued liabilities for environmental, asbestos-related and other product liabilities, income tax, deferred compensation, other postemployment benefits and contract rejection claims. Payables to non-Debtor subsidiaries include the DCC Claim. Claims and settlement activity described elsewhere in Note 2 added $108 to liabilities subject to compromise during the third quarter of 2007. This increase was partially offset by pension plan contributions and settlements, other postemployment benefits payments and other payments for a net increase of $41.

As discussed in Note 10, the reduction in pension and postretirement obligations since the end of 2006 is attributed to the elimination of postretirement healthcare benefits for non-union employees and retirees and the freeze of service and benefit accruals for non-union employees and benefit payments.

Debtors pre-petition debt of $1,623 is included in liabilities subject to compromise. As of the Filing Date, we discontinued recording interest expense on debt classified as liabilities subject to compromise. On a consolidated basis, contractual interest on all debt, including the portion classified as liabilities subject to compromise, amounted to $54 and $51 for the three months and $159 and $151 for the nine months ended September 30, 2007 and 2006.

During the quarter ended September 30, 2007, the Bankruptcy Court approved a settlement agreement with one of our major suppliers, Sypris. Under the terms of the settlement, Dana and Sypris entered into a new long-term supply agreement, and Sypris received a general, unsecured non-priority claim against Dana of $90 for damages in connection with cancellation of the old supply agreement. Liabilities subject to compromise were increased by $90 to recognize the allowed contract claim. The portion of the claim attributable to price reductions on future products to be acquired from Sypris was estimated at $35 and recorded as a deferred charge in investments and other assets. This amount will be recognized as a component of cost of sales in the future. The remaining contract claim of $55 attributable to the economic effects of other modifications to the Sypris contract (primarily to exclude certain products) has been recorded as a charge to reorganization items, net.

During the third quarter of 2007, the Bankruptcy Court also approved a settlement agreement relating to our lease of an office facility from the Port Authority. Under the terms of the settlement agreement, in exchange for modifying the terms of the existing lease, the Port Authority will receive a secured claim of $19 and a general, unsecured nonpriority claim of $15 under the Plan. The secured claim of $19 can be satisfied by execution of an amended lease substantially in the form of that agreed by the parties and included in the Bankruptcy Court s settlement order. This settlement has been recognized as a lease modification. The lease s classification as an operating lease was reevaluated at the modified terms and continued classification as an operating lease was determined to be appropriate. The unsecured claim of $15 has been recorded as prepaid rent in investments and other assets, with liabilities subject to compromise increasing by a like amount.

If, as expected, the prices under the new supply agreement with Sypris and the rental payments under the amended lease with the Port Authority are determined to be at prevailing market rates at emergence, the deferred assets recognized in connection with the above settlement actions will be eliminated and charged against income as part of applying the fresh start accounting provisions at emergence.

Reorganization Items

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

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The reorganization items in the consolidated statement of operations for the three and nine months ended September 30, 2007 and 2006 consisted of the following items:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Debtor reorganization items				
Professional fees	$ 27	$ 24	$ 87	$ 88
Debt valuation adjustments				17
Contract rejections and claim settlements	59	(1)	68	7
Union agreement and other costs	16		19	
Interest income	(4)	(1)	(11)	(4)
Debtor reorganization items	98	22	163	108
Non-Debtor reorganization items				
Professional fees		3	10	6
Total reorganization items	$ 98	$ 25	$ 173	$ 114

Contract rejections and claim settlement charges include costs associated with the above-mentioned Sypris settlement, other lease and contract rejections and other claims settlement activity.

As a consequence of the settlement agreement with the unions that occurred during the third quarter of 2007, lump sum payments to union employees of approximately $9 that were paid upon ratification or pursuant to other provisions of the settlement agreement were recognized as a reorganization cost.

Non-Debtor costs during 2007 related principally to organizational restructuring to facilitate future repatriations, financings and other actions.

Note 3. Debtor Financial Statements

Debtor In Possession Financial Information

In accordance with SOP 90-7, the statement of operations and statement of cash flows of the Debtors are presented below for the three and nine months ended September 30, 2007 and 2006, along with the balance sheet at September 30, 2007 and December 31, 2006. Intercompany balances between Debtors and non-Debtors are not eliminated. The investment in non-Debtor subsidiaries is accounted for on an equity basis and, accordingly, the net loss reported in the debtor-in-possession statement of operations is equal to the consolidated net loss.

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DANA CORPORATION
DEBTOR IN POSSESSION
STATEMENT OF OPERATIONS (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net sales				
Customers	$ 947	$ 971	$ 3,057	$ 3,205
Non-Debtor subsidiaries	65	67	187	193
Total	1,012	1,038	3,244	3,398
Costs and expenses				
Cost of sales	1,022	1,093	3,255	3,483
Selling, general and administrative expenses	44	48	159	200
Realignment and impairment	(1)	10	(6)	10
Other income, net	69	51	189	136
Income (loss) from continuing operations before interest, reorganization items and income taxes	16	(62)	25	(159)
Interest expense (contractual interest of $46 and $43 for the three months ended September 30, 2007 and 2006 and $135 and $121 for the nine months ended September 30, 2007 and 2006)	19	16	54	59
Reorganization items, net	98	22	163	108
Loss from continuing operations before income taxes	(101)	(100)	(192)	(326)
Income tax benefit (expense)	28	(54)	54	(64)
Minority interest income			2	
Equity in earnings (loss) of affiliates	(1)	(100)	2	(107)
Loss from continuing operations	(74)	(254)	(134)	(497)
Loss from discontinued operations	(54)	(27)	(172)	(70)
Equity in earnings (loss) of non-Debtor subsidiaries	59	(75)	12	57
Net loss	$ (69)	$ (356)	$ (294)	$ (510)

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DANA CORPORATION
DEBTOR IN POSSESSION
BALANCE SHEET (Unaudited)

	September 30, 2007		December 31, 2006	
Assets				
Current assets				
Cash and cash equivalents	$	381	$	216
Accounts receivable				
Trade, less allowance for doubtful accounts of $22 in 2007 and $23 in 2006		567		460
Other		93		71
Inventories		245		243
Assets of discontinued operations		4		237
Other current assets		43		15
Total current assets		1,333		1,242
Investments and other assets		965		875
Investments in equity affiliates		131		110
Investments in non-Debtor subsidiaries		2,202		2,292
Property, plant and equipment, net		721		689
Total assets	$	5,352	$	5,208
Liabilities and shareholders deficit				
Current liabilities				
Debtor-in-possession financing	$	900	$	
Accounts payable		374		294
Liabilities of discontinued operations				50
Other accrued liabilities		391		343
Total current liabilities		1,665		687
Liabilities subject to compromise		4,088		4,577
Other non-current liabilities		135		76
Debtor-in-possession financing				700
Commitments and contingencies (Note 14)				
Minority interest in consolidated subsidiaries				2
Total liabilities		5,888		6,042
Shareholders deficit		(536)		(834)
Total liabilities and shareholders deficit	$	5,352	$	5,208

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

	Nine Months Ended September 30,	
	2007	**2006**
Operating activities		
Net loss	$ (294)	$ (510)
Depreciation and amortization	102	91
Loss on sale of assets	96	
Impairment and divestiture-related charges	1	30
Reorganization items, net of payments	48	43
Equity in losses (earnings) of non-Debtor subsidiaries, net of dividends	19	(58)
Payments to VEBAs for postretirement benefits	(27)	
Changes in working capital	88	199
Other	(93)	114
Net cash flows used for operating activities	(60)	(91)
Investing activities		
Purchases of property, plant and equipment	(53)	(129)
Proceeds from sale of businesses	41	
Other	39	32
Net cash flows provided by (used for) investing activities	27	(97)
Financing activities		
Proceeds from debtor-in-possession facility	200	700
Net change in short-term debt	(2)	(546)
Net cash flows provided by financing activities	198	154
Net increase (decrease) in cash and cash equivalents	165	(34)
Cash and cash equivalents beginning of period	216	286
Cash and cash equivalents end of period	$ 381	$ 252

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Note 4. Asset Disposals and Impairments, Divestitures and Acquisitions

DCC Asset Disposals and Impairments

The carrying value of the remaining DCC portfolio assets was $77 at September 30, 2007, down from $178 at December 31, 2006. Where applicable, these assets are adjusted quarterly to estimated fair value less cost to sell.

During the first nine months of 2007, DCC continued to dispose of assets under the terms of the Forbearance Agreement discussed in Note 2. Cash proceeds from these asset sales totaled $104.

Two remaining DCC assets with a net book value of $44 are equity investments. An agreement has been reached to sell one of the equity investments. In connection therewith, we recognized a loss in other income of $5 during the third quarter of 2007. The assets underlying the one remaining equity investment have not been impaired by the investee and there is no readily determinable market value for this investment. We will recognize an impairment charge if DCC enters into an agreement to sell the remaining investment at a value below its carrying value or if we obtain other evidence that there has been an other-than-temporary decline in the fair value of the asset. Based on internally estimated current market value, DCC expects that the future sale of the remaining asset may result in a loss of $13 to $16.

Divestitures

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

In March 2007:

We sold our engine hard parts business and received cash proceeds of $98, of which $12 remains escrowed pending finalization of purchase price adjustments and satisfaction of certain of our indemnification obligations. We recorded a first quarter after-tax loss of $43 in connection with this sale.

We sold our 30% equity interest in GETRAG Getriebe-und Zahnradfabrik Hermann Hagenmeyer GmbH & Cie KG (GETRAG) to our joint venture partner, an affiliate of GETRAG, for $207 in cash. We had recorded an impairment charge of $58 in the fourth quarter of 2006 to adjust this equity investment to fair value and we recorded an additional charge of $2 after tax in the first quarter of 2007 based on the value of the investment at the time of closing.

In July and August 2007, we completed the sale of our fluid products hose and tubing business to Orhan Holding A.S. and certain of its affiliates under agreements signed in March 2007. We received aggregate cash proceeds of $84 from these transactions and recorded an aggregate third quarter after-tax gain of $32 in connection with the sale of this business.

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In August 2007, Dana and certain of our affiliates executed an axle agreement and related transaction documents providing for a series of transactions relating to our rights and obligations under two joint ventures with GETRAG and certain of its affiliates. These agreements provide for relief from non-compete provisions in various agreements restricting our ability to participate in certain markets for axle products other than through participation in the joint ventures; the grant of a call option to GETRAG to acquire Dana s ownership interests in the two joint ventures for a purchase price of $75; Dana s payment to GETRAG of $11 under certain conditions; the withdrawal, with prejudice, of bankruptcy claims aggregating approximately $66 filed by GETRAG and one of the joint venture entities relating to Dana s alleged breach of certain non-compete provisions; the amendment, assumption, rejection and/or termination of certain other agreements between the parties; and the grant of certain mutual releases by Dana and various other parties. In connection with these agreements, we had recorded $11 as liabilities subject to compromise and as a charge to other income, net in the second quarter based on our determination that the liability was probable. These agreements have been approved by the Bankruptcy Court, and the agreements are expected to close in the fourth quarter.

In September 2007, we completed the sale of our coupled fluid products business to Coupled Products Acquisition LLC for the nominal price of one dollar, with the buyer assuming certain liabilities of the business at closing, pursuant to agreements signed in May 2007. We recorded a third quarter after-tax loss of $23 in connection with the sale of this business.

We completed the sale of a portion of the pump products business in October 2007, generating proceeds of $7 and a nominal after-tax gain, which will be recorded in the fourth quarter.

Acquisitions

In June 2007, our subsidiary Dana Mauritius Limited (Dana Mauritius) purchased 4% of the registered capital of Dongfeng Dana Axle Co., Ltd. (a commercial vehicle axle manufacturer in China formerly known as Dongfeng Axle Co., Ltd.) from Dongfeng Motor Co., Ltd. and certain of its affiliates for $5. Dana Mauritius has agreed, subject to certain conditions, to purchase an additional 46% equity interest in Dongfeng Dana Axle Co., Ltd. within the next three years for approximately $55.

Note 5. Discontinued Operations

The results of operations of the engine hard parts, fluid products and pump products businesses that we have divested or are divesting are aggregated and presented as discontinued operations through their respective dates of divestiture.

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The results of the discontinued operations for the three and nine months ended September 30, 2007 and 2006 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Sales	$ 61	$ 334	$ 477	$ 987
Cost of sales	73	331	479	938
Selling, general and administrative expenses	2	18	24	51
Impairment charges		87	4	115
Realignment and other expense (income), net	(6)	(4)	44	
Loss before income taxes	(8)	(98)	(74)	(117)
Income tax benefit (expense)	3	14	(15)	15
Loss from discontinued operations	$ (5)	$ (84)	$ (89)	$ (102)

Since the fourth quarter of 2005, we have adjusted the underlying assets of the discontinued operations to their net fair value less cost to sell based on the profit outlook for these businesses, discussions with potential buyers and other factors impacting expected sale proceeds. These valuation adjustments were recorded in the discontinued operations results as impairment charges. For the three months ended September 30, 2007, realignment and other expense (income), net includes a pre-tax gain of $13 in connection with the sale of the fluid products businesses and a charge of $4 for a bankruptcy claim settlement. Realignment and other expense, net for the nine months ended September 30, 2007 included a charge of $17 for settlement of pension obligations in the U.K. (see Note 6) relating to discontinued operations, $13 for estimated bankruptcy claim settlements and $14 of pre-tax losses associated with the sale of the engine hard parts and fluid products businesses. The impairment charges in 2006 primarily represent adjustments to the net assets of the businesses being sold to record their fair value less cost to sell. At September 30, 2007, we had reduced the assets of the pump products businesses to the extent permitted by GAAP. At the current expected selling prices, additional charges of $2 are expected when the sales are finalized.

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The assets and liabilities of discontinued operations reported in the consolidated balance sheet at September 30, 2007 and December 31, 2006 consisted of the following:

	September 30, 2007		December 31, 2006	
Assets of discontinued operations				
Accounts receivable	$	34	$	223
Inventories		6		123
Cash and other assets		12		40
Investments in leases				6
Total assets	$	52	$	392
Liabilities of discontinued operations				
Accounts payable	$	10	$	95
Accrued payroll and employee benefits		3		41
Other current liabilities		8		51
Other noncurrent liabilities				8
Total liabilities	$	21	$	195

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

Note 6. Realignment of Operations

The following tables show the realignment charges and related payments, exclusive of the U.K. pension charges discussed below, recorded in our continuing operations during the three and nine months ended September 30, 2007.

	Employee Termination Benefits		Long-Lived Asset Impairment		Exit Costs		Total	
Balance at June 30, 2007	$	28	$		$	11	$	39
Activity during the period								
Charges to expense		(3)		3		7		7
Adjustments of accruals		(1)						(1)
Non-cash write-off				(3)				(3)
Cash payments		(3)				(13)		(16)
Balance at September 30, 2007	$	21	$		$	5	$	26

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	Employee Termination Benefits	Long-Lived Asset Impairment	Exit Costs	Total
Balance at December 31, 2006	$ 64	$	$ 10	$ 74
Activity during the period				
Charges to expense	8	9	31	48
Adjustments of accruals	(25)			(25)
Non-cash write-off		(9)		(9)
Cash payments	(26)		(36)	(62)
Balance at September 30, 2007	$ 21	$	$ 5	$ 26

In February 2007, we announced the restructuring of pension liabilities in the U.K. As a result of the underlying agreement, we recorded $8 of pension curtailment cost as a realignment charge in the first quarter of 2007. In April 2007, our U.K. subsidiaries settled their pension plan obligations to the plan participants through a cash payment of $93 and the transfer of a 33% equity interest in our remaining U.K. axle and driveshaft operating businesses to the plans. Concurrent with the cash payment and equity transfer, we recorded a pension settlement charge as a realignment expense of $128 in continuing operations and $17 in discontinued operations.

As a consequence of the negotiations that resulted in the agreements reached with the UAW and the USW in July 2007 (see Note 10), we modified certain of our manufacturing footprint optimization plans. A facility that we previously planned to close will remain open, but we will implement work force reductions at that facility and other facilities in the affected business segment. As a result of these modifications, realignment charges for the second quarter of 2007 included a credit adjustment of $17 to record reduced contractual employee separation cost.

The realignment charges expensed during the three months ended September 30, 2007 related primarily to the ongoing facility closure activities associated with previously announced manufacturing footprint actions, including the recognition of a post-retirement medical benefit curtailment gain of $8.

At September 30, 2007, $26 of realignment accruals remained in accrued liabilities, including $21 for the reduction of approximately 1,500 employees to be completed over the next two years and $5 for lease terminations and other exit costs. The estimated cash expenditures related to these liabilities are projected to approximate $20 in the remainder of 2007 and $6 thereafter. In addition to the $26 accrued at September 30, 2007, we estimate that another $101 will be expensed in relation to pending initiatives.

