DANA HOLDING CORP
Form 10-Q
July 24, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended: June 30, 2014
Commission File Number: 1-1063

Dana Holding Corporation
(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	26-1531856 (IRS Employer Identification Number)
3939 Technology Drive, Maumee, OH (Address of principal executive offices)	43537 (Zip Code)

Registrant's telephone number, including area code: (419) 887-3000

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 has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

There were 155,622,932 shares of the registrant's common stock outstanding at July 11, 2014.

DANA HOLDING CORPORATION – FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Dana Holding Corporation
Consolidated Statement of Operations (Unaudited)
(In millions except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales	$1,710	$1,800	$3,398	$3,476
Costs and expenses				
Cost of sales	1,462	1,541	2,916	3,003
Selling, general and administrative expenses	108	105	213	208
Amortization of intangibles	10	18	23	37
Restructuring charges, net	3	4	12	6
Other income, net	21	18	15	20
Income from continuing operations before interest expense and income taxes	148	150	249	242
Interest expense	29	21	59	42
Income from continuing operations before income taxes	119	129	190	200
Income tax expense	33	35	67	62
Equity in earnings of affiliates	6	3	7	7
Income from continuing operations	92	97	130	145
Income (loss) from discontinued operations	(2)	(1)	(3)	1
Net income	90	96	127	146
Less: Noncontrolling interests net income	4	4	7	12
Net income attributable to the parent company	86	92	120	134
Preferred stock dividend requirements	2	7	5	15
Net income available to common stockholders	$84	$85	$115	$119
Net income per share available to parent company common stockholders:				
Basic:				
Income from continuing operations	$0.55	$0.59	$0.77	$0.80
Income (loss) from discontinued operations	$(0.01)	$(0.01)	$(0.02)	$0.01
Net income	$0.54	$0.58	$0.75	$0.81
Diluted:				
Income from continuing operations	$0.50	$0.44	$0.70	$0.62
Income (loss) from discontinued operations	$(0.01)	$—	$(0.02)	$0.01
Net income	$0.49	$0.44	$0.68	$0.63
Weighted-average common shares outstanding				
Basic	156.7	145.9	153.7	146.9
Diluted	175.1	211.9	176.0	213.1
Dividends declared per common share	$0.05	$0.05	$0.10	$0.10

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

Dana Holding Corporation
Consolidated Statement of Comprehensive Income (Unaudited)
(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$90	$96	$127	$146
Less: Noncontrolling interests net income	4	4	7	12
Net income attributable to the parent company	86	92	120	134
Other comprehensive income (loss) attributable to the parent company, net of tax:				
Currency translation adjustments	14	(47)	2	(64)
Hedging gains and losses	1	(6)	1	(3)
Investment and other gains and losses	3	(10)	3	(9)
Defined benefit plans	3	6	10	14
Other comprehensive income (loss) attributable to the parent company	21	(57)	16	(62)
Other comprehensive income (loss) attributable to noncontrolling interests, net of tax:				
Currency translation adjustments	1	(3)		(5)
Other comprehensive income (loss) attributable to noncontrolling interests	1	(3)	—	(5)
Total comprehensive income attributable to the parent company	107	35	136	72
Total comprehensive income attributable to noncontrolling interests	5	1	7	7
Total comprehensive income	$112	$36	$143	$79

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

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

	June 30, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$1,172	$1,256
Marketable securities	168	110
Accounts receivable		
Trade, less allowance for doubtful accounts of $6 in 2014 and $7 in 2013	925	793
Other	135	223
Inventories		
Raw materials	366	337
Work in process and finished goods	361	333
Other current assets	131	113
Total current assets	3,258	3,165
Goodwill	105	106
Intangibles	205	227
Other noncurrent assets	198	196
Investments in affiliates	202	210
Property, plant and equipment, net	1,244	1,225
Total assets	$5,212	$5,129
Liabilities and equity		
Current liabilities		
Notes payable, including current portion of long-term debt	$37	$57
Accounts payable	906	804
Accrued payroll and employee benefits	155	161
Accrued restructuring costs	11	14
Taxes on income	54	35
Other accrued liabilities	197	197
Total current liabilities	1,360	1,268
Long-term debt	1,568	1,567
Pension and postretirement obligations	511	530
Other noncurrent liabilities	347	351
Total liabilities	3,786	3,716
Commitments and contingencies (Note 13)		
Parent company stockholders' equity		
Preferred stock, 47,500,000 shares authorized		
Series B, $0.01 par value, 2,013,180 and 3,803,774 shares outstanding	197	372
Common stock, $0.01 par value, 450,000,000 shares authorized, 155,799,361 and 145,338,342 outstanding	2	2
Additional paid-in capital	3,028	2,840
Accumulated deficit	(713)	(812)
Treasury stock, at cost (24,166,118 and 18,742,288 shares)	(481)	(366)
Accumulated other comprehensive loss	(711)	(727)
Total parent company stockholders' equity	1,322	1,309
Noncontrolling equity	104	104