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

	Expense Recognized			Estimated
	Prior to 2007	Year-to-Date 2007	Total	Cost to Complete
ASG				
Axle	$ 42	$ 1	$ 43	$ 1
Driveshaft	31	(12)	19	41
Sealing	3	1	4	1
Thermal	4	2	6	
Structures	45	14	59	58
Total ASG	125	6	131	101
HVTSG				
Commercial Vehicles	5	8	13	
Off-Highway	31	2	33	
Total HVTSG	36	10	46	
Other	17	7	24	
Total continuing operations	$ 178	$ 23	$ 201	$ 101

Note 7. Common Shares

In addition to average shares outstanding of 149.8 for the three and nine months ended September 30, 2007 and 2006, there were 0.5 shares that satisfy the definition of potentially dilutive shares for these periods. These potentially dilutive shares have been excluded from the computation of earnings per share for the three and nine months ended September 30, 2007 and 2006 as the loss from continuing operations for these periods caused the shares to have an anti-dilutive effect.

In addition, we have excluded 10.9 common shares for each of these periods from the computation of earnings per share as these shares represent stock options with exercise prices higher than the average per share trading price of our stock during the respective periods and the effect of including them would also be anti-dilutive.

Under the Plan, our common shares will be cancelled and shareholders with allowed interests will be entitled to a pro rata share of the assets, if any, that remain in a reserve after the holders of certain allowed unsecured claims have been paid in full, with interest, from such reserve. There is no assurance that the Plan will be confirmed or, if it is, that there will be any residual assets left in the reserve for the benefit of holders of Dana common shares. In fact, the Debtors do not currently anticipate that the holders of Dana common shares will receive any distribution under the Plan.

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Note 8. Goodwill

Changes in goodwill during the nine months ended September 30, 2007 for the affected segments were as follows:

	December 31, 2006	Effect of Currency and Other	September 30, 2007
ASG			
Driveshaft	$ 158	$ 13	$ 171
Sealing	24	1	25
Thermal	119	2	121
Total	301	16	317
HVTSG			
Off-Highway	115	3	118
Total	$ 416	$ 19	$ 435

Note 9. Equity-Based Compensation

During the third quarter of 2007, there were no stock options, restricted shares or units or other stock-based awards granted under our equity compensation plans and no options were exercised.

The following chart shows the number of options that vested or were forfeited during the first nine months of 2007:

	Number of Options	Weighted Average Grant Date Fair Values (in $ per share)
Non-vested at December 31, 2006	617,026	$ 3.39
Vested	(367,289)	3.42
Forfeited	(54,750)	3.46
Non-vested at September 30, 2007	194,987	3.31

As of September 30, 2007, the total unrecognized compensation expense for non-vested options was less than $1, which is being amortized over a period of approximately one year. Upon emergence, common shares of the predecessor will be cancelled and shares of a new successor company will be issued. Outstanding stock options in the predecessor will be cancelled at that time. The total fair value of options that vested during the three and nine months ended September 30, 2007 was $0 and $1. During the three and nine months ended September 30, 2007, we recognized nominal equity-based compensation expense. For the three and nine months ended September 30, 2006, we recognized $0 and $1 of expense.

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Note 10. Pension and Postretirement Benefit Plans

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

Components of net periodic benefit costs for the three and nine months ended September 30, 2007 and 2006 were as follows:

	Three Months Ended September 30,			
	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Service cost	$ 5	$ 11	$ 2	$ 2
Interest cost	34	42	16	23
Expected return on plan assets	(40)	(50)		
Amortization of prior service cost				(3)
Recognized net actuarial loss	7	8	1	10
Net periodic benefit cost	$ 6	$ 11	$ 19	$ 32
Curtailment (gain) loss	6		(8)	
Settlement loss	13	3		
Net periodic benefit cost after curtailment and settlements	$ 25	$ 14	$ 11	$ 32

	Nine Months Ended September 30,			
	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Service cost	$ 30	$ 34	$ 5	$ 8
Interest cost	116	124	58	68
Expected return on plan assets	(138)	(151)		
Amortization of prior service cost		2	(6)	(10)
Recognized net actuarial loss	21	24	15	30
Net periodic benefit cost	$ 29	$ 33	$ 72	$ 96
Curtailment (gain) loss	6		(8)	
Settlement (gain) loss	158	14	(12)	
Net periodic benefit cost after curtailment and settlements	$ 193	$ 47	$ 52	$ 96

In March 2007, the Bankruptcy Court approved the elimination of postretirement healthcare benefits for active non-union employees in the U.S. This action reduced our accumulated postretirement benefit obligation (APBO) for postretirement healthcare by $115 in the first quarter. Because the elimination of these benefits reduced benefits previously earned, it was considered a negative plan amendment. Accordingly, the reduction in the APBO was offset by a credit to other comprehensive income (OCI) which is being amortized to income as an offset to pension expense.

During the first quarter of 2007, the sale of the engine hard parts business resulted in a postretirement medical plan settlement gain of $12. As described in Note 6, the restructuring of pension liabilities in the U.K. generated a pension curtailment charge of $8 in the first quarter of 2007 and a settlement charge of $145 during the second quarter of 2007.

In May 2007, we reached an agreement with the Retiree Committee to make cash contributions of $78 to a VEBA trust for non-pension retiree benefits in exchange for release of the Debtors from obligations for postretirement health and welfare benefits for non-union retirees in the U.S. A payment of $25 was made in June 2007. In May 2007, we also made a $2.25 payment to the International Association of Machinists (IAM) to resolve all claims for non-pension retiree benefits after June 30, 2007 for retirees and active employees represented by the IAM. As a result of these actions, we reduced our APBO by $303, with $80 being offset by the payment obligation to the VEBAs and $223 being credited to OCI.

The elimination of retiree medical benefits for non-union employees in March 2007 and the agreement with the Retiree Committee on behalf of such employees in May 2007 necessitated the remeasurement of U.S. postretirement medical benefits as of June 30, 2007. The discount rate used for remeasurement was 6.29% versus 5.88% used at December 31, 2006.

In June 2007, we amended our U.S. pension plans for non-union employees to freeze service credits and benefit accruals effective July 1, 2007. In connection with this action, we recorded a curtailment charge of $3 during the second quarter of 2007 and certain plan assets and liabilities were remeasured. The resulting funded status of all our U.S. pension plans (non-union and union) at June 30, 2007 was a net liability of $19, as compared to a net liability of $103 at December 31, 2006. Unamortized pension loss in AOCI was reduced to $335 at June 30, 2007 from $433 at December 31, 2006 and continues to be amortized to income over an actuarially determined period.

In July 2007, we entered into settlement agreements with the UAW and USW. Some provisions of the agreements, such as wage structure modifications and buyouts for certain eligible employees represented by the UAW and the USW (the union-represented employees), were effective upon the Bankruptcy Court s approval of the settlement agreements in August.

Other provisions will be implemented on January 1, 2008 or on the date of emergence from bankruptcy, whichever is later. Under these provisions, we have agreed to:

- modify healthcare, long-term and short-term disability and life insurance benefits for covered union-represented employees;

- freeze credited service and benefit accruals under our defined benefit pension plans for union-represented employees;

- make contributions, based on an allowed hours formula, to a USW pension trust, which will provide future pension benefits for covered union-represented employees;

- eliminate non-pension retiree benefits (postretirement healthcare and life insurance benefits) for union-represented employees and retirees;

- contribute an aggregate of $722 in cash (less certain offsets, including amounts paid for non-pension retiree benefit claims of union-represented retirees incurred between July 1, 2007 and January 1, 2008 or the date of emergence, if later) to separate UAW- and USW-administered VEBAs to provide non-pension retiree benefits, as determined by the VEBA trustees, to eligible union-represented retirees after our emergence from bankruptcy;

- eliminate long-term disability and related healthcare benefits for union-represented employees receiving, or entitled to receive, disability benefits; and

- contribute an aggregate of $42 in cash (less certain offsets, including amounts paid for long-term disability and related healthcare benefit claims of eligible union-represented employees after June 30, 2007) to the VEBAs to provide disability benefits, as determined by the VEBA trustees, to such employees after our emergence from bankruptcy.

These actions, when implemented on the later of January 1, 2008 or on the date of our emergence from bankruptcy, are expected to eliminate our remaining APBO for non-pension retiree benefits in the U.S. ($953 as of September 30, 2007). Although we expect to implement these actions, under certain circumstances (such as termination of the Centerbridge investment commitments) they may not be implemented as currently contemplated or at all. Accordingly, no recognition has been given to the effects of the benefit actions referenced in the preceding paragraph as of September 30, 2007.

During the third quarter of 2007, lump sum distributions from one of the pension plans reached a level requiring recognition of $12 as pension settlement expense. The portions attributable to divested operations and manufacturing footprint actions amounted to $4 and $5 and were included in discontinued operations and realignment charges. The exercise of employee early retirement incentives, resulting from the settlement agreements with the unions, generated pension plan curtailment losses of $5 which are included in reorganization items, net. The lump sum distributions and the reversal of the decision to close a facility required a remeasurement of two plans which reduced our pension obligation by $42 resulting in a credit to OCI. Completion of a facility closure in the third quarter of 2007 resulted in recognition of a postretirement medical plan curtailment gain of $8 in realignment charges.

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Note 11. Comprehensive Income (Loss)

Comprehensive income (loss) includes our net loss and components of OCI such as deferred currency translation gains and losses that are charged or credited directly to shareholders deficit.

The components of our total comprehensive income (loss) for the three and nine months ended September 30, 2007 and 2006 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net loss	$ (69)	$ (356)	$ (294)	$ (510)
Other comprehensive income (loss):				
Deferred translation gain	61	(6)	128	84
Postretirement healthcare plan revisions			338	
Pension plan revisions	51		114	
Reclassification to net loss of:				
Benefit plan amortization	10		28	
U.K. pension settlement			144	
GETRAG deferred translation and pension			(93)	
Income tax provision	(4)		(77)	
Other	(10)		10	
Total comprehensive income (loss)	$ 39	$ (362)	$ 298	$ (426)

The $61 deferred translation gain reported for the three months ended September 30, 2007 resulted primarily from a further weakening of the U.S. dollar in relation to the euro ($20), the Brazilian real ($16), the Canadian dollar ($13) and the Australian dollar ($5). For the nine months ended September 30, 2007, the Brazilian real ($50), the euro ($33), the Canadian dollar ($22) and the Australian dollar ($13) all strengthened relative to the U.S. dollar, contributing to a deferred translation gain of $128.

OCI for the three months ended September 30, 2007 includes the reclassification to net income of $9 for settlements relating to lump sum distributions from a salaried pension plan and $10 for the amortization of unamortized benefit plan losses. The plan remeasurement resulting from the lump sum distributions in the salaried plan reduced our pension obligations and increased OCI for the quarter ended September 30, 2007 by $35. In addition, OCI for the quarter includes a $7 credit related to the remeasurement of a plan affected by our decision in the second quarter of 2007 to retain a facility that had been identified in 2006 for closure. The plan remeasurement was not completed until the third quarter and reporting the $7 in the current period does not have a material effect on OCI for either the current or the previous quarter. OCI for the nine months ended September 30, 2007 includes an additional credit of $63 related to pension plan modifications, $223 resulting from settlements reached with the Retiree Committee and the IAM (see Note 10) and $115 from the termination of postretirement healthcare coverage for active non-union employees (see Note 10). Amortization of benefit plan losses for the nine months totals $28. OCI for the nine months ended September 30, 2007 also includes an increase of $144 related to the April settlement of U.K. pension liabilities, effected through a cash payment and transfer of an equity interest in our U.K. axle and driveshaft operating businesses (see Note 6). The reclassification of $93 to net loss related to a deferred translation gain and unamortized pension expense associated with our equity investment in GETRAG, which we sold in March 2007.

See Note 16 for a discussion of the tax provision.

The $6 deferred translation loss reported for the three months ended September 30, 2006 was due to a weaker euro ($7) and South African rand ($3), offset in part by a stronger British pound ($3). The $84 deferred gain for the nine months ended September 30, 2006 was due to a stronger euro ($53), Brazilian real ($22) and British pound ($18), partially offset by a weaker rand ($9).

Note 12. Cash Deposits

At September 30, 2007, cash and cash equivalents held in the U.S. amounted to $381. Included in this amount was $72 of cash deposits that provide credit enhancement for certain lease agreements and support surety bonds that enable us to self-insure our workers compensation obligations in certain states and fund an escrow account required to appeal a judgment rendered in Texas. Cash held by DCC of $12 is restricted under the terms of the Forbearance Agreement discussed in Note 2 and is reported separately as restricted cash.

At September 30, 2007, cash and cash equivalents held outside the U.S. amounted to $654. Included in this amount was $23 of cash deposits that provide credit enhancement for certain lease agreements and support surety bonds that enable us to self-insure certain employee benefit obligations.

The cash deposits other than DCC s cash are not considered restricted as they could be replaced by letters of credit available under our DIP Credit Agreement (discussed in Note 13). Availability at September 30, 2007 was adequate to cover the deposits for which replacement by letters of credit is permitted.

A substantial portion of our non-U.S. cash and cash equivalents is needed for working capital and other operating purposes. Several countries have local regulatory requirements that significantly restrict the ability of the Debtors to access this cash. In addition, at September 30, 2007, $78 was held by consolidated entities that have minority interests with varying levels of participation rights involving cash withdrawals. Beyond these restrictions, there are practical limitations on repatriation of cash from certain countries because of the resulting tax cost.

Note 13. Financing Agreements

DIP Credit Agreement

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

At September 30, 2007, we had borrowed $900 under the DIP Credit Agreement. Based on our borrowing base collateral, we had availability at that date under the DIP Credit Agreement of $249 after deducting the $100 minimum availability requirement and $230 for outstanding letters of credit. All obligations under the DIP Credit Agreement will become due and payable no later than March 2008. We expect to refinance these obligations as part of our plan of reorganization. However, since refinancing these obligations on a long-term basis is not presently assured, we have classified the borrowings under the DIP Credit Agreement as a current liability at September 30, 2007.

Canadian Credit Agreement

Dana Canada Corporation (Dana Canada) as borrower, and certain of its Canadian affiliates, as guarantors, are parties to a credit agreement (the Canadian Credit Agreement) that provides Dana Canada with a $100 revolving credit facility, of which $5 is available for the issuance of letters of credit. For a discussion of the terms of the Canadian Credit Agreement, see Note 10 to our consolidated financial statements in Item 8 of our 2006 Form 10-K. Based on Dana Canada s borrowing base collateral at September 30, 2007, it had availability under the Canadian Credit Agreement of $65 after deducting the $20 minimum availability requirement and $2 for outstanding letters of credit. Dana Canada had no borrowing under this agreement at September 30, 2007.

European Receivables Loan Facility

In July 2007, certain of Dana s European subsidiaries established a five-year accounts receivable securitization facility under which the euro equivalent of up to $225 in financing will be available to those subsidiaries when the securitization processes are completed in all countries. For a discussion of this facility and the receivables program, see Note 13 to our condensed consolidated financial statements in Item 1 of Part I of our second quarter 2007 Form 10-Q. At September 30, 2007, there was availability of $37 in countries that have started securitization and there were borrowings under this facility equivalent to $30 recorded as notes payable. The proceeds from the borrowings were used for operations and the repayment of intercompany debt.

DCC Notes

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

United Kingdom Financing

During the first quarter of 2007, in connection with the restructuring and settlement of our U.K. pension obligations (see Note 6), we borrowed GBP 35 under an interim bank loan which has an October 31, 2007 maturity date. As of September 30, 2007, this bank loan had been repaid.

Note 14. Commitments and Contingencies

Impact of Our Bankruptcy Filing

During our Chapter 11 reorganization proceedings, most actions against us relating to pre-petition liabilities are automatically stayed. Substantially all of our pre-petition liabilities will be addressed under our plan of reorganization or pursuant to orders of the Bankruptcy Court.

Class Action Lawsuit and Derivative Actions

A securities class action entitled *Howard Frank v. Michael J. Burns and Robert C. Richter* was originally filed in October 2005 in the U.S. District Court for the Northern District of Ohio, naming Dana s Chief Executive Officer, Michael J. Burns, and former Chief Financial Officer, Robert C. Richter, as defendants. In a consolidated complaint filed in August 2006, the lead plaintiff alleged violations of the U.S. securities laws and claimed that the price at which Dana s shares traded at various times between April 2004 and October 2005 was artificially inflated as a result of the defendants alleged wrongdoing. In June 2007, the District Court denied the lead plaintiff s motion for an order partially lifting the statutory discovery stay which would have enabled the plaintiff to obtain copies of certain documents produced to the SEC. By order dated August 21, 2007, the District Court granted the defendants motion to dismiss the consolidated complaint and entered a judgment closing the case. In September 2007, the plaintiff filed a notice of appeal from the District Court s order and judgment.