Total equity	1,426	1,413
Total liabilities and equity	$5,212	$5,129

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

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

	Six Months Ended June 30,	
	2014	2013
Operating activities		
Net income	$127	$146
Depreciation	81	82
Amortization of intangibles	27	43
Amortization of deferred financing charges	3	3
Unremitted earnings of affiliates	6	(6)
Stock compensation expense	9	9
Deferred income taxes	(5)	
Pension contributions, net	(5)	(20)
Interest payment received on payment-in-kind note receivable	40	26
Change in working capital	(96)	(84)
Other, net	6	(12)
Net cash provided by operating activities	193	187
Investing activities		
Purchases of property, plant and equipment	(96)	(71)
Acquisition of business		(8)
Principal payment received on payment-in-kind note receivable	35	33
Purchases of marketable securities	(57)	(66)
Proceeds from sales of marketable securities	1	24
Proceeds from maturities of marketable securities	2	5
Proceeds from sale of business	9	
Other	3	8
Net cash used in investing activities	(103)	(75)
Financing activities		
Net change in short-term debt	(5)	(1)
Proceeds from letters of credit	12	
Repayment of letters of credit	(6)	
Proceeds from long-term debt	1	57
Repayment of long-term debt	(19)	(48)
Deferred financing payments		(3)
Dividends paid to preferred stockholders	(4)	(15)
Dividends paid to common stockholders	(16)	(15)
Distributions to noncontrolling interests	(2)	(2)
Repurchases of common stock	(113)	(86)
Payments to acquire noncontrolling interests		(7)
Other		3
Net cash used in financing activities	(152)	(117)
Net decrease in cash and cash equivalents	(62)	(5)
Cash and cash equivalents – beginning of period	1,256	1,059
Effect of exchange rate changes on cash balances	(22)	(24)

Cash and cash equivalents – end of period	$1,172	$1,030

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

Dana Holding Corporation
Index to Notes to Consolidated Financial Statements

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

Note 1. Organization and Summary of Significant Accounting Policies

General

Dana Holding Corporation (Dana) is headquartered in Maumee, Ohio and was incorporated in Delaware in 2007. As a global provider of high technology driveline (axles, driveshafts and transmissions), sealing and thermal-management products our customer base includes virtually every major vehicle manufacturer in the global light vehicle, medium/heavy vehicle and off-highway markets.

The terms "Dana," "we," "our" and "us," when used in this report, are references to Dana. These references include the subsidiaries of Dana unless otherwise indicated or the context requires otherwise.

Summary of significant accounting policies

Basis of presentation — Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. These statements are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. The results reported in these consolidated financial statements should not necessarily be taken as indicative of results that may be expected for the entire year. The financial information included herein should be read in conjunction with the consolidated financial statements in Item 8 of our 2013 Form 10-K. Certain prior year amounts have been reclassified to conform to the 2014 presentation.

Discontinued operations — We classify a business component that has been disposed of or classified as held for sale as discontinued operations if the cash flows of the component have been or will be eliminated from our ongoing operations and we will no longer have any significant continuing involvement in or with the component. The results of operations of our discontinued operations, including any gains or losses on disposition, are aggregated and presented on one line in the income statement. See Note 3 for additional information regarding our discontinued operations.

Translation of financial statements of Venezuelan subsidiaries

Venezuela’s economy is considered highly inflationary under GAAP. As such, we remeasure the financial statements of our Venezuelan subsidiaries as if their functional currency was the U.S. dollar.

Prior to 2014, the Venezuelan government through its Commission for the Administration of Foreign Exchange (CADIVI) maintained a fixed official exchange rate. The official exchange rate was fixed at 4.3 bolivars per U.S. dollar until February 2013 when the Venezuelan government devalued the bolivar to 6.3 bolivars per U.S. dollar. We recorded a $6 charge in the first quarter of 2013 associated with the devaluation of the official exchange rate. After the devaluation, CADIVI allowed certain obligations existing at the date of the devaluation to be settled at the former 4.3 rate. During the last nine months of 2013, we recognized $5 of gains on claims settled at the former 4.3 rate. In March 2013, the Venezuelan government announced the creation of the Complementary System of Foreign Currency Administration (SICAD), a supplementary currency auction system regulated by the Central Bank of Venezuela for purchases of U.S. dollars by certain eligible importers. During 2013, our Venezuelan subsidiaries were not eligible to utilize SICAD and therefore we continued to use the official exchange rate to remeasure the financial statements of our Venezuelan subsidiaries.

In the first quarter of 2014, the Venezuelan government transferred the administration of the official exchange rate to the National Center of Foreign Commerce (CENCOEX) and indicated that the official exchange rate of 6.3 would be increasingly reserved only for the settlement of U.S. dollar denominated obligations related to purchases of “essential goods and services.” In addition, the Venezuelan government expanded the entities and transactions that would be eligible to use SICAD. Transactions eligible for SICAD currently include foreign investments and payments of royalties. Also during the first quarter of 2014, the Venezuelan government announced the creation of SICAD 2, a market-based exchange mechanism regulated by the Central Bank of Venezuela. SICAD 2 may be used by all companies incorporated or domiciled in Venezuela who want to obtain U.S. dollars for any purpose.

With the recent expansion of SICAD and the formation of SICAD 2 there is uncertainty surrounding transactions that CENCOEX will allow to be transacted at the official exchange rate. In consultation with legal counsel we have determined that the SICAD rate, which we believe would apply to dividend remittances, is the appropriate rate to remeasure the bolivar denominated net monetary assets of our Venezuelan subsidiaries. Effective March 31, 2014, we ceased using the official exchange rate of 6.3 and began using the SICAD rate, which was 10.7 bolivars per U.S. dollar (as published by the Central Bank of Venezuela) at March 31, 2014, to remeasure the financial statements of our Venezuelan subsidiaries.

Recently adopted accounting pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued guidance to clarify financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Generally, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. An exception exists to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. If the exception applies, the unrecognized tax benefit must be presented in the financial statements as a liability and not combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and must be made presuming disallowance of the tax position at the reporting date. This guidance became effective January 1, 2014 and is consistent with our past practice, so adoption did not impact our financial condition or results of operations.

In July 2013, the FASB issued guidance to provide for the inclusion of the Fed Funds Effective Swap Rate as a U.S. benchmark interest rate for hedge accounting purposes, in addition to direct Treasury obligations of the U.S. government and the London Interbank Offered Rate (LIBOR) swap rate. In addition, the guidance removed the restriction on using different benchmark interest rates for similar hedges. The guidance was effective upon issuance and can be applied for qualifying new or redesignated hedging relationships.

In March 2013, the FASB issued guidance to clarify existing requirements for the release – the recognition of an amount in the income statement – of the cumulative translation adjustment. The guidance applies to the release of cumulative translation adjustment when an entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. It also applies to the release of the cumulative translation adjustment when there is a loss of a controlling financial interest in a foreign entity or a step acquisition involving an equity method investment that is a foreign entity. The accounting for the financial interest within a foreign entity is the same regardless of the form of the transaction. This guidance, which became effective January 1, 2014, did not impact our financial condition or results of operations upon adoption but could affect our accounting for future transactions.

In February 2013, the FASB issued guidance related to obligations resulting from joint and several liability arrangements where the amount of the obligation is fixed at the reporting date. Obligations within the scope of the guidance include certain debt arrangements and settled litigation but not contingencies, guarantees, retirement benefits or income taxes. Adoption of this guidance, which became effective January 1, 2014, did not impact our financial condition or results of operations.