A shareholder derivative action entitled *Roberta Casden v. Michael J. Burns, et al.* was originally filed in the U.S. District Court for the Northern District of Ohio in March 2006 on behalf of Dana. An amended complaint filed in August 2006 added non-derivative class claims on behalf of holders of Dana shares on the day of its bankruptcy filing alleging, among other things, that Dana s bankruptcy filing had been made in bad faith. In June 2006, the District Court stayed the derivative claims, deferring to the Bankruptcy Court on those claims. In July 2007, the District Court dismissed the non-derivative class claims asserted in the amended complaint and entered a judgment closing the case. In August 2007, the plaintiff filed a notice of appeal from the District Court s order and judgment. A second shareholder derivative action, *Steven Staehr v. Michael J. Burns, et al.*, remains stayed in the U.S. District Court for the Northern District of Ohio.

SEC Investigation

We are continuing to cooperate with the SEC in its investigation with respect to matters related to the restatement of our financial statements for the first two quarters of 2005 and fiscal years 2002 through 2004.

Legal Proceedings Arising in the Ordinary Course of Business

We are a party to various pending judicial and administrative proceedings arising in the ordinary course of business. These include, among others, proceedings based on product liability claims and alleged violations of environmental laws. We have reviewed these pending legal proceedings, including the probable outcomes, our reasonably anticipated costs and expenses, the availability and limits of our insurance coverage and surety bonds and our established reserves for uninsured liabilities.

Further information about these legal proceedings follows, including information about our accruals for the liabilities that may arise from such proceedings. We accrue for contingent liabilities at the time when we believe they are both probable and estimable. We review our assessments of probability and estimability as new information becomes available and adjust our accruals quarterly, if appropriate. With respect to liabilities subject to compromise in the bankruptcy proceedings, we consider the potential settlement outcomes in determining whether the liabilities are probable and estimable. Since we do not accrue for contingent liabilities that we believe are probable unless we can reasonably estimate the amounts of such liabilities, our actual liabilities may exceed the amounts we have recorded.

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 or financial condition; however, bankruptcy claim settlements could result in charges materially impacting results of operations.

Asbestos-Related Personal Injury Liabilities

We had approximately 55,000 active pending asbestos-related product liability claims at September 30, 2007, including approximately 6,000 claims that were settled but awaiting final documentation and payment. The number of active pending claims was reduced as tort reform and other initiatives in the State of Mississippi resulted in the dismissal of 17,000 claims. Due to the nature of these dismissed claims, the impact on the estimated liability was not significant. On October 26, 2007, Dana filed a motion with the Bankruptcy Court seeking approval to resolve an additional 7,500 pending cases. The estimated total payments for these settlements, if all claimants are able to submit the required proof to support their claims, would approximate $2. We project costs for asbestos-related product liability claims using the methodology that is discussed in Note 17 to our consolidated financial statements in Item 8 of our 2006 Form 10-K. We had accrued $138 for indemnity and defense costs for pending and future claims at September 30, 2007.

Prior to 2006, we reached agreements with some of our insurers to commute policies covering asbestos-related product liability claims. There were no commutations of insurance in the first three quarters of 2007. At September 30, 2007, our liability for future demands under prior commutations was $11, bringing our total recorded liability for asbestos-related product liability claims to $149.

At September 30, 2007, we had recorded $71 as an asset for probable recovery from our insurers for pending and projected asbestos-related product liability claims. The recorded asset does not represent the limits of our insurance coverage, but rather the amount we would expect to recover if we paid the accrued indemnity and defense costs.

In addition, we had a net amount recoverable from our insurers and others of $17 at September 30, 2007. The recoverable represents reimbursements for settled asbestos-related product liability claims, including billings in progress and amounts subject to alternate dispute resolution proceedings with some of our insurers.

Under the Plan, the Debtors propose that their asbestos-related personal injury claims be reinstated upon emergence and that the reorganized Debtors will defend, settle and resolve such pending claims and future demands in the ordinary course of business.

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Other Product Liabilities

We had accrued $11 for non-asbestos product liabilities at September 30, 2007, with no recovery expected from third parties. We estimate these liabilities based on assumptions about the value of the claims and about the likelihood of recoveries against us derived from our historical experience and current information.

Environmental Liabilities

We had accrued $60 for environmental liabilities at September 30, 2007. We estimate these liabilities based on the most probable method of remediation, current laws and regulations and existing technology. Our estimates are made on an undiscounted basis and exclude the effects of inflation. If there is a range of equally probable remediation methods or outcomes, we accrue the lower end of the range. The difference between our minimum and maximum estimates for these liabilities was $1 at September 30, 2007. Included in this accrual are amounts relating to the Hamilton Avenue Industrial Park site in New Jersey, where we are one of four potentially responsible parties under the Comprehensive Environmental Response, Compensation and Liability Act (Superfund). The Debtors are pursuing a final estimation of this claim through a court proceeding in the Bankruptcy Court. Previously, the Bankruptcy Court entered an order approving an estimation process and scheduling a hearing for January 2008 to determine the amount of the Debtors liability relating to the Hamilton Avenue Industrial Park site and certain other sites. However, the United States Environmental Protection Agency (EPA) filed and is prosecuting a motion in the United States District Court for the Southern District of New York seeking to have the estimation proceeding conducted in the District Court instead of the Bankruptcy Court. The EPA also has sought a 60-day extension of the estimation schedule established by the Bankruptcy Court. At this time, the court that will hear the estimation proceeding has not been determined. The Debtors do not expect this issue to delay their emergence from bankruptcy.

Other Liabilities Related to Asbestos Claims

After the Center for Claims Resolution (CCR) discontinued negotiating shared settlements for asbestos claims for its member companies in 2001, some former CCR members defaulted on the payment of their shares of some settlements and some settling claimants sought payment of the unpaid shares from other members of the CCR at the time of the settlements, including Dana. Through September 30, 2007, we had paid $47 to such claimants and collected $29 from our insurance carriers with respect to these claims. At September 30, 2007, we had a net receivable of $13 for the amount that we expect to recover from available insurance and surety bonds relating to these claims. We are continuing to pursue insurance collections with respect to such claims paid prior to the Filing Date.

Assumptions Regarding Asbestos-Related Liabilities

The amounts we have recorded for asbestos-related liabilities and recoveries are based on assumptions and estimates reasonably derived from our historical experience and current information. The actual amount of our liability for asbestos-related claims and the effect on us could differ materially from our current expectations if our assumptions about the outcome of the pending unresolved asbestos-related product liability claims, the volume and outcome of projected future asbestos-related product liability claims, the outcome of

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claims relating to the CCR-negotiated settlements, the costs to resolve these claims, or the amount of available insurance and surety bonds prove to be incorrect, or if U.S. federal legislation impacting asbestos personal injury claims is enacted. Although we have projected our liability for future asbestos-related product liability claims based upon historical trend data that we consider to be reliable, there is no assurance that our actual liability will not differ from what we currently project.

Note 15. Warranty Obligations

We record a liability for estimated warranty obligations at the dates our products are sold. Adjustments are made as new information becomes available. Our warranty activity for the three months and nine months ended September 30, 2007 and 2006 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Balance, beginning of period	$ 89	$ 95	$ 90	$ 91
Amounts accrued for current period sales	16	12	47	37
Adjustments of prior accrual estimates	(2)	(3)		(2)
Settlements of warranty claims	(11)	(14)	(46)	(38)
Foreign currency translation and other	2	(1)	3	1
Balance, end of period	$ 94	$ 89	$ 94	$ 89

We have been notified by a European customer that a quality matter relating to a specific product supplied by Dana could potentially result in warranty claims. Our customer has advised us of alleged vehicle performance issues which may be potentially attributable to our product. We are currently investigating the information provided by our customer and performing product testing to ascertain whether the reported performance failures are attributable to our product. At September 30, 2007, no liability had been recorded for this matter as the information currently available to us is insufficient to assess our liability, if any.

Note 16. Income Taxes

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

The tax expense or benefit recorded in continuing operations is generally determined without regard to other categories of earnings, such as a loss from discontinued operations or OCI. An exception is provided if there is aggregate pre-tax income from other categories and a pre-tax loss from continuing operations, even if a valuation allowance has been established against deferred tax assets as of the beginning of the year. The tax benefit allocated to continuing operations is the amount by which the loss from continuing operations reduces the tax expense recorded with respect to the other categories of earnings.

Prior to considering the effect of income taxes, our operations in the U.S. reported OCI of $444 for the nine months ended September 30, 2007, primarily as a result of amending its pension and other postretirement benefit plans. The exception described in the preceding paragraph resulted in a year-to-date charge to OCI of $77. An offsetting tax benefit was attributed to continuing operations; however, the benefits recorded in continuing operations for the three months and nine months ended September 30, 2007 were limited to $34 and $60 due to interperiod tax allocation rules, leaving a deferred credit balance of $17 in other accrued liabilities as of September 30, 2007. The amount to be recognized in the fourth quarter of 2007 will be affected by the OCI and pre-tax loss from continuing operations reported for the period by our operations in the U.S.

With the exception of the $60 of income tax benefits recorded in continuing operations for the nine months ended September 30, 2007, we have not recognized tax benefits on losses generated since 2005 in several countries, including the U.S. and the U.K., where the recent history of operating losses does not allow us to satisfy the more likely than not criterion for realization of deferred tax assets. This is the primary factor which causes the tax benefit of $3 for the three months and the tax expense of $15 for the nine months ended September 30, 2007 to differ from expected tax benefits of $23 and $71 at the U.S. federal statutory rate of 35%. This is also the primary factor which causes the tax expense of $20 and $78 for the three and nine months ended September 30, 2006 to differ from the expected tax benefits of $86 and $118 using the 35% rate.

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007, and credited retained earnings for the initial impact of approximately $3. As of the adoption date, we had gross unrecognized tax benefits of $137, of which $112 can be reduced by net operating loss (NOL) carryforwards, and other timing adjustments. The net amount of $25, if recognized, would affect our effective tax rate. Unrecognized tax benefits are the difference between a tax position taken, or expected to be taken, in a tax return and the benefit recognized for accounting purposes pursuant to FIN 48. We recognize interest and penalties related to unrecognized tax benefits in income tax expense.

We conduct business globally and, as a result, file income tax returns in multiple jurisdictions and are subject to examination by taxing authorities throughout the world. With few exceptions, we are no longer subject to U.S. federal, state and local or foreign income tax examinations for years before 1999. The 1999 2002 U.S. federal audits are closed except for a determination of the treatment of certain leasing transactions. The closing agreement on this transaction is expected to be finalized by the end of 2007, and the effect, if any, on the financial statements is not expected to be material. We are currently under audit by the U.S. Internal Revenue Service for the 2003 to 2005 tax years. The examination phase of this audit is expected to be completed early in 2008.

As of September 30, 2007, the total amount of gross unrecognized tax benefits was $51, of which $30, if recognized, would impact the effective tax rate. The gross unrecognized tax benefits decrease of $86 from January 1, 2007 was caused by our continuing assessment of certain and uncertain tax positions. If matters for 1999 through 2005 are settled with the U.S. Internal Revenue Service within the next 12 months, the total amounts of unrecognized tax benefits for all open tax years may be modified. Audit outcomes and the timing of the audit settlements are subject to significant uncertainty; therefore, we cannot make an estimate of the impact on earnings at this time. As discussed in Note 2, we have included accrued liabilities for income taxes of the Debtors in liabilities subject to compromise. These tax liabilities will be settled on emergence from bankruptcy.

German tax laws enacted in July 2007 will limit the future utilization of NOLs for companies that change ownership after December 31, 2007. If our emergence from bankruptcy occurs after December 31, this law would have an adverse impact on our ability to realize our deferred tax assets in Germany related to NOL s. We are currently reviewing tax planning strategies to utilize some or all of these NOL s prior to December 31, 2007. The deferred tax asset at risk due to this law change is approximately $5. Tax reforms in Mexico enacted in October 2007 will reduce our tax rate beginning on January 1, 2008, and we will reduce our deferred tax liability during the fourth quarter. The lower rate will have a favorable impact on the taxation of our operations in Mexico beginning in 2008. Tax legislation enacted in other jurisdictions, including the U.K. and State of Michigan, during the third quarter of 2007 did not have a material effect on our financial statements.

Note 17. Other Income, Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Interest income	$ 12	$ 8	$ 29	$ 28
DCC income, net	(4)	10	14	33
Divestiture gains		15	12	15
Foreign exchange gain (loss),net	17	(1)	36	2
Claim settlement			(11)	
Government grants	4	3	10	7
Rental income	2	2	5	3
Other, net	(1)	7	13	26
Other income, net	$ 30	$ 44	$ 108	$ 114

Foreign currency denominated intercompany loans valued at $254 at September 30, 2007 by the Debtors to certain non-U.S. operations have been determined to no longer be permanently invested. As such, the foreign exchange gains on these loans of $21 and $43 for the three and nine months ended September 30, 2007 are now included in Foreign exchange gain (loss), net above, rather than as translation gain in other comprehensive income. The claim settlement charge of $11 represents the estimated costs to settle a contractual matter with an investor in one of our equity investments.

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Note 18. Segments

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

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

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

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

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

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We used the following information to evaluate our operating segments for the three months ended September 30, 2007 and 2006:

2007	External Sales	Inter-Segment Sales	Segment EBIT
ASG			
Axle	$ 657	$ 26	$ 9
Driveshaft	291	60	15
Sealing	173	4	8
Thermal	69	1	2
Structures	257	5	7
Eliminations and other	8	(68)	(6)
Total ASG	1,455	28	35
HVTSG			
Commercial Vehicle	303	(1)	9
Off-Highway	371	11	30
Eliminations and other		(8)	(2)
Total HVTSG	674	2	37
Other Operations	1	9	
Eliminations		(39)	
Total	$ 2,130	$	$ 72

2006	External Sales	Inter-Segment Sales	Segment EBIT
ASG			
Axle	$ 501	$ 24	$ (16)
Driveshaft	279	48	24
Sealing	164	7	11
Thermal	65	1	4
Structures	257	6	(16)
Eliminations and other	14	(53)	(7)
Total ASG	1,280	33	
HVTSG			
Commercial Vehicle	435	2	14
Off-Highway	288	11	29
Eliminations and other		(11)	(2)
Total HVTSG	723	2	41

Other Operations	6	11	
Eliminations		(46)	
Total	$ 2,009	$	$ 41

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We used the following information to evaluate our operating segments for the nine months ended September 30, 2007 and 2006:

2007	External Sales	Inter-Segment Sales	Segment EBIT
ASG			
Axle	$ 1,984	$ 76	$ 12
Driveshaft	884	170	46
Sealing	539	17	35
Thermal	220	5	11
Structures	806	14	36
Eliminations and other	20	(198)	(23)
Total ASG	4,453	84	117
HVTSG			
Commercial Vehicle	950	1	21
Off-Highway	1,158	32	107
Eliminations and other		(27)	(6)
Total HVTSG	2,108	6	122
Other Operations	3	26	
Eliminations		(116)	
Total	$ 6,564	$	$ 239

2006	External Sales	Inter-Segment Sales	Segment EBIT
ASG			
Axle	$ 1,704	$ 51	$ (21)
Driveshaft	849	108	80
Sealing	519	23	44
Thermal	220	3	25
Structures	914	24	(3)
Eliminations and other	74	(120)	(31)
Total ASG	4,280	89	94
HVTSG			
Commercial Vehicle	1,291	6	22
Off-Highway	918	29	89
Eliminations and other		(29)	(7)
Total HVTSG	2,209	6	104

Other Operations	17	35	
Eliminations		(130)	
Total	$ 6,506	$	$ 198

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The following table reconciles segment EBIT to the consolidated income (loss) from continuing operations before income tax:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Segment EBIT	$ 72	$ 41	$ 239	$ 198
Shared services and administrative	(31)	(33)	(109)	(139)
Closed operations not in segments	(2)	(9)	(7)	(33)
DCC EBIT	(5)	4	14	19
Impairment of other assets		(211)		(226)
Reorganization items, net	(98)	(25)	(173)	(114)
Interest expense	(27)	(24)	(78)	(89)
Foreign exchange not in segments	18	1	41	3
Realignment not in segments	(6)		(156)	
Other income (loss)	12	10	27	44
Loss from continuing operations before income taxes	$ (67)	$ (246)	$ (202)	$ (337)

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

(Dollars in millions)

Management s discussion and analysis of financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes in this report.

Management Overview

We are a leading supplier of axle, driveshaft, structures, sealing and thermal products and we design and manufacture products for every major vehicle producer in the world. We are focused on being an essential partner to automotive, commercial truck and off-highway vehicle customers. We employ approximately 36,000 people in 26 countries. Our world headquarters is in Toledo, Ohio. Our Internet address is www.dana.com.

We are currently operating under Chapter 11 of the Bankruptcy Code. The Bankruptcy Cases are discussed in detail in Note 2 to our financial statements in Item 1 of Part I. Our reorganization goals are to maximize enterprise value during the reorganization process and to emerge from Chapter 11 as soon as practicable as a sustainable, viable company.

Business Strategy

We are utilizing the reorganization process to effect fundamental changes that will improve our distressed U.S. operations. This is critical to us, as our worldwide operations are highly integrated for the manufacture and assembly of our products. Therefore, while we are continuing to grow overseas, our long-term viability depends on our ability to return our U.S. operations to sustainable profitability.