Recently issued accounting pronouncements

In June 2014, the FASB issued guidance to provide clarity on whether to treat a performance target that could be achieved after the requisite service period as a performance condition that affects vesting or as a nonvesting condition that affects the grant-date fair value of a share-based payment award. Generally, an award with a performance target also requires an employee to render service until the performance target is achieved. In some cases, however, the terms of an award may provide that the performance target could be achieved after an employee completes the requisite service period. The amendment requires that a performance target that affects vesting and extends beyond the end of the service period be treated as a performance condition and not as a factor in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The guidance becomes effective January 1, 2016.

In June 2014, the FASB issued guidance that amends accounting and disclosures for repurchase agreements and similar transactions. Repurchase-to-maturity transactions and linked repurchase financings are to be accounted for as secured borrowings, which is consistent with the accounting for other repurchase agreements. The amendment also requires two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The guidance, which becomes effective January 1, 2015, could affect our accounting for future transactions.

In May 2014, the FASB issued guidance that requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration a company expects to be entitled to in exchange for those goods or services. The new guidance will also require new disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This guidance will be effective January 1, 2017 and early adoption is not permitted. The guidance allows for either a full retrospective or a modified retrospective transition method. We are currently evaluating the impact this guidance will have on our consolidated results of operations, financial position and cash flows.

In April 2014, the FASB issued guidance that revises the definition of a discontinued operation. The revised definition limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on operations and financial results. The guidance also requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The guidance will apply to covered transactions that occur after 2014 but may be applied to the initial reporting of disposals completed or approved in 2014.

Note 2. Acquisitions and Divestitures

Fallbrook — On September 10, 2012, we entered into a strategic alliance with Fallbrook Technologies Inc. (Fallbrook). Among the agreements executed was an exclusive license agreement allowing Dana to engineer, produce and sell transmission components and other advanced powertrain solutions with Fallbrook’s continuously variable planetary (CVP) technology for passenger and certain off-highway vehicles in the end markets Dana serves. The exclusive license agreement, along with an engineering services agreement and key engineers hired from Fallbrook, provide Dana with intellectual property, processes, techniques, technical data, training, designs and drawings related to the development, application, use, manufacture and production of the CVP technology. The transaction with Fallbrook has been accounted for as a business combination.

Dana paid Fallbrook $20 under the exclusive license agreement for the markets licensed to Dana; $12 was paid in 2012 and $8 was paid in 2013. The aggregate fair value of the assets acquired of $20 has been allocated to intangible assets used in research and development activities which are initially classified as indefinite-lived with $12 and $8 assigned to our Off-Highway and Light Vehicle operating segments, respectively. We used the multi-period excess earnings method, an income approach, to value the intangible assets used in research and development activities.

Divestiture of Structural Products business — In March 2010, we sold substantially all of the assets of our Structural Products business to Metalsa S.A. de C.V. (Metalsa). We had received cash proceeds of $134 through the end of 2011, excluding amounts related to working capital adjustments and tooling. An additional $10 remained as a receivable and was supported by funds held in escrow. Those funds were to be released to Dana by June 2012; however, the buyer presented claims to the escrow agent seeking indemnification from Dana. The escrow agent was precluded from releasing the funds held in escrow until Dana and the buyer resolved the issues underlying the claims. The parties reached a final agreement on the remaining issues in May 2014, resulting in the receipt of $9 from the escrow agent and a charge of $1 to other income, net within discontinued operations.

Note 3. Discontinued Operations

The sale of substantially all of the assets of our Structural Products business in 2010 excluded the facility in Longview, Texas and its employees and manufacturing assets related to a significant customer contract. The customer contract was satisfied and operations concluded in August 2012. As a result of the cessation of all operations, the former Structural Products business has been presented as discontinued operations in the accompanying financial statements.

The loss from discontinued operations in the second quarter of 2014 includes the charge that resulted from final settlement of the claims presented by the buyer while the loss in the first quarter of 2014 included exit costs incurred in connection with retained properties. Legal fees related to the arbitration with Metalsa and the lawsuit brought by a major customer in 2012 were incurred in both periods. The income from discontinued operations for the six months ended June 30, 2013 was the net result of recoveries of prior costs finalized during the period, restructuring expenses related to ongoing maintenance of retained properties and legal fees.

The Longview facility was sold in March 2013 and a previously closed plant in Canada was sold in January 2014. The proceeds in both transactions approximated the carrying values of the facilities.

Note 4. Goodwill and Other Intangible Assets

Goodwill — Our goodwill is assigned to our Off-Highway operating segment. The changes in the carrying amount of goodwill are due to currency fluctuations.

Components of other intangible assets —

		June 30, 2014			December 31, 2013		
	Weighted Average Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets							
Core technology	7	$94	$(86)	$8	$94	$(83)	$11
Trademarks and trade names	16	4	(2)	2	4	(1)	3
Customer relationships	8	533	(423)	110	527	(399)	128
Non-amortizable intangible assets							
Trademarks and trade names		65		65	65		65
Used in research and development activities		20		20	20		20
		$716	$(511)	$205	$710	$(483)	$227

The net carrying amounts of intangible assets, other than goodwill, attributable to each of our operating segments at June 30, 2014 were as follows: Light Vehicle — $13, Commercial Vehicle — $114, Off-Highway — $62 and Power Technologies — $16.

Amortization expense related to amortizable intangible assets —

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Charged to cost of sales	$2	$3	$4	$6
Charged to amortization of intangibles	10	18	23	37
Total amortization	$12	$21	$27	$43

The following table provides the estimated aggregate pre-tax amortization expense related to intangible assets for each of the next five years based on June 30, 2014 exchange rates. Actual amounts may differ from these estimates due to such factors as currency translation, customer turnover, impairments, additional intangible asset acquisitions and other events.

	Remainder of 2014	2015	2016	2017	2018
Amortization expense	$23	$22	$20	$17	$14

Note 5. Restructuring of Operations

Our restructuring activities primarily include rationalizing our operating footprint by consolidating facilities, positioning operations in lower cost locations and reducing overhead costs. Restructuring expense includes costs associated with current and previously announced actions and is comprised of contractual and noncontractual separation costs and exit costs, including costs associated with lease continuation obligations and certain operating costs of facilities that we are in the process of closing.

During the second quarter of 2014, we continued to implement certain headcount reduction programs, including those associated with the closure of our Commercial Vehicle foundry operation in Argentina. Including costs associated with this action and with other previously announced initiatives, restructuring expense during the second quarter of 2014 was $3, including $1 of severance and related benefit costs and $2 of exit costs.

Restructuring expense during the first quarter of 2014 was also primarily associated with the closure of our Commercial Vehicle foundry operation in Argentina. Including costs associated with this action and with other previously announced initiatives, restructuring expense during the first quarter of 2014 was $9, including $7 of severance and related benefit costs and $2 of exit costs.

During the second quarter of 2013, we implemented certain headcount reduction initiatives, primarily in our Light Vehicle and Commercial Vehicle businesses in Argentina and Australia. New customer programs and other developments in our North American Light Vehicle business and a decision by our European Off-Highway business to in-source the manufacturing of certain parts resulted in the reversal of previously accrued severance obligations. Restructuring expense of $4, net of the aforementioned reversals, during the second quarter of 2013 was attributable to newly implemented and previously announced initiatives and included $3 of severance and related benefit costs and $1 of exit costs.

Excluding $1 of costs associated with discontinued operations and attributable to exit costs, restructuring expense during the first quarter of 2013 was $2, all of which was attributable to exit costs associated with previously announced initiatives.

Restructuring charges and related payments and adjustments —

	Employee Termination Benefits	Exit Costs	Total
Balance at March 31, 2014, including noncurrent portion	$13	$10	$23
Activity during the period:			
Charges to restructuring	1	2	3
Cash payments	(3)	(2)	(5)
Balance at June 30, 2014, including noncurrent portion	$11	$10	$21
Balance at December 31, 2013, including noncurrent portion	$14	$11	$25
Activity during the period:			
Charges to restructuring	8	4	12
Cash payments	(11)	(5)	(16)
Balance at June 30, 2014, including noncurrent portion	$11	$10	$21

At June 30, 2014, the accrued employee termination benefits relate to the reduction of approximately 200 employees to be completed over the next three years. The exit costs relate primarily to lease continuation obligations. We estimate cash expenditures to approximate $8 during the remainder of 2014 and $13 thereafter.

Cost to complete — The following table provides project-to-date and estimated future expenses for completion of our pending restructuring initiatives.