During 2007, we have been successfully implementing our reorganization initiatives. While our U.S. operations continue to generate losses and consume substantial amounts of cash, our efforts to improve our margins and reduce costs are favorably impacting our performance and helping to mitigate the underlying industry challenges and difficult business conditions. We are depending upon divestiture proceeds, repatriating available cash from our overseas operations, and loans under our DIP Credit Agreement to meet our liquidity needs for 2007. However, we cannot depend on those sources of funding indefinitely. We expect the reorganization actions summarized herein and incorporated in our Plan to enable our U.S. operations to become substantially less dependent on returns from our foreign operations in the future.

As we successfully implement the initiatives that we have reported previously, we expect to emerge from bankruptcy as a sustainable, viable business. These initiatives, which require the cooperation of all of our key business constituencies customers, vendors, employees and retirees - are:

- Achieve improved margins for our products by obtaining substantial price increases from our customers;

- Restructure our wage and benefit programs to create an appropriate labor and benefit cost structure;

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Address the excessive costs and funding requirements of the legacy postretirement benefit liabilities that we have accumulated over the years, in part from prior divestitures and closed operations;

Achieve a permanent reduction and realignment of our overhead costs; and

Optimize our manufacturing footprint by substantially repositioning our production to lower cost countries.

Achievement of many of our objectives has enabled us to mitigate the effects of the significantly curtailed production forecasts since the second half of 2006 by some of our largest domestic customers, particularly in the production of SUVs and pickup trucks, which represent the primary market for our products in the U.S. These production cuts are adversely impacting our sales in 2007 in the light vehicle market. Weaker demand in the U.S. heavy-duty and medium-duty truck markets in 2007 as a result of pre-buying in 2006 ahead of new emissions rules is also negatively impacting our 2007 performance. However, we expect that our reorganization initiatives, when fully implemented, will achieve viable long-term U.S. operations despite a challenged U.S. automotive industry and a cyclical commercial vehicle market.

We have made the following progress on our reorganization initiatives:

Product Profitability

Following a detailed review of our product programs to identify unprofitable contracts and meetings with our customers and their advisors to address under-performing programs, we have finalized most of the documentation for agreements with customers resulting in aggregate pricing improvements of approximately $180 on an annualized basis. Certain of these agreements required the approval of the Bankruptcy Court, which was obtained in September and October 2007.

Labor and Benefit Costs

In June 2007, we amended our U.S. pension plans for non-union employees to freeze service credits and benefit accruals effective July 1, 2007. Actions to reduce other non-union employee benefits, such as disability and healthcare, were previously implemented.

In July 2007, we entered into settlement agreements (subsequently approved by the Bankruptcy Court) with two primary unions representing our active U.S. employees the UAW and the USW which resolve our collective bargaining issues with these unions and, when fully implemented, will help us achieve our labor cost reduction goal. These agreements provide for (i) union master agreements and collective bargaining agreements for UAW- and USW-represented employees at our U.S. facilities until June 2011, and (ii) wage structure modifications and modifications to healthcare, short-term disability, and life insurance benefits for the covered union employees.

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The UAW and USW settlement agreements also provide for a freeze of credited service and benefit accruals under our defined benefit pension plans for UAW- and USW-represented employees, effective on the later of January 1, 2008 or the effective date of our plan of reorganization, and for the replacement of future benefits with matching company contributions to a USW pension trust for some such employees. Although we expect to obtain the above benefits from the union settlement agreements, under certain circumstances involving termination of the Centerbridge investment commitments, these agreements may not be implemented.

Our labor and benefits cost reduction goal was $60-$90 of annual cost savings. With the actions referred to above and other previously implemented actions, the annualized cost savings are expected to approximate $70.

Other Postretirement Employee Benefits

In March 2007, we reached an agreement with the Retiree Committee (subsequently executed in May after approval by the Bankruptcy Court) to make a $78 cash contribution to a VEBA trust for non-pension retiree benefits for our non-union retirees, in exchange for release of our obligations for postretirement health and welfare benefits for such retirees after June 30, 2007. We also reached an agreement with the IAM (subsequently approved by the Bankruptcy Court) to pay $2.25 to resolve all IAM claims after June 30, 2007 for non-pension retiree benefits for retirees and active employees represented by the IAM.

In April 2007, we eliminated retiree healthcare benefits coverage for our active non-union U.S. employees.

Under the UAW and USW settlement agreements, we will eliminate long-term disability, healthcare, and life insurance benefits for UAW- and USW-represented employees and retirees, effective on the later of January 1, 2008 or the effective date of our plan of reorganization, and the UAW and the USW will establish separate, union-specific VEBAs to provide such benefits to eligible union-represented employees and retirees after that date. We have agreed to contribute to the VEBAs an aggregate cash amount of up to $764 (less amounts incurred by UAW- and USW-represented employees between July 1, 2007 and January 1, 2008 for long-term disability, healthcare and life insurance claims).

As a result of these actions, we will eliminate our U.S. postretirement healthcare obligations, resulting in annualized cost savings of approximately $90.

Overhead Costs

We are continuing to analyze and implement initiatives to reduce overhead costs. Additional reductions in overhead will occur as a result of a remaining divestiture and reorganization activities. We expect our reductions in overhead spending to contribute annual expense savings of $40 to $50.

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Manufacturing Footprint

We have identified a number of manufacturing and assembly plants that carry an excessive cost structure or have excess capacity and closed certain locations and consolidated their operations into lower cost facilities in other countries or into U.S. facilities that currently have excess capacity. During 2007, we completed the closure of eleven facilities. Closures of four facilities are in various stages of progress, and other locations are in various stages of implementing work force reductions. Over the long term, we continue to expect our manufacturing footprint actions to reduce our annual operating costs by $60 to $85.

Our customer pricing initiatives and labor and benefit actions, certain of which are subject to future events, are substantially completed. The manufacturing footprint and overhead reduction actions are in process and progressing largely as planned. We are solidly on course to achieve our goal of aggregate annual pre-tax profit improvement of $405 to $540 from our reorganization initiatives, when fully implemented, and we expect these actions to contribute between $175 and $200 to our base plan forecast for 2007 (*i.e.*, our initial base forecast based on 2006 ending production levels, before inclusion of the benefits of any of the initiatives) as we continue to phase them in during the year.

As reported elsewhere in this report, we are also completing previously announced divestures.

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

In March 2007:

We sold our engine hard parts business and received cash proceeds of $98 of which $12 remains escrowed pending finalization of purchase price adjustments and satisfaction of certain of our indemnification obligations. We recorded a first quarter after-tax loss of $43 in connection with this sale.

We sold our 30% equity interest in GETRAG to our joint venture partner, an affiliate of GETRAG, for $207 in cash. We had recorded an impairment charge of $58 in the fourth quarter of 2006 to adjust this equity investment to fair value and we recorded an additional charge of $2 in the first quarter of 2007 based on value of the investment at the time of closing.

In July and August 2007, we completed the sale of our fluid products hose and tubing business to Orhan Holding A.S. and certain of its affiliates under agreements signed in March 2007. We received aggregate cash proceeds of $84 from these transactions and recorded an aggregate third quarter after-tax gain of $32 in connection with the sale of this business.

In August 2007, Dana and certain of our affiliates executed an axle agreement and related transaction documents providing for a series of transactions relating to our rights and obligations under two joint ventures with GETRAG and certain of its affiliates. These agreements provide for relief from non-compete provisions in various agreements restricting our ability to participate in certain markets for axle products other than through participation in the joint ventures; the grant of a call option to GETRAG to acquire Dana s ownership interests

in the two joint ventures for a purchase price of $75; Dana s payment to GETRAG of $11 under certain conditions; the withdrawal, with prejudice, of bankruptcy claims aggregating approximately $66 filed by GETRAG and one of the joint venture entities relating to Dana s alleged breach of certain non-compete provisions; the amendment, assumption, rejection and/or termination of certain other agreements between the parties; and the grant of certain mutual releases by Dana and various other parties. In connection with these agreements, we had recorded $11 as liabilities subject to compromise and as a charge to other income, net in the second quarter based on our determination that the liability was probable. These agreements have been approved by the Bankruptcy Court, and the agreements are expected to close in the fourth quarter.

In September 2007, we completed the sale of our coupled fluid products business to Coupled Products Acquisition LLC for the nominal price of one dollar, with the buyer assuming certain liabilities of the business at closing, pursuant to agreements signed in May 2007. We recorded a third-quarter after-tax loss of $23 in connection with the sale of this business.

We completed the sale of a portion of the pump products business in October 2007, generating proceeds of $7 and a nominal after-tax gain which will be recorded in the fourth quarter.

Reorganization Proceedings under Chapter 11 of the Bankruptcy Code

The Bankruptcy Cases

Dana Corporation and forty of its wholly-owned domestic subsidiaries (collectively, the Debtors) are operating under Chapter 11 of the Bankruptcy Code. The Debtors Chapter 11 cases have been consolidated in the Bankruptcy Court for the Southern District of New York under the caption *In re Dana Corporation, et al.*, Case No. 06-10354 (BRL). Neither DCC and its subsidiaries nor any of Dana s non-U.S. subsidiaries are Debtors.

During the bankruptcy proceedings, investments in Dana securities are highly speculative. Although shares of our common stock continue to trade on the OTC Bulletin Board under the symbol DCNAQ, the opportunity for any recovery by shareholders under a confirmed plan of reorganization is uncertain. If the Plan that was filed with the Bankruptcy Court on October 23, 2007 is ultimately confirmed, Dana common shares will be cancelled and shareholders with allowed interests will be entitled to a pro rata share of the assets, if any, that remain in a reserve after the holders of allowed unsecured claims have been paid in full, with interest, from such reserve. There is no assurance that the Plan will be confirmed or, if it is, that there will be any residual assets left in the reserve for the benefit of holders of Dana common shares. In fact, the Debtors do not currently anticipate that the holders of Dana common shares will receive any distribution under the Plan.

The Bankruptcy Cases are being jointly administered, with the Debtors managing their businesses as debtors in possession subject to the supervision of the Bankruptcy Court. We are continuing normal business operations during the bankruptcy process and taking steps to reduce costs, increase efficiency and enhance productivity so that we can emerge from bankruptcy as a stronger, more viable company.

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Official committees of the Debtors unsecured creditors (the Creditors Committee) and retirees not represented by unions (the Retiree Committee) have been appointed in the Bankruptcy Cases. The Debtors bear certain of the committees costs and expenses, including those of their counsel and other professional advisors. An official committee of Dana s equity security holders was also appointed and subsequently disbanded.

Under the Bankruptcy Code, the Debtors have the right to assume or reject executory contracts (*i.e.*, contracts that are to be performed by the parties after the Filing Date) and unexpired leases, subject to Bankruptcy Court approval and other limitations. The Bankruptcy Court has approved the Debtors assumption and rejection of certain executory contracts and unexpired leases. The Plan and certain procedures approved by the Bankruptcy Court address the proposed treatment of outstanding executory contracts and unexpired leases upon the Debtors emergence from bankruptcy.

The Bankruptcy Court has entered an order establishing procedures for trading in claims and equity securities that is designed to protect the Debtors potentially valuable tax attributes (such as NOL carryforwards). Under the order, holders or acquirers of 4.75% or more of Dana s common shares are subject to certain notice and consent procedures before acquiring or disposing of the shares. Holders of claims against the Debtors that would entitle them to more than 4.75% of the common shares of reorganized Dana under a confirmed plan of reorganization utilizing the tax benefits provided under Section 382(l)(5) of the Internal Revenue Code may be required to sell down the excess claims if necessary to implement such a plan of reorganization. However, in accordance with the agreement with the new investors, the Plan contemplates utilizing tax benefits under Section 382(l)(6) of the Internal Revenue Code, rather than Section 382(I)(5). Accordingly, under the Plan, no sell-down will be required.

Pre-petition Claims

Most persons and entities asserting pre-petition claims (with the exception of, among others, asbestos-related personal injury claims and claims resulting from the future rejection of executory contracts and unexpired leases) against the Debtors were required to file proofs of claim in the Bankruptcy Cases by September 21, 2006. Proofs of claim alleging rights to payment for financing, trade debt, employee obligations, environmental matters, commercial damages and other litigation-based liabilities, tax liabilities and other matters in a total amount of approximately $27,215 (as well as certain unliquidated amounts) were filed by that date. In addition, another $48 in liabilities, for which no proof of claim was filed, is listed in our schedules of assets and liabilities as undisputed, non-contingent and liquidated, and thus is deemed to be asserted as claims under the Bankruptcy Code.

Of the claims filed, the Debtors have so far identified claims totaling approximately $24,468 that they believe should be disallowed, primarily because they appear to be amended, duplicative, withdrawn by the creditor, without basis for the claim, late filed or are solely equity-based. Of these claims (or portions of claims), approximately $22,244 had been disallowed by the Bankruptcy Court, withdrawn by the creditors or eliminated by settlement through October 2007. The Debtors are continuing to evaluate the remaining filed claims and, as appropriate, to file and prosecute additional claim objections with the Bankruptcy Court or to address claims through settlement or alternate dispute resolution procedures. The Plan addresses the proposed treatment of allowed claims and provides for the resolution of remaining claims after emergence from Chapter 11.

Under the Plan, the Debtors propose that asbestos-related personal injury claims be reinstated upon emergence and that the reorganized Debtors will defend, settle and resolve such pending and future claims in the ordinary course of business. In addition, certain pension liabilities will remain an obligation of the reorganized Debtors.

Pre-petition Debt

Our bankruptcy filing triggered the immediate acceleration of certain of our direct financial obligations, including, among others, an aggregate of $1,623 in principal and accrued interest on outstanding unsecured notes issued under our 1997, 2001, 2002 and 2004 indentures. Such amounts are characterized as unsecured debt for purposes of the reorganization proceedings and the related obligations are classified as liabilities subject to compromise in our consolidated balance sheet as of September 30, 2007. In accordance with SOP 90-7, following the Filing Date, we discontinued recording interest expense on debt classified as liabilities subject to compromise. The Plan addresses the proposed treatment of the claims of the holders of these notes upon our emergence.

Reorganization Initiatives

It is critical to the Debtors successful emergence from bankruptcy that they: (i) maintain positive margins for their products through substantial price increases obtained from their customers; (ii) continue to recover or otherwise provide for increased material costs through renegotiation or rejection of various customer programs; (iii) realize the restructured wage and benefit programs from settlement agreements with two primary unions which eliminate the excessive cash requirements of the legacy pension and other postretirement benefit liabilities accumulated over the years; (iv) realize the benefits of changes in the manufacturing footprint that eliminated excess capacity, closed and consolidated facilities and repositioned operations in lower cost countries and (v) continue the permanent reduction and realignment of their overhead costs. The steps that the Debtors have taken to accomplish these goals are discussed in Item 2 of Part I.

Plan of Reorganization

As stated above, the Debtors filed the most recent version of their Plan and the related Disclosure Statement with the Bankruptcy Court on October 23, 2007. On October 23, 2007, the Bankruptcy Court approved the Disclosure Statement authorizing the Debtors to begin soliciting votes from their creditors to accept or reject the Plan. By that order, the Bankruptcy Court determined the Disclosure Statement contains adequate information for creditors who are entitled to vote on the Plan. The hearing at which the Bankruptcy Court will consider conformation of the Plan is scheduled to commence on December 10, 2007.

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As discussed above, the Plan and the Disclosure Statement describes the anticipated organization, operations, and financing of reorganized Debtors if the Plan is confirmed by the Bankruptcy Court and becomes effective. Among other things, the Plan incorporates certain provisions of the following agreements that are discussed in Note 19 to our consolidated financial statements in Item 1 of Part I of our second-quarter 2007 Form 10-Q as well as in Current Report on Form 8-K that Dana filed with the SEC on October 25, 2007: (i) the Settlement Agreements; (ii) the Investment Agreement; and (iii) the Backstop Commitment Letter. Under the Plan Support Agreement, if a plan of reorganization does not become effective by February 28, 2008, certain individual supporting creditors may withdraw their support and if one does not become effective by May 1, 2008, our Plan Support Agreement will expire.

The Disclosure Statement contains certain information about the Debtors prepetition operating and financial history, the events leading up to the commencement of the Bankruptcy Cases, and significant events that have occurred during the Bankruptcy Cases. The Disclosure Statement also describes the terms and provisions of the Plan including certain effects of confirmation of the Plan, certain risk factors associated with securities to be issued under the Plan, certain alternatives to the Plan, the manner in which distributions will be made under the Plan, and the confirmation process and the voting procedures that holders of claims and interests entitled to vote under the Plan must follow for their votes to be counted.