	Expense Recognized			Future
	Prior to 2014	2014	Total to Date	Cost to Complete
Light Vehicle	$8		$8	$5
Commercial Vehicle	28	11	39	13
Off-Highway	8		8	
Power Technologies	2	1	3	
Corporate			—	4
Discontinued operations	2		2	
Total	$48	$12	$60	$22

The future cost to complete includes estimated separation costs, primarily those associated with one-time benefit programs, and exit costs, including lease continuation costs, equipment transfers and other costs which are required to be recognized as closures are finalized or as incurred during the closure.

Note 6. Stockholders’ Equity

Preferred stock — Dividends on our 4.0% Series B Convertible Preferred Stock accrue daily and are payable in cash as approved by the Board of Directors. Our 4.0% Series A Convertible Preferred Stock ceased accruing dividends as a result of redemption in August 2013. Preferred dividends of $2 and $4 were accrued at June 30, 2014 and December 31, 2013.

During the first half of 2014, holders of 1,790,594 shares of Series B preferred stock elected to convert those preferred shares into common stock and received 15,230,215 shares. The common stock issued included shares to satisfy the accrued dividends owed to the converting preferred stockholders. Based on the market price of Dana common stock on the date of conversion, the fair value of the conversions totaled $316. As of July 2, 2014, the per share closing price of our common stock exceeded $22.24 for 20 consecutive trading days. As a result, we are exercising our right to cause the conversion of all of the outstanding Series B preferred shares upon fulfillment of the required 90-day notice period ending September 30, 2014. Holders of Series B preferred stock continue to have the option to voluntarily convert preferred shares into common stock during the 90-day notice period.

Common stock — Our Board of Directors declared a quarterly cash dividend of five cents per share of common stock in the first and second quarters of 2014. Dividends accrue on restricted stock units (RSUs) granted under our stock compensation program and will be paid in cash or additional units when the underlying units vest.

Share repurchase program — Our Board of Directors approved a share repurchase program of up to $1,000 of our outstanding shares of common stock over a two-year period from June 28, 2013. Under the program, we spent $113 to repurchase 5,320,850 shares of our common stock during the first half of 2014 through open market transactions. Approximately $58 remained available under the program for future share repurchases as of June 30, 2014.

Changes in equity —

	2014			2013		
Three Months Ended June 30,	Attributable to Parent	Attributable to Non-controlling Interests	Total Equity	Attributable to Parent	Attributable to Non-controlling Interests	Total Equity
Balance, March 31	$1,272	$105	$1,377	$1,840	$108	$1,948
Total comprehensive income	107	5	112	35	1	36
Preferred stock dividends	(2)		(2)	(7)		(7)
Common stock dividends	(9)		(9)	(7)		(7)
Distributions to noncontrolling interests		(6)	(6)		(4)	(4)
Common stock share repurchases	(49)		(49)	(62)		(62)
Stock compensation	4		4	9		9
Stock withheld for employee taxes	(1)		(1)	(2)		(2)
Balance, June 30	$1,322	$104	$1,426	$1,806	$105	$1,911
Six Months Ended June 30,						
Balance, December 31	$1,309	$104	$1,413	$1,836	$112	$1,948
Total comprehensive income	136	7	143	72	7	79
Preferred stock dividends	(5)		(5)	(15)		(15)
Common stock dividends	(16)		(16)	(15)		(15)
Distributions to noncontrolling interests		(7)	(7)		(5)	(5)
Share conversion	3		3			—
Common stock share repurchases	(113)		(113)	(86)		(86)

Adjustments to paid-in capital for purchase of noncontrolling interests			—	6		6
Adjustments to other comprehensive income for purchase of noncontrolling interests			—	(3)		(3)
Purchase of noncontrolling interests			—		(9)	(9)
Stock compensation	10		10	15		15
Stock withheld for employee taxes	(2)		(2)	(4)		(4)
Balance, June 30	$1,322	$104	$1,426	$1,806	$105	$1,911

Changes in each component of AOCI of the parent —

	Parent Company Stockholders				
	Foreign Currency Translation	Hedging	Investments	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
Balance, March 31, 2014	$(254)	$—	$3	$(481)	$(732)
Other comprehensive income (loss):					
Currency translation adjustments	14				14
Holding gains (losses)		1	3		4
Amortization of net actuarial losses included in net periodic benefit cost (b)				3	3
Other comprehensive income	14	1	3	3	21
Balance, June 30, 2014	$(240)	$1	$6	$(478)	$(711)
Balance, March 31, 2013	$(219)	$7	$13	$(602)	$(801)
Other comprehensive income (loss):					
Currency translation adjustments	(47)				(47)
Holding losses		(3)	(2)		(5)
Reclassification of amount to net income (a)		(3)	(8)		(11)
Amortization of net actuarial losses included in net periodic benefit cost (b)				6	6
Other comprehensive income (loss)	(47)	(6)	(10)	6	(57)
Balance, June 30, 2013	$(266)	$1	$3	$(596)	$(858)

	Parent Company Stockholders				
	Foreign Currency Translation	Hedging	Investments	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2013	$(242)	$—	$3	$(488)	$(727)
Other comprehensive income (loss):					
Currency translation adjustments	2				2
Holding gains		1	5		6
Reclassification of amount to net income (a)			(2)		(2)
Venezuelan bolivar devaluation				3	3
Amortization of net actuarial losses included in net periodic benefit cost (b)				8	8
Tax expense				(1)	(1)
Other comprehensive income	2	1	3	10	16
Balance, June 30, 2014	$(240)	$1	$6	$(478)	$(711)
Balance, December 31, 2012	$(198)	$3	$12	$(610)	$(793)
Other comprehensive income (loss):					
Currency translation adjustments	(64)				(64)
Holding gains		2	(1)		1
Reclassification of amount to net income (a)		(5)	(8)		(13)
Venezuelan bolivar devaluation				2	2

Amortization of net actuarial losses included in net periodic benefit cost (b)				12	12
Other comprehensive income (loss)	(64)	(3)	(9)	14	(62)
Adjustment for purchase of noncontrolling interests	(4)	1			(3)
Balance, June 30, 2013	$(266)	$1	$3	$(596)	$(858)

(a) Foreign currency contract and investment reclassifications are included in other income, net.
(b) See Note 9 for additional details.

During the first quarter of 2013, Dana purchased the noncontrolling interests in three of its subsidiaries for $7. Dana maintained its controlling financial interest in each of the subsidiaries and accounted for the purchases as equity transactions. The difference between the fair value of the consideration paid and the carrying value of the noncontrolling interests was recognized as additional paid-in capital of the parent company. At the time of the purchases the subsidiaries had accumulated other comprehensive income. Accumulated other comprehensive income of the parent company has been adjusted to reflect the ownership interest change with a corresponding offset to additional paid-in capital of the parent company.

Note 7. Earnings per Share

Reconciliation of the numerators and denominators of the earnings per share calculations —

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Income from continuing operations	$92	$97	$130	$145
Less: Noncontrolling interests	4	4	7	12
Less: Preferred stock dividend requirements	2	7	5	15
Income from continuing operations available to common stockholders - Numerator basic	86	86	118	118
Preferred stock dividend requirements	2	7	5	15
Numerator diluted	$88	$93	$123	$133
Net income available to common stockholders - Numerator basic	$84	$85	$115	$119
Preferred stock dividend requirements	2	7	5	15
Numerator diluted	$86	$92	$120	$134
Weighted-average number of shares outstanding - Denominator basic	156.7	145.9	153.7	146.9
Employee compensation-related shares, including stock options	1.3	1.4	1.2	1.6
Conversion of preferred stock	17.1	64.6	21.1	64.6
Denominator diluted	175.1	211.9	176.0	213.1

The share count for diluted earnings per share is computed on the basis of the weighted-average number of common shares outstanding plus the effects of dilutive common stock equivalents (CSEs) outstanding during the period. We excluded 0.3 million and 0.6 million CSEs from the calculations of diluted earnings per share for the quarter and year-to-date periods ended June 30, 2013 as the effect of including them would have been anti-dilutive.

Note 8. Stock Compensation

The Compensation Committee of our Board of Directors approved the grant of RSUs and performance share units (PSUs) shown in the table below during the first half of 2014.