Continuation as a Going Concern

Our financial statements have been prepared on a going-concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. As a result of our bankruptcy filing, such realization of assets and liquidation of liabilities is subject to uncertainty. While operating as debtors in possession under the protection of Chapter 11 of the Bankruptcy Code, the Debtors may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those recorded in our financial statements, subject to Bankruptcy Court approval or as otherwise permitted in the ordinary course of business. Our financial statements as of September 30, 2007 do not give effect to all the adjustments to the carrying value of assets and liabilities that may become necessary as a consequence of our reorganization.

Our continuation as a going concern is contingent upon our ability to: (i) comply with the terms and conditions of the DIP Credit Agreement; (ii) obtain confirmation of a plan of reorganization under the Bankruptcy Code; (iii) generate sufficient cash flow from operations, and (iv) obtain financing sources to meet our future obligations. Although we are taking steps to achieve these objectives, there is no assurance that we will be successful in doing so or that any measures that are achievable will result in sufficient improvement to our financial position. Accordingly, until such time as we emerge from bankruptcy, there is no certainty about our ability to continue as a going concern. If our reorganization is not completed successfully, we could be forced to sell a significant portion of our assets to retire debt outstanding or, under certain circumstances, to cease operations.

DCC Notes

At the time of our bankruptcy filing, DCC had outstanding notes totaling approximately $399. In December 2006, DCC and most of its noteholders executed a Forbearance Agreement under which (i) the forbearing noteholders agreed not to exercise their rights or remedies with respect to the DCC notes for a period of 24 months (or until the effective date of Dana s plan of reorganization), during which time DCC is endeavoring to sell its remaining asset portfolio in an orderly manner and use the proceeds to pay down the notes and (ii) DCC agreed to pay the forbearing noteholders their pro rata share of any excess cash it maintains in the U.S. greater than $7.5 on a quarterly basis. At September 30, 2007, the amount of principal outstanding under the DCC notes was $138. In October 2007, DCC made a $5 payment to the forbearing noteholders, consisting of $2 of principal and $3 of interest.

Contemporaneously with the execution of the Forbearance Agreement, Dana and DCC executed a Settlement Agreement whereby they agreed to the discontinuance of a tax sharing agreement between them and to a stipulated amount of a general unsecured claim owed by Dana to DCC of $325 (the DCC Claim). Under the Plan, upon emergence, the Debtors propose to satisfy DCC s outstanding liability for the then-outstanding DCC notes in full satisfaction of the DCC Claim.

Business Units

We manage our operations globally through two business units ASG and HVTSG. ASG focuses on the automotive market and primarily supports light vehicle original equipment manufacturers (OEMs) with products for light trucks, SUVs, CUVs, vans and passenger cars. ASG has five operating segments focused on specific products for the automotive market: Axle, Driveshaft, Structures, Sealing and Thermal.

HVTSG supports the OEMs of medium-duty (Classes 5-7) and heavy-duty (Class 8) commercial vehicles (primarily trucks and buses) and off-highway vehicles (primarily wheeled vehicles used in construction and agricultural applications). HVTSG has two operating segments focused on specific markets: Commercial Vehicle and Off-Highway.

Trends in Our Markets

North American Light Vehicle Market

Production Levels

North American light vehicle production levels were 2.9% higher in the third quarter of 2007 than in the third quarter of 2006, and 2.5% lower for the first nine months of 2007 compared to 2006. In the light truck segment, third quarter production levels were up 8.2% over 2006, while nine-month production was up about 1%. The comparatively higher third quarter production is due to a number of our major light truck customers significantly reducing 2006 production levels to bring inventory levels in line with unit sales. Within the light truck segment, while overall production was slightly up in the first nine months of 2007, production of medium and full size pick-up trucks and SUVs declined due to consumer concerns about high fuel prices and increased preferences for more fuel efficient CUVs. The light truck platforms which generate the highest sales for us are primarily medium and full size pick-up trucks and SUVs; however, a number of our newer programs involve CUVs *(source: Global Insight).*

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Lower light truck production levels during the second half of 2006 helped bring inventory levels down. Days supply of light truck inventories in the U.S. was 67 at September 30, 2007 as compared to 76 at the same time a year ago. Light truck U.S. sales in the third quarter of 2007 were down only slightly from this year s second quarter, as higher incentives were introduced. Combined with lower segments production, inventory of 67 days improved from 76 at June 30, 2007. While inventories are currently in line with sales, high fuel prices and a weaker housing market could put potential pressure on fourth quarter sales leading to a cautious near term outlook for light truck production levels *(source: Wards Automotive).*

Overall North American light vehicle production in 2007 is currently forecast to be around 15.0 million units, slightly lower than 2006 production of 15.3 million units (*source: Global Insight & Wards Automotive).*

OEM Mix

The declining sales of light vehicles (especially light trucks, which generally have a higher profit margin than passenger cars) in North America, as well as losses of market share to competitors such as Toyota and Nissan, continue to put pressure on three of our largest light vehicle customers: Ford, GM and Chrysler. These three customers accounted for 77% of light truck production in North America in the first nine months of 2006. Their share of nine-month 2007 production was 75% *(source: Global Insight).* While our current bankruptcy reorganization has provided us with some relief from the price reduction pressures applied by these major customers, we expect any continuing loss of their market shares could result in renewed pricing pressure in order for us to retain existing business and be awarded new business. Our product profitability initiative discussed in Business Strategy above specifically addresses our efforts to improve our pricing.

Commodity Costs

Another challenge we face is the high cost of steel and other raw materials, which has had a significant adverse impact on our results, and those of other North American automotive suppliers, for over three years. Steel suppliers began assessing price surcharges and increasing base prices during the first half of 2004, and prices since then have remained at considerably higher levels.

Two commonly used market-based indicators the Tri Cities Scrap Index for #1 bundled scrap steel (which represents the monthly average costs in the Chicago, Cleveland and Pittsburgh ferrous scrap markets, as posted by American Metal Market, and is used by our domestic steel suppliers to determine our monthly surcharge) and the spot market price for hot-rolled sheet steel illustrate the impact. Average scrap steel prices on the Tri Cities index during 2007 were nearly twice the scrap prices at the end of 2003, and spot market hot-rolled sheet steel prices during 2007 are about one and a half times higher. After subsiding some during the second half of 2006, scrap prices on the Tri Cities index increased in 2007 with the average price for the first nine months of 2007 being about 5% higher than the average for the comparable 2006 period. In the case of hot-rolled steel, spot prices during the first six months of 2007 have dropped, with average nine month 2007 spot prices about 12% lower than the comparable 2006 period. At current consumption levels, we estimate that our annualized cost of raw steel is approximately $140 higher than it would have been using prices at the end of 2003. We have taken actions to mitigate the impact of these increases, including consolidating purchases, taking advantage of our customers

resale programs where possible, finding new global steel sources, identifying alternative materials and redesigning our products to be less dependent on higher cost steel grades.

During the latter part of 2005 and throughout 2006, cost increases for raw materials other than steel were also significant. Average prices for nickel (which is used to manufacture stainless steel) and aluminum increased significantly, up about 60% and 37% over 2005 prices. During the first nine months of this year, aluminum prices declined about 7% from the beginning of the year. Nickel prices continued to increase through May but have declined since then to a level at September 30, 2007 that is about 20% below that at the start of the year. On a nine month year-to-date basis, aluminum prices in 2007 were about 7% higher than 2006, while stainless steel prices were up around 65%.

As discussed above, our reorganization initiatives include working with our customers to recover a greater portion of our commodity materials costs.

Automotive Supplier Bankruptcies

Several major U.S. automotive suppliers, in addition to Dana, have filed for protection under Chapter 11 of the Bankruptcy Code since early 2005, including Tower Automotive, Inc., Collins & Aikman Corporation, Delphi Corporation and Dura Automotive Systems, Inc. These bankruptcy filings indicate stress in the North American light vehicle market that could lead to further filings or to competitor or customer reorganizations or consolidations that could impact the marketplace and our business.

North American Commercial Vehicle Market

Production Cyclicality

The North American commercial vehicle market was strong during 2006, primarily due to pre-buying of heavy-duty (Class 8) and medium-duty (Class 5-7) trucks in advance of the more stringent U.S. emission regulations that took effect at the beginning of 2007 and increased the prices of these trucks. As a result of the pre-buying, North American commercial vehicle truck build was expected to be down considerably in 2007.

Third quarter 2007 production of Class 8 vehicles in North America was down about 52% from the third quarter of 2006, and Class 5-7 medium-duty production was down 28% for the same period. Class 8 and medium-duty order backlogs at September 30, 2007 were off 54% and 62% from the same time last year. Full year 2007 production of Class 8 vehicles is expected to be around 200,000 units, compared to 369,000 units in 2006, and medium-duty truck build is forecast at about 200,000 units in 2007 compared to 265,000 units in 2006 (*source: ACT*).

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Commodity Costs

The high commodity costs, in particular steel, affecting the North American light vehicle market have also impacted the commercial vehicle market, but this impact has been partially mitigated by our ability to recover material cost increases from our Commercial Vehicle customers.

New Business

A continuing major focus for us is growing our revenue through new business. Based on awards to date, we expect net new business to contribute approximately $270 and $165 to our sales in 2007 and 2008. Our level of net new business is lower in 2007 than in recent years. This is due, in part, to the end of some of our larger customer programs in 2006, including programs to supply certain structural products to Ford and certain axle products to a GM affiliate in Australia. Our 2008 net new business projection takes into consideration sales reductions that we anticipate next year due to the co-sourcing of a structural products program with Ford. While continuing to support Ford, GM and Chrysler, we are striving to diversify our sales across a broader customer base. Approximately 80% of our current book of net new business involves customers other than Ford, GM and Chrysler, and approximately 90% of this business is with other automotive manufacturers based outside North America.

United States Profitability

Our U.S. operations have generated losses before income taxes during the past five years aggregating more than $2,000. While numerous factors have contributed to our lack of profitability in the U.S., paramount among them are those discussed earlier in this report: high raw material costs that we have been absorbing, customer price reductions that have reduced our margins, competition from suppliers in countries with lower labor costs, and accumulated retiree healthcare costs disproportionate to the scale of our current business.

As indicated in Note 3 to the financial statements in Item 1 of Part I, during the first nine months of 2007, the Debtor companies (comprised of our U.S. operations other than DCC), incurred pre-tax losses from continuing operations of $192, including $163 of net reorganization costs. After adjusting for the reorganization items, the pre-tax loss was $29 for the first nine months of the year, with the third quarter of 2007 showing pre-tax loss before reorganization items of $3. While the third quarter results benefited from some nonrecurring currency transaction gains, the results include improvement due to the customer pricing, employee and retiree benefits, and SG&A reorganization actions discussed earlier in this section. The cost savings associated with most of the benefits program modifications under the settlement agreement with the unions are not reflected in the 2007 results. Similarly, the benefits of the manufacturing footprint actions are longer-term. With the addition of these cost savings we expect to see continued improvement in U.S. profitability.

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Results of Operations Summary (Third Quarter 2007 versus Third Quarter 2006)

	For the Three Months Ended September 30,		
	2007	2006	Change
Net sales	$ 2,130	$ 2,009	$ 121
Cost of sales	2,017	1,952	65
Gross margin	113	57	56
Selling, general and administrative expenses	79	85	(6)
Gross margin less SG&A*	34	(28)	62
Other costs and expenses			
Realignment charges	$ 6	$ 2	$ 4
Impairment of other assets		211	(211)
Other income, net	30	44	(14)
Total expense (income)	(24)	169	(193)
Income (loss) from continuing operations before interest, reorganization items and income taxes	$ 58	$ (197)	$ 255
Loss from continuing operations	$ (64)	$ (272)	$ 208
Loss from discontinued operations	$ (5)	$ (84)	$ 79
Net loss	$ (69)	$ (356)	$ 287

* Gross margin less SG&A is a non-GAAP financial measure derived by excluding realignment charges, impairments and other income, net from the most closely related GAAP measure, which is income from continuing operations before interest,

reorganization items and income taxes. We believe this non-GAAP measure is useful for an understanding of our ongoing operations because it excludes other income and expense items which are generally not expected to be part of our ongoing business. Certain reclassifications were made to conform 2006 to the 2007 reporting schedules.

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Results of Operations (Third Quarter 2007 versus Third Quarter 2006)

The tables below show changes in our sales by geographic region, business unit and segment for the three months ended September 30, 2007 and 2006.

Geographical Sales Analysis

				Amount of Change Due To		
	2007	2006	Increase/ (Decrease)	Currency Effects	Acquisitions/ Divestitures	Organic Change
North America	$ 1,155	$ 1,213	$ (58)	$ 8	$ (31)	$ (35)
Europe	526	429	97	38		59
South America	277	221	56	22		34
Asia Pacific	172	146	26	18	(5)	13
Total	$ 2,130	$ 2,009	$ 121	$ 86	$ (36)	$ 71

Segment Sales Analysis

				Amount of Change Due To		
	2007	2006	Increase/ (Decrease)	Currency Effects	Acquisitions/ Divestitures	Organic Change
ASG						
Axle	$ 657	$ 501	$ 156	$ 28	$	$ 128
Driveshaft	291	279	12	16		(4)
Sealing	173	164	9	6		3
Thermal	69	65	4	5		(1)
Structures	257	257		6		(6)
Other	8	14	(6)			(6)
Total ASG	1,455	1,280	175	61		114
HVTSG						
Commercial Vehicle	303	435	(132)	4	(36)	(100)
Off-Highway	371	288	83	21		62
Total HVTSG	674	723	(49)	25	(36)	(38)
Other Operations	1	6	(5)			(5)
Total	$ 2,130	$ 2,009	$ 121	$ 86	$ (36)	$ 71

Regional Review

Total sales of $2,130 in the third quarter of 2007 were $121 higher than in the third quarter of 2006. Currency translation effects, primarily from a stronger euro, increased sales by $86, while divestitures reduced year over year sales by $36. New business and higher overall production levels in certain of our key markets resulted in an organic sales increase of $71.

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The third quarter of 2007 organic sales decline of 2.9% in North America was driven primarily by lower production in the commercial vehicle markets. Production levels of Class 8 trucks were down 52% and medium-duty production was 28% lower compared to the third quarter of 2006. North American light vehicle production in the third quarter of 2007 was up 2.9% compared to the same period in 2006. Also, partially offsetting the commercial vehicle production decreases was the impact of higher pricing from our reorganization initiatives which contributed about $45 as discussed in the Business Strategy section.

In Europe, the sales increase of $97 included a positive translation impact of $38 mostly from a stronger euro. The organic increase of $59 was in large part due to strong production levels in the off-highway market where we have a significant European presence and to new business with European customers. The organic sales increase in South America was due to higher light vehicle production levels and new customer programs.

Business Segment Review

Reorganization-related pricing improvements contributed approximately $42 to organic sales in our ASG segments in third quarter of 2007, with the remainder coming from higher production levels and new business. In our Axle segment, pricing improvements and new business programs generated the higher sales. Our Driveshaft segment sells to the commercial vehicle market as well as the light vehicle market. The significant decline in commercial vehicle production levels more than offset stronger light duty production levels leading to a slight decline in this unit s organic sales. Neither the Thermal nor Sealing segment benefited significantly from pricing improvement or new business; consequently, the organic sales change in these operations was primarily due to production level changes and business mix. In Structures, higher sales due to stronger production levels and improved pricing were offset by the expiration of a frame program with Ford in 2006.

In HVTSG, our Commercial Vehicle segment is heavily concentrated in the North American market and the organic sales decline of 23% in this segment was primarily due to the drop in North American production levels. Organic sales in the Off-Highway segment have benefited from stronger production levels and sales from new programs. With its significant European presence, this segment s sales also benefited from the stronger euro.

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The chart below shows our business unit and segment margin analysis for the three months ended September 30, 2007 and 2006:

	As a Percentage of Sales		Increase /
	2007	**2006**	**(Decrease)**
Gross margin:			
ASG	4.6%	3.0%	1.6%
Axle	2.8	(1.0)	3.8
Driveshaft	5.7	9.4	(3.7)
Sealing	11.0	13.6	(2.6)
Thermal	7.5	9.3	(1.8)
Structures	3.9	(4.7)	8.6
HVTSG	9.0	7.7	1.3
Commercial Vehicle	6.6	5.0	1.6
Off-Highway	10.6	11.2	(0.6)
Selling, general and administrative expenses:			
ASG	2.8%	3.9%	(1.1)%
Axle	2.3	2.6	(0.3)
Driveshaft	1.8	3.6	(1.8)
Sealing	7.0	7.6	(0.6)
Thermal	5.0	3.4	1.6
Structures	1.4	2.1	(0.7)
HVTSG	3.3	3.2	0.1
Commercial Vehicle	3.9	3.1	0.8
Off-Highway	2.3	2.5	(0.2)
Gross margin less SG&A:*			
ASG	1.8%	(0.9)%	2.7%
Axle	0.5	(3.6)	4.1
Driveshaft	3.9	5.8	(1.9)
Sealing	4.0	6.0	(2.0)
Thermal	2.5	5.9	(3.4)
Structures	2.5	(6.8)	9.3
HVTSG	5.7	4.5	1.2
Commercial Vehicle	2.7	1.9	0.8
Off-Highway	8.3	8.7	(0.4)
Consolidated	**1.6**	**(1.4)**	**3.0**

* Gross margin less SG&A is a non-GAAP financial measure derived by excluding

realignment charges, impairments and other income, net from the most closely related GAAP measure, which is income from continuing operations before interest, reorganization items and income taxes. We believe this non-GAAP measure is useful for an understanding of our ongoing operations because it excludes other income and expense items which are generally not expected to be part of our ongoing business. Certain reclassifications were made to conform 2006 to the 2007 reporting structures.

In ASG, gross margin less SG&A was 1.8% as compared to the (0.9)% in the third quarter of 2006. In the Axle segment, gross margin less SG&A as a percent of sales was up 4.1% from 2006. The reorganization related pricing improvement contributed approximately $17 to 2007 margin. Although sales in this segment were stronger, adverse sales mix higher sales on programs with lower margins negatively impacted margins. Gross margin less SG&A in the Driveshaft segment was down 1.9%. In addition to the light vehicle market, this segment supplies product to the commercial vehicle market where production levels in 2007 were down substantially. Driveshaft sales to the North American commercial vehicle market were approximately $35 lower than last year. This decline was partially offset by higher sales to the light vehicle market. Margins on sales to the light vehicle market, however, are lower, resulting in an overall margin decline. Also negatively impacting margins were higher premium freight and warranty costs of $4. Benefiting margins was customer pricing improvement of about $5. In the Sealing segment, the margin reduction of 2.0% of sales was due principally to higher material costs for stainless steel and nickel. Higher raw material costs, most notably aluminum, also reduced margins in our Thermal segment. Margins in Thermal were also negatively impacted by start-up costs associated with new operations in Hungary and Mexico and some new program launch costs. The Structures segment had quarter-over-quarter gross margin less SG&A improvement of 9.3%, primarily due to $16 of pricing improvement.

Gross margin less SG&A in HVTSG improved from 4.5% in the third quarter of 2006 to 5.7% in the third quarter of 2007. Commercial Vehicle gross margin less SG&A as a percent of sales improved 0.8% as the margin reduction associated with the lower production levels and loss of the trailer axle business was more than offset by pricing improvement of $5, lower material and warranty costs, and reduced SG&A. Price increases with certain major customers in this segment were implemented in the second half of 2006, with additional pricing improvement coming from the reorganization actions discussed in the Business Strategy section. In the Off-Highway segment, there was a margin decline of 0.4% of sales. The margin improvement from higher sales was partially offset by higher warranty costs of $4. The 2006 results of this segment benefited from $3 of one-time benefits. Exclusive of these benefits, year-over-year margins improved by 0.6%.

Corporate expenses and other costs not allocated to the business units reduced gross margins less SG&A by 1.4% for the third quarter of 2007 as compared to 2.5% in the same period in 2006, thereby contributing to the 3.0% improvement in consolidated gross margin less SG&A. The margin improvement was due primarily to lower employee benefit costs resulting from the actions discussed in the Business Strategy section and to manpower and other cost reductions.

Realignment Charges

Realignment charges during the third quarter of 2007 were primarily costs incurred in connection with the continuing manufacturing footprint optimization actions described in the Business Strategy section.

Other Income (Expense)

During 2007, certain intercompany loans receivable held by the Debtors that were previously designated as invested indefinitely were identified for repayment through near-term repatriation actions. As a consequence, exchange rate movements on these loans generated currency gains of $21 during the third quarter offset by other currency losses, net, of $4. The increase resulting from the higher foreign exchange gains on these loans was more than offset by lower DCC income of $16 and the inclusion in 2006 of $15 of gains from divestitures. See Note 17 to the financial statements in Item 1 of Part I for additional components of other income.

Interest Expense

As a result of our Chapter 11 reorganization process, a substantial portion of our debt obligations are now subject to compromise. Effective with our filing for reorganization under Chapter 11, interest expense is no longer accrued on these obligations. The post-filing interest expense not recognized in the three month periods ended September 30, 2007 and 2006 on these obligations amounted to $27 in 2007 and 2006.

Reorganization Items

Reorganization items are expenses directly attributed to our Chapter 11 reorganization process. See Note 3 to our financial statements in Item 1 of Part I of this report for a summary of these costs. Higher professional advisory fees in 2007 were due in part to costs associated with the completion of the settlement agreements with the unions and the filing of our Plan. Higher contract rejection and claim settlement costs resulted from specific actions relative to contract settlements to facilitate the reorganization process.

Income Tax Benefit (Expense)

Based on our likely inability to realize U.S. deferred tax assets, except as described below, we did not recognize tax benefits on U.S. losses generated during 2007 and 2006. This is the principal reason that tax benefit of $3 for the three months ended September 30, 2007 is significantly less than the $23 of expected benefit derived by applying a marginal tax rate of 35%. As a result of the significant amount of OCI reported for the three months ended September 30, 2007, we recognized a U.S. tax benefit of $34 in continuing operations for the same period. (See Note 16 to the financial statements in Item 1 of Part I for additional information regarding the determination of this benefit.) The inability to recognize U.S. tax benefits in 2006 was the primary reason that we recorded tax expense of $20 on $246 of pre-tax losses from continuing operations in the third quarter of 2006.

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Results of Operations Summary (Year-to-Date 2007 versus Year-to-Date 2006)

	For the Nine Months Ended September 30,		
	2007	2006	Change
Net sales	$ 6,564	$ 6,506	$ 58
Cost of sales	6,201	6,209	(8)
Gross margin	363	297	66
Selling, general and administrative expenses	263	315	(52)
Gross margin less SG&A*	100	(18)	118
Other costs and expenses			
Realignment charges	$ 159	$ 4	$ 155
Impairment of other assets		226	(226)
Other income, net	108	114	(6)
Total expense	51	116	(65)
Income (loss) from continuing operations before interest, reorganization items and income taxes	$ 49	$ (134)	$ 183
Loss from continuing operations	$ (205)	$ (408)	$ 203
Loss from discontinued operations	$ (89)	$ (102)	$ 13
Net loss	$ (294)	$ (510)	$ 216

* Gross margin less SG&A is a non-GAAP financial measure derived by excluding realignment charges, impairments and other income, net from the most closely related GAAP measure, which is income from continuing operations before interest,

reorganization items and income taxes. We believe this non-GAAP measure is useful for an understanding of our ongoing operations because it excludes other income and expense items which are generally not expected to be part of our ongoing business. Certain reclassifications were made to conform 2006 to the 2007 reporting schedules.

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Results of Operations (Year-to-Date 2007 versus Year-to-Date 2006)

The tables below show changes in our sales by geographic region, business unit and segment for the nine months ended September 30, 2007 and 2006.

Geographical Sales Analysis

				Amount of Change Due To		
	2007	2006	Increase/ (Decrease)	Currency Effects	Acquisitions/ Divestitures	Organic Change
North America	$ 3,680	$ 3,983	$ (303)	$ 8	$ (63)	$ (248)
Europe	1,663	1,387	276	128	(23)	171
South America	736	641	95	38		57
Asia Pacific	485	495	(10)	41	(18)	(33)
Total	$ 6,564	$ 6,506	$ 58	$ 215	$ (104)	$ (53)

Segment Sales Analysis

				Amount of Change Due To		
	2007	2006	Increase/ (Decrease)	Currency Effects	Acquisitions/ Divestitures	Organic Change
ASG						
Axle	$ 1,984	$ 1,704	$ 280	$ 60	$ 20	$ 200
Driveshaft	884	849	35	38	23	(26)
Sealing	539	519	20	18		2
Thermal	220	220		8		(8)
Structures	806	914	(108)	12		(120)
Other	20	74	(54)		(24)	(30)
Total ASG	4,453	4,280	173	136	19	18
HVTSG						
Commercial Vehicle	950	1,291	(341)	11	(123)	(229)
Off-Highway	1,158	918	240	68		172
Total HVTSG	2,108	2,209	(101)	79	(123)	(57)
Other Operations	3	17	(14)			(14)
Total	$ 6,564	$ 6,506	$ 58	$ 215	$ (104)	$ (53)

Regional Review

Total sales of $6,564 in the first nine months of 2007 were $58 higher than in the comparable period of 2006. Currency translation effects, primarily from a stronger euro, increased sales, partially offsetting the lower sales due to divestitures and the overall organic sales decline associated with reduced production levels in certain of our key markets. The 2006 acquisition of the axle and driveshaft operations of our former Mexican joint venture provided additional sales in 2007. However, these higher sales were more than offset by the divestiture of our trailer axle business in January 2007, which had a $123 negative impact on sales for the first nine months of 2007.

The first nine months of 2007 organic sales decline of 6.2% in North America reflects lower production levels. In the commercial vehicle market, production levels of Class 8 trucks were down 42% and medium-duty production was 20% lower. Light truck production levels in North America were up slightly at 1%; however, declines on some of our key platforms and expiration of certain customer programs resulted in reduced organic sales. Partially offsetting the production-driven decreases was the impact of higher pricing from our reorganization initiatives of about $118 as discussed in the Business Strategy section.

In Europe, the sales increase of $276 included a positive translation impact of $128 mostly from a stronger euro. The organic increase of $171 was in large part due to strong production levels in the off-highway market where we have a significant European presence and to contributions from new business. The organic sales reduction in the Asia Pacific region was due primarily to the expiration of an axle program in mid-2006 with a subsidiary of GM.

Business Segment Review

Most of our ASG segments were impacted negatively in the first nine months of 2007 by the lower production levels in the North American light vehicle market. The exception was our Axle segment where higher sales from new business more than offset the impact from lower production levels. Lower organic sales in the Driveshaft segment were due principally to lower commercial vehicle production levels. In Structures, the sales decline was due to lower production levels and to the expiration of a frame program with Ford in 2006. ASG sales benefited by about $110 from the pricing initiatives discussed in the Business Strategy section.

In the HVTSG, our Commercial Vehicle segment is heavily concentrated in the North American market and the organic sales decline of 18% in this segment was primarily due to lower North American production levels. Organic sales in the Off-Highway segment have benefited from stronger production levels and sales from new programs. With its significant European presence, this segment s sales particularly benefited from the stronger euro.

The chart below shows our business unit and segment margin analysis for the nine months ended September 30, 2007 and 2006:

	As a Percentage of Sales		Increase /
	2007	2006	(Decrease)
Gross margin:			
ASG	4.9%	5.5%	(0.6)%
Axle	2.0	0.9	1.1
Driveshaft	6.1	11.7	(5.6)
Sealing	12.8	14.6	(1.8)
Thermal	9.5	14.7	(5.2)
Structures	5.5	1.2	4.3
HVTSG	9.0	7.6	1.4
Commercial Vehicle	5.7	4.5	1.2
Off-Highway	11.5	11.7	(0.2)
Selling, general and administrative expenses:			
ASG	2.9%	3.7%	(0.8)%
Axle	2.2	2.4	(0.2)
Driveshaft	1.9	3.7	(1.8)
Sealing	6.7	6.9	(0.2)
Thermal	4.9	3.6	1.3
Structures	1.7	1.9	(0.2)
HVTSG	3.3	3.3	
Commercial Vehicle	3.7	3.2	0.5
Off-Highway	2.3	2.6	(0.3)
Gross margin less SG&A:*			
ASG	2.0%	1.8%	0.2%
Axle	(0.2)	(1.5)	1.3
Driveshaft	4.2	8.0	(3.8)
Sealing	6.1	7.7	(1.6)
Thermal	4.6	11.1	(6.5)
Structures	3.8	(0.7)	4.5
HVTSG	5.7	4.3	1.4
Commercial Vehicle	2.0	1.3	0.7
Off-Highway	9.2	9.1	0.1
Consolidated	**1.5**	**(0.3)**	**1.8**

* Gross margin less SG&A is a non-GAAP financial measure derived by excluding

realignment charges, impairments and other income, net from the most closely related GAAP measure, which is income from continuing operations before interest, reorganization items and income taxes. We believe this non-GAAP measure is useful for an understanding of our ongoing operations because it excludes other income and expense items which are generally not expected to be part of our ongoing business. Certain reclassifications were made to conform 2006 to the 2007 reporting structures.

In ASG, gross margin less SG&A improved from 1.8% in the first nine months of 2006 to 2.0% in the first nine months of 2007. Organic sales in 2007 for ASG were comparable to 2006, with business mix contributing to lower margins in 2007. Offsetting the business mix decline was margin improvement from increased pricing of about $110. In the Axle segment, net margins as a percent of sales improved by 1.3% from the first nine months of 2006. Pricing actions benefited margins by about $43. However, this benefit was largely offset by adverse sales mix. The higher sales were mostly on newer programs with lower overall margins. As such, these sales masked the sales reduction resulting from lower production levels on existing higher margin programs. Gross margin less SG&A in the Driveshaft segment was down significantly 3.8%. The Mexican driveshaft operation that was acquired in mid-2006 generated losses of $7, in part due to start up costs associated with the transition of business from the U.S. This segment also sells to the commercial vehicle market, where production levels were down more significantly than in the light vehicle market. Further adding to the mix factor, margins on Driveshaft commercial vehicle sales are higher than on light vehicle sales. Margins in the Driveshaft operations have also been negatively impacted by new program launch costs, premium freight and other manufacturing inefficiencies. Partially offsetting the above margin reductions in Driveshaft was pricing action improvement of $14. In the Sealing segment, the margin reduction of 1.6% of sales was due principally to higher material costs for stainless steel and nickel. Higher raw material costs, most notably aluminum, also reduced margins in our Thermal segment. Margins in Thermal were also negatively impacted by the lower production levels, start-up costs associated with a new operation in Hungary and some new program launch costs. The Structures segment achieved year-over-year net margin improvement of 4.5%. More than offsetting the impact from lower sales was $50 of increased margin from pricing improvement and $9 from one-time program cost recoveries.

Gross margin less SG&A in HVTSG improved from 4.3% in the first nine months of 2006 to 5.7% in the first nine months of 2007. Commercial Vehicle net margins as a percent of sales improved 0.7% as the margin reduction associated with the lower production levels and loss of the trailer axle business was more than offset by pricing improvement, lower material costs and reduced SG&A. Price increases with certain major customers in this segment were implemented in the second half of 2006, with additional pricing improvement from the reorganization actions discussed in the Business Strategy section effectuated during this year s first nine months. The year-over-year margin improvement from pricing amounted to $20. In the Off-Highway segment, the margin improvement of 0.1% of sales was due primarily to higher sales volume. Lower material costs improved margins, but this was largely offset by higher warranty cost.

Corporate expenses and other costs not allocated to the business units reduced gross margins less SG&A by 1.7% for the first nine months of 2007 as compared to 3.0% in the same period in 2006, thereby contributing to the 1.8% improvement in consolidated gross margin less SG&A. 2006 included approximately $3 of higher costs associated with advisory and other fees incurred in connection with the arrangement of replacement financing and other projects which were discontinued with our bankruptcy filing in March 2006. The lower corporate and other expenses as a percent of sales in 2007 reflect manpower, employee benefits, and other cost reductions and net reductions to medical and long-term disability accruals in 2007.

Realignment Charges

Realignment charges during the first nine months of 2007 were primarily costs incurred in connection with the continuing manufacturing footprint optimization actions and $136 of costs relating to settlement of pension obligations in the U.K., both of which are described in the Business Strategy section.

Other Income (Expense)

Other income in 2007 was $6 lower than 2006. Although currency gains increased income by $34, this was more than offset by DCC income that was down by $21, an expense of $11 associated with settling a contractual matter with an investor in one of our equity investments and net reductions in other items.

Interest Expense

As a result of our Chapter 11 reorganization process, a substantial portion of our debt obligations are now subject to compromise. Effective with our filing for reorganization under Chapter 11, interest expense is no longer accrued on these obligations. The post-filing interest expense not recognized in the first nine months of 2007 on these obligations amounted to $81, compared to $62 not recognized for this period in 2006.

Reorganization Items

Reorganization items are primarily expenses directly attributed to our Chapter 11 reorganization process. See Note 3 to our financial statements in Item 1 of Part I of this report for a summary of these costs. Reorganization items recorded in the nine months ended September 30, 2006 included debt valuation adjustments on pre-petition liabilities and underwriting fees related to the DIP Credit Agreement that were one-time charges associated with the initial phase of the reorganization. In the first nine months of 2007, in lieu of these one-time charges, the reorganization items consisted primarily of higher ongoing professional advisory fees due to an increased level of reorganization initiatives and the activities of the official committees appointed by the Bankruptcy Court. Additionally, the 2007 reorganization items include higher charges associated with contract rejections and claims settlements incurred to facilitate the reorganization process.

Income Tax Benefit (Expense)

As a result of the significant amount of OCI reported for the nine months ended September 30, 2007, we recognized a U.S. tax benefit of $60 in continuing operations for the same period. (See Note 16 to the financial statements in Part 1 of Item I for additional information regarding the determination of this benefit.) The continuing inability to recognize tax benefits in the U.K. offset this item as the substantial operating loss in the U.K., which included the $136 of charges related to the curtailment and subsequent settlement of pension plans, generated no tax effects. Accordingly, the tax expense of $15 is significantly less than the $71 of expected benefit derived by applying a marginal tax rate of 35%. The inability to recognize benefits in the U.S. and the U.K. in 2006 was the primary reason that we recorded tax expense of $78 versus an expected benefit of $118 derived by applying a marginal tax rate of 35% to a pre-tax loss from continuing operations of $337 in the first nine months of 2006.

Discontinued Operations

In October 2005, our Board of Directors approved the divestiture of our engine hard parts, fluid products and pump products operations and we started to report these businesses as discontinued operations. The engine hard parts business was sold in March 2007 and the fluid products hose and tubing business was sold in July and August 2007. The coupled fluid products business was sold in September 2007. We are continuing to pursue the sale of our pump products business, with a portion of this business having been sold in October 2007.

The net sales and the income (loss) from discontinued operations of these businesses for the three and nine months ended September 30, 2007 and 2006, aggregated by operating segment, are shown in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Sales				
ASG				
Engine	$	$ 178	$ 130	$ 532
Fluid	39	126	277	374
Pump	22	30	70	81
Total Discontinued Operations	$ 61	$ 334	$ 477	$ 987

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net Income (Loss)				
ASG				
Engine	$	$ (35)	$ (63)	$ (54)
Fluid	(2)	(26)	(4)	(39)
Pump		(9)	(15)	(8)
Total ASG	(2)	(70)	(82)	(101)
Other	(3)	(14)	(7)	(1)
Total Discontinued Operations	$ (5)	$ (84)	$ (89)	$ (102)

The three months ended September 30, 2007 results of Fluid include a gain of $9 on the completion of the divestiture of these operations. The nine-month 2007 net loss in Engine includes a loss of $43 on the sale of the engine hard parts business, while the nine-month net loss in Pump includes a charge of $17 for settlement of pension obligations in the U.K. (see Note 6 in Item 1 of Part I of this report). The 2006 losses in these operations include impairment charges as we adjusted the underlying net assets of the business to their net fair value less cost to sell, as determined based on the expected sale proceeds.

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Liquidity

During 2007, we have taken the following steps to ensure adequate liquidity for all of our operations for the expected duration of the Chapter 11 proceedings, including the funding of our realignment initiatives.

Increased the size of our DIP Credit Agreement;

Negotiated settlements with the Retiree Committee and the IAM related to postretirement, non-union benefits;

Sold our equity interest in GETRAG to our joint venture partner;

Sold our engine hard parts and fluid products businesses;

Sold our trailer axle business; and

Established a $225 five-year accounts receivable securitization program with respect to our European operations.

As a result of these actions, we believe that our liquidity will be adequate to finance our business through our emergence from bankruptcy.

The following table summarizes our global liquidity at September 30, 2007:

Cash	$ 1,035
Less:	
Deposits supporting obligations	(95)
Cash in less than wholly-owned subsidiaries	(78)
Available cash	862
Additional cash availability from:	
Lines of credit in the U.S., Canada and Europe	321
Letters of credit from these lines allowing additional international borrowing	60
Total global liquidity	$ 1,243

70

A summary of the changes in cash and cash equivalents for the nine months ended September 30, 2007 and 2006 is shown in the following tables:

Cash flow summary:	**2007**	**2006**
Cash and cash equivalents at beginning of period	$ 704	$ 762
Cash provided by (used in) operating activities	(231)	14
Cash provided by (used in) investing activities	416	(149)
Cash provided by financing activities	91	147
Increase in cash and cash equivalents	276	12
Impact of foreign exchange and discontinued operations	55	11
Cash and cash equivalents at end of period	$ 1,035	$ 785

Operating activities:	**2007**	**2006**
Net loss	$ (294)	$ (510)
Depreciation and amortization	209	206
Impairment and divestiture-related charges	1	325
Non-cash portion of U.K. pension charge	60	
Reorganization items, net of payments	59	49
Payments to VEBAs for postretirement benefits	(27)	
Other	(63)	(85)
	(55)	(15)
Changes in working capital	(176)	29
Cash flows provided by (used in) operating activities	$ (231)	$ 14

Cash of $231 was used by operating activities in the first nine months of 2007 as compared to cash of $14 provided in the same period of 2006. We typically experience an increase in working capital during the first nine months of the year due primarily to trade receivables being customarily lower at the end of the calendar year as our OEM customers production levels are lighter during the holiday season. During the first nine months of 2007, receivables, as expected, increased by $180, which was higher than the first nine months of 2006 in part due to slightly higher third quarter sales in 2007 and price increases achieved as part of our bankruptcy initiatives. Inventory used cash of $50 in 2007, which was slightly higher than the use of $35 in 2006. Increased accounts payable in 2007, due in part to seasonality, partially offset the increases in receivables and inventory. The increase in payables during the first nine months of 2006 more than offset the increase in receivables and inventory as the bankruptcy filing in March 2006 precluded the payment of a large portion of the pre-petition accounts payable. Operating cash flow, exclusive of working capital, was lower in 2007 in large part due to a payment of $93 to settle pension obligations in the U.K. and $27 of payments to VEBAs in connection with reorganization-related benefit reduction actions in the U.S. These uses were partially offset by improved operating margins sales, less cost of sales and SG&A expense.

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Investing activities:	**2007**	**2006**
Purchases of property, plant and equipment	$ (140)	$ (239)
Proceeds from sale of businesses	390	
Proceeds from sale of DCC assets and partnership interests	104	
Proceeds from sale of other assets	7	54
Acquisition of business, net of cash acquired		(17)
Payments received on leases and loans	8	20
Decrease in restricted cash	3	
Other	44	33
Cash flows provided by (used in) investing activities	$ 416	$ (149)

Divestitures of the engine hard parts, fluid products and trailer axle businesses and the sale of our investment in GETRAG provided cash of $390 in the first nine months of 2007. Proceeds from DCC investment-related actions generated $104. Expenditures for property, plant and equipment were lower than last year in part due to timing. Capital investment in last year s first nine months was higher because we had delayed some expenditures from the second half of 2005. Redeployment of assets from closed facilities and some program cancellations have also contributed to lower 2007 capital spend. DCC cash is restricted by the Forbearance Agreement discussed in Note 2 to our financial statements in Item 1, Part I and decreased by $3 from year-end.

Financing activities:	**2007**	**2006**
Net change in short-term debt	$ 3	$ (550)
Proceeds from debtor-in-possession facility	200	700
Proceeds from European Securitization Program	30	
Reduction in DCC Medium Term Notes	(129)	
Other	(13)	(3)
Cash flows provided by financing activities	$ 91	$ 147

During the first nine months of 2007, we borrowed an additional $200 under the DIP Credit Agreement. We also borrowed GBP 35 ($67) under a short-term financing arrangement in the U.K. to facilitate the restructuring of our pension obligations. The proceeds from this U.K. borrowing were placed in escrow and were used to satisfy the settlement payment in April 2007. During the third quarter of 2007, this loan was repaid. In the first nine months of 2006, we borrowed $700 under the DIP Credit Agreement in connection with our bankruptcy filing. These proceeds were used in part to repay obligations under our previous bank facility and an accounts receivable securitization program.

Pursuant to the Forbearance Agreement with DCC noteholders, proceeds from the sale of DCC assets are remitted to the noteholders at the beginning of each month following the end of the calendar quarter, resulting in the reduction in DCC term notes.

Financing Activities

Cash and Cash Equivalents

At September 30, 2007, cash and cash equivalents held in the U.S. amounted to $381. Included in this amount was $72 of cash deposits that provide credit enhancement for certain lease agreements and support surety bonds that enable us to self-insure our workers compensation obligations in certain states and fund an escrow account required to appeal a judgment rendered in Texas. Cash held by DCC of $12 is restricted under the terms of the Forbearance Agreement discussed in Note 2 to our financial statements in Item 1, Part I and is reported separately as restricted cash.

At September 30, 2007, cash and cash equivalents held outside the U.S. amounted to $654. Included in this amount was $23 of cash deposits that provide credit enhancement for certain lease agreements and support surety bonds that enable us to self-insure certain employee benefit obligations. These deposits are not considered restricted cash as they could be replaced by letters of credit under our DIP Credit Agreement (discussed in Note 13 to our financial statements in Item 1 of Part I). Availability at September 30, 2007 was adequate to cover the deposits for which replacement by letters of credit is permitted.

A substantial portion of our non-U.S. cash and cash equivalents is needed for working capital and other operating purposes. Several countries have local regulatory requirements that significantly restrict the ability of the Debtors to access this cash. In addition, at September 30, 2007, $78 was held by consolidated entities that have minority interests with varying levels of participation rights involving cash withdrawals. Beyond these restrictions, there are practical limitations on repatriation of cash from certain countries because of the resulting tax cost.

Intercompany Loans

Certain of our international operations had intercompany loan obligations to the U.S. totaling $529 at September 30, 2007. These intercompany loans resulted (i) from certain international operations having received cash or other forms of financial support from the U.S. to finance their activities, (ii) from U.S. entities transferring their ownership in certain entities in exchange for intercompany notes and (iii) from certain entities having declared a dividend in kind in the form of a note payable. Of these intercompany loans, $254 are denominated in a foreign currency and no longer considered permanently invested as they are expected to be repaid in the near term. Accordingly, foreign exchange gains and losses on these loans are reported in other income (expense) rather than being recorded in other comprehensive income as translation gain or loss.

Credit Agreements

DIP Credit Agreement

Dana Corporation, as borrower, and its Debtor subsidiaries, as guarantors, are parties to the DIP Credit Agreement that was approved by the Bankruptcy Court in March 2006. Under the DIP Credit Agreement, we currently have a $650 revolving credit facility and a $900 term loan facility. In the first quarter of 2007, the original term loan facility was increased by $200 and we reduced the original revolving credit facility by $100 to correspond with the lower availability in our collateral base.

At September 30, 2007, we had borrowed $900 under the DIP Credit Agreement and, based on our borrowing base collateral, had availability of $249 after deducting the $100 minimum availability requirement and $230 for outstanding letters of credit. All obligations under the DIP Credit Agreement will become due and payable no later than March 2008. We expect to refinance these obligations as part of our plan of reorganization. However, since refinancing these obligations on a long-term basis is not presently assured, we have classified the borrowings under the DIP Credit Agreement as a current liability at September 30, 2007.

Canadian Credit Agreement

Dana Canada and certain of its Canadian affiliates are parties to the Canadian Credit Agreement. The Canadian Credit Agreement provides for a $100 revolving credit facility, of which $5 is available for the issuance of letters of credit. At September 30, 2007, $2 was utilized under the facility for the issuance of letters of credit and there were no borrowings. Dana Canada must maintain a minimum availability of $20 under the Canadian Credit Agreement. Based on Dana Canada s borrowing base collateral, at September 30, 2007, it had availability of $65 after deducting the $20 minimum availability requirement and $2 for outstanding letters of credit.

European Receivables Loan Facility

In July 2007, certain European subsidiaries of Dana established a five-year accounts receivable securitization facility under which the euro equivalent of up to $225 in financing will be available to those subsidiaries when the securitization processes are completed in all countries. At September 30, 2007, there was availability of $37 in countries that have started securitization and there were borrowings under this facility equivalent to $30 recorded as notes payable. The proceeds from the borrowings were used for operations and the repayment of intercompany debt.

United Kingdom Financing

In February 2007, we announced the restructuring of pension liabilities in the U.K. As a result of the underlying agreement, we recorded $8 of pension curtailment cost as a realignment charge in the first quarter of 2007. In April 2007, our U.K. subsidiaries settled their continuing pension plan obligations through a cash payment of $93 and the transfer of a 33% equity interest in our remaining U.K. axle and driveshaft operating businesses to the plan. Concurrent with the cash payment and equity transfer, we recorded a pension settlement charge of $128 as a realignment charge in continuing operations and $17 in discontinued operations for the portion of the charge attributed to these businesses.

In connection with the restructuring of our U.K. pension obligations (see Note 6 to our financial statements in Item 1 of Part I), we borrowed GBP 35 under a short-term interim bank loan. As of September 30, 2007, this bank loan had been repaid.

Post-emergence Financing

Under our Plan, the Debtors propose to finance their operations post-emergence through a senior secured credit exit facility that will include funded commitments not to exceed $1,500 and certain unfunded commitments. These funds, along with proceeds from the investment by Centerbridge and other investors under the Investment Agreement, will be available to refinance the existing DIP credit facility and satisfy other emergence cash requirements.

Cash Obligations

We are obligated to make future cash payments in fixed amounts under various agreements. These include payments under our long-term debt agreements, rent payments under operating lease agreements and payments for equipment, other fixed assets and certain raw materials under purchase agreements. In Item 7 of our 2006 Form 10-K, we presented our cash obligations for certain items based on the original payment terms. In addition, we indicated that the amounts and timing of future payments for non-pension employee benefit obligations are dependent upon an approved plan of reorganization. We have entered settlement agreements covering significant portions of these non-pension obligations, primarily with our two largest unions, but execution of the settlements is contingent upon emergence from bankruptcy and the funding of related contributions to union-sponsored VEBAs. Other liabilities subject to compromise, excluding certain obligations expected to pass to the reorganized company, will be settled at emergence. Our debt structure will change significantly and the structure and timing of the new debt obligations are unknown at this time. Due to these and other uncertainties surrounding approval of a final plan of reorganization, we are unable to estimate our future cash obligations.

Contingencies

Impact of Our Bankruptcy Filing

During our Chapter 11 reorganization proceedings, most actions against us relating to pre-petition liabilities are automatically stayed. Substantially all of our pre-petition liabilities will be addressed under our plan of reorganization or pursuant to orders of the Bankruptcy Court.

Class Action Lawsuit and Derivative Actions

A securities class action entitled *Howard Frank v. Michael J. Burns and Robert C. Richter* was originally filed in October 2005 in the U.S. District Court for the Northern District of Ohio, naming Dana s Chief Executive Officer, Michael J. Burns and former Chief Financial Officer, Robert C. Richter, as defendants. In a consolidated complaint filed in August 2006, the lead plaintiff alleged violations of the U.S. securities laws and claimed that the price at which Dana s shares traded at various times between April 2004 and October 2005 was artificially inflated as a result of the defendants alleged wrongdoing. In June 2007, the District Court denied the lead plaintiff s motion for an order partially lifting the statutory discovery stay which would have enabled the plaintiff to obtain copies of certain documents produced to the SEC. By order dated August 21, 2007, the District Court granted the defendants motion to dismiss the consolidated complaint and entered a judgment closing the case. In September 2007, the plaintiff filed a notice of appeal from the District Court s order and judgment.

A shareholder derivative action entitled *Roberta Casden v. Michael J. Burns, et al.* was originally filed in the U.S. District Court for the Northern District of Ohio in March 2006 on behalf of Dana. An amended complaint filed in August 2006 added non-derivative class claims on behalf of holders of Dana shares on the day of its bankruptcy filing alleging, among other things, that Dana s bankruptcy filing had been made in bad faith. In June 2006, the District Court stayed the derivative claims, deferring to the Bankruptcy Court on those claims. In July 2007, the District Court dismissed the non-derivative class claims asserted in the amended complaint and entered a judgment closing the case. In August 2007, the plaintiff filed a notice of appeal from the District Court s order and judgment. A second shareholder derivative action, *Steven Staehr v. Michael J. Burns, et al.*, remains stayed in the U.S. District Court for the Northern District of Ohio.

SEC Investigation

We are continuing to cooperate with the SEC in its investigation with respect to matters related to the restatement of our financial statements for the first two quarters of 2005 and fiscal years 2002 through 2004.

Legal Proceedings Arising in the Ordinary Course of Business

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

Asbestos-Related Personal Injury Liabilities

We had approximately 55,000 active pending asbestos-related product liability claims at September 30, 2007, including approximately 6,000 claims that were settled but awaiting final documentation and payment. The number of active pending claims was reduced as tort reform and other initiatives in the State of Mississippi resulted in the dismissal of 17,000 claims. Due to the nature of these dismissed claims, the impact on the estimated liability was not significant. On October 26, 2007, Dana filed a motion with the Bankruptcy Court seeking approval to resolve an additional 7,500 pending cases. The estimated total payments for these settlements, if all claimants are able to submit the required proof to support their claims, would approximate $2. We project costs for asbestos-related product liability claims using the methodology that is discussed in Note 17 to our consolidated financial statements in Item 8 of our 2006 Form 10-K. We had accrued $138 for indemnity and defense costs for pending and future claims at September 30, 2007.

Prior to 2006, we reached agreements with some of our insurers to commute policies covering asbestos-related product liability claims. There were no commutations of insurance in the third quarter of 2007. At September 30, 2007, our liability for future demands under prior commutations was $11, bringing our total recorded liability for asbestos-related product liability claims to $149.

At September 30, 2007, we had recorded $71 as an asset for probable recovery from our insurers for pending and projected asbestos-related product liability claims. The recorded asset does not represent the limits of our insurance coverage, but rather the amount we would expect to recover if we paid the accrued indemnity and defense costs.

In addition, we had a net amount recoverable from our insurers and others of $17 at September 30, 2007. The recoverable represents reimbursements for settled asbestos-related product liability claims, including billings in progress and amounts subject to alternate dispute resolution proceedings with some of our insurers.

Under the Plan, the Debtors propose that their asbestos-related personal injury claims be reinstated upon emergence and that the reorganized Debtors will defend, settle and resolve such pending claims and future demands in the ordinary course of business.

Other Product Liabilities

We had accrued $11 for non-asbestos product liabilities at September 30, 2007, with no recovery expected from third parties. We estimate these liabilities based on assumptions about the value of the claims and about the likelihood of recoveries against us derived from our historical experience and current information.

Environmental Liabilities

We had accrued $60 for environmental liabilities at September 30, 2007. We estimate these liabilities based on the most probable method of remediation, current laws and regulations and existing technology. Our estimates are made on an undiscounted basis and exclude the effects of inflation. If there is a range of equally probable remediation methods or outcomes, we accrue the lower end of the range. The difference between our minimum and maximum estimates for these liabilities was $1 at September 30, 2007. Included in this accrual are amounts relating to the Hamilton Avenue Industrial Park site in New Jersey, where we are one of four potentially responsible parties under the Comprehensive Environmental Response, Compensation and Liability Act (Superfund). The Debtors are pursuing a final estimation of this claim through a court proceeding in the Bankruptcy Court. Previously, the Bankruptcy Court entered an order approving an estimation process and scheduling a hearing for January 2008 to determine the amount of the Debtors liability relating to the Hamilton Avenue Industrial Park site and certain other sites. However, the EPA filed and is prosecuting a motion in the United States District Court for the Southern District of New York seeking to have the estimation proceeding conducted in the District Court instead of the Bankruptcy Court. The EPA also has sought a 60-day extension of the estimation schedule established by the Bankruptcy Court. At this time, the court that will hear the estimation proceeding has not been determined. The Debtors do not expect this issue to delay their emergence from bankruptcy.

Other Liabilities Related to Asbestos Claims

After the Center for Claims Resolution (CCR) discontinued negotiating shared settlements for asbestos claims for its member companies in 2001, some former CCR members defaulted on the payment of their shares of some settlements and some settling claimants sought payment of the unpaid shares from other members of the CCR at the time of the settlements, including Dana. Through September 30, 2007, we had paid $47 to such claimants and collected $29 from our insurance carriers with respect to these claims. At September 30, 2007, we had a net receivable of $13 for the amount that we expect to recover from available insurance and surety bonds relating to these claims. We are continuing to pursue insurance collections with respect to such claims paid prior to the Filing Date.

Assumptions Regarding Asbestos-Related Liabilities

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

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Critical Accounting Estimates

Except as discussed below, our critical accounting estimates for purposes of the financial statements in this report are the same as those discussed in Item 7 of our 2006 Form 10-K.

Tax Rates

For purposes of preparing our interim financial statements, we utilize an estimated annual effective tax rate for ordinary items that is reevaluated each period based on changes in the components used to determine the annual effective rate.

Retiree Benefits

Under SFAS No. 158, we record on the balance sheet any unfunded liabilities associated with defined benefit pension and other postretirement obligations, as well as any assets exceeding plan obligations.

We use several key assumptions to determine our obligations, funding requirements and expense for our defined benefit retirement plans. These key assumptions include the long-term estimated rate of return on plan assets and the interest rate used to discount the pension obligations. In connection with amending our pension plans for U.S. non-union employees during the second quarter of 2007, we remeasured the assets and liabilities of these plans using updated assumptions. Two of our U.S. plans were remeasured in the third quarter in connection with the recognition of some settlement costs and other actions. Our assumptions for other plans were last revised in December 2006.

Expense of medical and life insurance benefits provided to U.S. retired employees under postretirement benefit plans will also be impacted by changes in our assumptions. The discount rate used to value these liabilities at the end of 2006 was 5.86%.

Two actions necessitated the remeasurement of U.S. postretirement medical benefits the elimination of retiree medical benefits for non-union employees on March 31, 2007 and the agreement with the Retiree Committee on behalf of U.S. non-union retirees in May 2007, which eliminated postretirement medical benefits in exchange for funding a retiree-sponsored VEBA. As a consequence of recognizing curtailment gains in the third quarter of 2007 in connection with a facility closure, postretirement medical obligations were again remeasured.

As discussed in the Business Strategy section, we have reached agreements with our U.S. union employees on similar actions to utilize union-sponsored VEBAs to eliminate postretirement medical benefits and to freeze future benefit accruals under defined benefit pension plans. While approved by the Bankruptcy Court by an order entered on August 1, 2007, these actions will generally not be effective until our emergence from bankruptcy. As such, we do not expect to remeasure the effect of the approved benefit reductions on the assets and liabilities associated with these plans until emergence from bankruptcy.

Our international defined benefit pension plans and postretirement benefit programs cover substantially fewer employees and the impact of changes in key assumptions would not be of the same magnitude as that on the domestic plans. The ultimate impact on our financial condition and results of operations of estimates used in valuing the U.S. and international pension and postretirement programs will depend on the actual assumptions used for interest rates, discount rates, health care trend rates and other factors.

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Long-lived Asset and Goodwill Impairment

We perform periodic impairment analyses on our long-lived assets (such as property, plant and equipment, carrying amount of investments and goodwill) whenever events and circumstances indicate that the carrying amount of such assets may not be recoverable. The recoverability of long-lived assets is determined by comparing the forecasted undiscounted net cash flows of the operations to which the assets relate to their carrying amount. If the operation is determined to be unable to recover the carrying amount of its assets, the long-lived assets (excluding goodwill) are written down to fair value, as determined based on discounted cash flows or other methods providing best estimates of value. In assessing the recoverability of goodwill recorded by a reporting unit, we make projections regarding estimated future cash flows and other factors affecting the fair value of the reporting unit. By their nature, these assessments require significant estimates. Since the assessment completed in connection with the filing of our financial statements on 2006 Form 10-K, there have not been any significant events or developments requiring additional assessment.

Asset impairments often result from significant actions like the discontinuance of customer programs and facility closures. In the Business Strategy section, we discuss a number of reorganization initiatives that are in process or planned, which include customer program evaluations and manufacturing footprint assessments. While at present no final decisions have been made which require further asset impairment recognition, future decisions in connection with the reorganization initiatives could result in future asset impairment losses.

Impairments are possible if there is significant deterioration in our projected cash flows. Our cash flows could be reduced due to customer production cutbacks, our inability to increase prices to customers or reduce prices from suppliers or delays in implementing cost reduction and operating efficiencies. Our Axle and Structures segments in ASG have significant business with domestic automobile manufacturers and are presently at the greatest risk of future impairment of their long-lived assets should they be unable to meet their forecasted cash flow targets.

Liabilities Subject to Compromise

Pre-petition obligations relating to matters such as contract disputes, litigation and environmental remediation are evaluated to determine whether a potential liability is probable. If probable, an assessment, based on all information then available, is made of whether the potential liability is estimable. A liability is recorded when it is both probable and estimable. In a case where there is a range of estimates which are equally probable, a liability is generally recorded using the low end of the range of estimates. In connection with the bankruptcy reorganization process, there are attempts to settle claims relating to these pre-petition matters. As such, the likelihood of settlement and potential settlement outcomes are considered in evaluating whether potential obligations are probable and estimable.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risks, including fluctuations in foreign currency exchange rates, adverse movements in commodity prices for products we use in our manufacturing and adverse changes in interest rates. To reduce our exposure to these risks, we maintain risk management controls to monitor these risks and take appropriate actions to attempt to mitigate such risks. There have been no material changes to the market risk exposures discussed in Item 7A of our 2006 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that the information disclosed in the reports we file with the SEC under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Based on the continued existence of the material weaknesses discussed in Item 9A of our 2006 Form 10-K, management, including our CEO and CFO, has concluded that our disclosure controls and procedures were not effective as of September 30, 2007.

For more information about the material weaknesses, their impact on our disclosure controls and procedures and our internal control over financial reporting and the actions we have taken or are planning to take to remediate them, see Item 9A of our 2006 Form 10-K and Item 4 of Part I of our first- and second-quarter 2007 Forms 10-Q. As of this filing, management has concluded that the material weakness described in our 2006 Form 10-K related to effective controls in connection with completeness and accuracy of certain accruals also extends to income tax accruals.

Changes in Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP.

With the participation of our CEO and CFO, our management evaluates any changes in our internal control over financial reporting that occurred during each fiscal quarter that materially affected, or are reasonably likely to affect, such internal control.

During the third quarter of 2007, we took the following actions that management believes have materially strengthened our internal controls:

In continuing to strengthen our financial and accounting organization s ability to support our financial accounting and reporting needs, we:

Conducted a multi-day controllers meeting for our European and Asia / Pacific financial leaders focusing on US GAAP accounting, internal controls and certain key financial transactions training, such as asset impairment, inventory valuation and account reconciliation. US GAAP accounting training focused on specific topics such as revenue recognition, fixed assets and contingencies.

Strengthened the awareness of internal controls through training and regular meetings with financial management to continue compliance education, reinforce standards and address significant control risks.

Implemented a weekly review of key business events and transactions affecting our accounts to proactively identify and assess potential accounting and reporting matters.

Developed a model, to be implemented in the fourth quarter, to provide timely monitoring of variances and adjustment of standard cost.

Expanded the 302 certification requirements to specifically address higher risk business transactions and events, including impairments, realignment and contingencies.

Enhanced corporate policies and procedures regarding standards for management s assessment of control operation.

Reduced the number of open financial positions and maintained vigorous recruiting and hiring efforts in spite of an extremely challenging environment.

To enhance our ability to manage our overall financial and information technology control environment, we have:

Monitored and enforced our new policy to shorten the criteria for the timeliness of control deficiency remediation to be 30 days.

Evaluated the quality of financial personnel and key financial controls, including account reconciliations, control ownership compliance and financial account analysis in conjunction with our internal audit function.

Implemented and executed improved methods to monitor control deficiencies and remediation efforts, including timeliness and risk assessment.

Additionally, we continued the measures implemented in previous quarters including:

Consolidating numerous business processes, such as billing, accounts payable, inventory costing and general accounting, in our North America Heavy Vehicle Technologies and Systems Group.

Consolidating the accounts payable process within our North America Automotive Systems Group.

Utilizing qualified supplemental resources in specific corporate accounting areas.

Utilizing our internally developed programs to evaluate potential conflicts of duties for significant North American financial application systems.

Turnover in our Finance and Information Technology functions, which we attribute to the uncertainty surrounding the reorganization process, continued in the third quarter of 2007. We are addressing the situation through reassignment of internal resources, recruitment of additional qualified personnel and the utilization of temporary resources.

CEO and CFO Certifications

The Certifications of our CEO and CFO that are attached to this report as Exhibits 31-A and 31-B include information about our disclosure controls and procedures and internal control over financial reporting. These Certifications should be read in conjunction with the information contained in this Item 4 and in Item 9A of our 2006 Form 10-K and Item 4 of Part I of our first- and second-quarter 2007 Forms 10-Q for a more complete understanding of the matters covered by the Certifications.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Dana Corporation and forty of its wholly owned subsidiaries are operating under Chapter 11 of the Bankruptcy Code. Under the Bankruptcy Code, the filing of the petitions for reorganization automatically stayed most actions against the Debtors, including most actions to collect on pre-petition indebtedness or to exercise control over the property of the bankruptcy estates. The Plan addresses the proposed treatment of outstanding claims, upon emergence from bankruptcy.

As discussed in Note 14 to our financial statements in Item 1 of Part I, (i) the securities class action entitled *Howard Frank v. Michael J. Burns and Robert C. Richter* that had been pending in the U.S. District Court for the Northern District of Ohio has been dismissed, but plaintiff has appealed the dismissal; (ii) in the shareholder derivative action entitled *Roberta Casden v. Michael J. Burns, et al.*, pending in the same court, the derivative claims have been stayed during the bankruptcy proceedings and the subsequently added non-derivative class claims have been dismissed, but the plaintiff has appealed the dismissal; and (iii) a second shareholder derivative action, *Steven Staehr v. Michael J. Burns, et al.*, also pending in the same court, remains stayed. In addition, we are a party to various pending judicial and administrative proceedings that arose in the ordinary course of business (including both pre-petition and subsequent proceedings). We are also cooperating with a formal investigation by the SEC with respect to matters related to the restatement of our financial statements for the first two quarters of 2005 and fiscal years 2002 through 2004.

After reviewing the currently pending lawsuits and proceedings (including the probable outcomes, reasonably anticipated costs and expenses, availability and limits of our insurance coverage and surety bonds and our established reserves for uninsured liabilities), we do not believe that any liabilities that may result are reasonably likely to have a material adverse effect on our liquidity, financial condition or results of operations.

ITEM 1A. RISK FACTORS

We discussed a number of risk factors that could adversely affect our business, financial condition and results of operations in Item 1A of our 2006 Form 10-K. There have been no material changes in most of the risk factors previously disclosed, except as disclosed in Item 1A of Part II of our second-quarter 2007 Form 10-Q.

ITEM 6. EXHIBITS

The Exhibits listed in the Exhibit Index are filed or furnished with this report.

SIGNATURES

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

	Dana Corporation (Registrant)
Date: November 7, 2007	/s/ Kenneth A. Hiltz Kenneth A. Hiltz Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description	Method of Filing or Furnishing
2-A(1)	Joint Plan of Reorganization of Debtors and Debtors in Possession, dated August 31, 2007	Filed by reference to Exhibit 2.1 to our Form 8-K filed on September 4, 2007
2-A(2)	Third Amended Joint Plan of Reorganization of Debtors and Debtors in Possession, dated October 23, 2007	Filed by reference to Exhibit 2.1 to our Form 8-K filed on November 2, 2007
2-B(1)	Disclosure Statement with Respect to Joint Plan of Reorganization of Debtors and Debtors in Possession, dated August 31, 2007	Filed by reference to Exhibit 99.1 to our Form 8-K filed on September 4, 2007
2-B(2)	Third Amended Disclosure Statement with Respect to Joint Plan of Reorganization of Debtors and Debtors in Possession, dated October 23, 2007	Filed by reference to Exhibit 99.1 to our Form 8-K filed on November 2, 2007
4-B(2)	Amendment No. 3, dated as of July 25, 2007, to the Rights Agreement, dated as of April 25, 1996, as amended, between Dana and The Bank of New York, Rights Agent	Filed by reference to Exhibit 99.5 to our Form 8-K filed on July 31, 2007
10-AA	Plan Support Agreement, dated as of July 26, 2007, by and among Dana Corporation; United Steelworkers; International Union, UAW; Centerbridge Capital Partners, L.P.; and certain creditors of Dana Corporation	Filed by reference to Exhibit 99.1 to our Form 8-K filed on July 31, 2007
10-BB(1)	Investment Agreement, dated as of July 26, 2007, between Centerbridge Capital Partners, L.P.; CBP Parts Acquisition Co. LLC; and Dana Corporation	Filed by reference to Exhibit 99.2 to our Form 8-K filed on July 31, 2007
10-CC(1)	Settlement Agreement between Dana Corporation and International Union, UAW, dated July 5, 2007	Filed by reference to Exhibit 99.1 to our Form 8-K filed on July 10, 2007
10-CC(2)	Amendment, dated as of July 26, 2007, to the USW Settlement Agreement, dated July 5, 2007, by and among Dana Corporation, United Steelworkers, and USW Local Union 903, Local Union 9443-02, and Local Union 113	Filed by reference to Exhibit 99.3 to our Form 8-K filed on July 31, 2007
10-DD(1)	Settlement Agreement between Dana Corporation and United Steelworkers, dated July 5, 2007	Filed by reference to Exhibit 99.2 to our Form 8-K filed on July 10, 2007

Exhibit No.	Description	Method of Filing or Furnishing
10-DD(2)	Amendment, dated as of July 26, 2007, to the UAW Settlement Agreement, dated July 5, 2007, by and among Dana Corporation, International Union, UAW and its Local Union 282, Local Union 771, Local Union 1405, Local Union 1765, Local Union 3047, Local Union 644 and the UAW Local Union representing employees at Dana s Longview, TX facility	Filed by reference to Exhibit 99.4 to our Form 8-K filed on July 31, 2007
10-EE	Letter Agreement among Dana Corporation; Centerbridge Capital Partners, L.P. and certain investor signatories thereto, dated October 18, 2007	Filed by reference to Exhibit 10.1 to our Form 8-K filed on October 25, 2007
10-P	Human Resources Management and Administration Master Services Agreement between Dana Corporation and International Business Machines Corporation, dated March 31, 2005, amended and restated as of September 30, 2007	Filed with this report
31-A	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer	Filed with this report
31-B	Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer	Filed with this report
32	Section 1350 Certifications	Furnished with this report