	Granted (In millions)	Weighted-average Per Share Grant Date Fair Value
RSUs	0.7	$ 21.21
PSUs	0.3	$ 24.36

We calculated the fair value of the RSUs at grant date based on the closing market price of our common stock at the date of grant. The number of PSUs that ultimately vest is contingent on achieving specified return on invested capital targets and specified total shareholder return targets relative to peer companies. For the portion of the award based on the return on invested capital performance metric, we estimated the fair value of the PSUs at grant date based on the closing market price of our common stock at the date of grant adjusted for the value of assumed dividends over the period because the award is not dividend protected. For the portion of the award based on shareholder returns, we estimated the fair value of the PSUs at grant date using various assumptions as part of a Monte Carlo simulation. The expected term represents the period from the grant date to the end of the three-year performance period. The risk-free interest rate of 0.64% was based on U.S. Treasury constant maturity rates at the grant date. The dividend yield of 1.02% was calculated by dividing the expected annual dividend by the average stock price over the prior year. The expected volatility of 43.6% was based on historical volatility over the prior three years using daily stock price observations.

Stock options and SARs related to 0.4 million shares were exercised and 0.1 million shares were forfeited in 2014. We received $4 of cash from the exercise of stock options and we paid $2 of cash to settle SARs and RSUs during 2014. We issued 0.3 million shares of common stock based on the vesting of RSUs.

We recognized stock compensation expense of $5 and $4 during the second quarter of 2014 and 2013 and $9 and $9 during the first half of 2014 and 2013. At June 30, 2014, the total unrecognized compensation cost related to the nonvested awards granted and expected to vest was $30. This cost is expected to be recognized over a weighted-average period of 2.1 years.

Note 9. Pension and Postretirement Benefit Plans

We have a number of defined contribution and defined benefit, qualified and nonqualified, pension plans covering eligible employees. Other postretirement benefits (OPEB), including medical and life insurance, are provided for certain employees upon retirement.

Components of net periodic benefit cost (credit) —

	Pension					
	2014		2013		OPEB - Non-U.S.	
Three Months Ended June 30,	U.S.	Non-U.S.	U.S.	Non-U.S.	2014	2013
Interest cost	$20	$3	$19	$3	$2	$1
Expected return on plan assets	(28)		(29)			
Service cost		2		2		
Amortization of net actuarial loss	4	1	5	1		
Net periodic benefit cost (credit)	$(4)	$6	$(5)	$6	$2	$1
Six Months Ended June 30,						
Interest cost	$40	$6	$38	$6	$3	$2
Expected return on plan assets	(55)		(58)			
Service cost		3		3		
Amortization of net actuarial loss	8	2	10	2		
Net periodic benefit cost (credit)	$(7)	$11	$(10)	$11	$3	$2

Note 10. Marketable Securities

	June 30, 2014			December 31, 2013		
	Cost	Unrealized Gain (Loss)	Fair Value	Cost	Unrealized Gain (Loss)	Fair Value
U.S. government securities	$39	$—	$39	$27	$—	$27
Corporate securities	33		33	30	(1)	29
Certificates of deposit	24		24	21		21
Other	66	6	72	31	2	33
Total marketable securities	$162	$6	$168	$109	$1	$110

U.S. government securities include bonds issued by government-sponsored agencies and Treasury notes. Corporate securities include primarily debt securities. Other consists of investments in mutual and index funds. U.S. government securities, corporate debt and certificates of deposit maturing in one year or less and after one year through five years total $28 and $68 at June 30, 2014.

Note 11. Financing Agreements

Long-term debt at —

	Interest Rate	June 30, 2014	December 31, 2013
Senior Notes due February 15, 2019	6.500%	$400	$400
Senior Notes due February 15, 2021	6.750%	350	350
Senior Notes due September 15, 2021	5.375%	450	450
Senior Notes due September 15, 2023	6.000%	300	300
Other indebtedness		79	99
Total		1,579	1,599
Less: current maturities		11	32
Total long-term debt		$1,568	$1,567

Interest on the senior notes is payable semi-annually. Other indebtedness includes borrowings from various financial institutions and capital lease obligations.

Senior notes — In July 2013, we completed the sale of $750 in senior unsecured notes. Interest on the September 2021 Notes and September 2023 Notes is payable on March 15 and September 15 of each year beginning on March 15, 2014. Net proceeds of the offering totaled $734. Financing costs of $16 were recorded as deferred costs and are being amortized to interest expense over the life of the notes. The net proceeds from the offering were used to repurchase all of our outstanding Series A preferred stock and to fund common stock repurchases under our previously authorized share repurchase program.

Revolving facility — On June 20, 2013, we received commitments from existing lenders for a $500 amended and restated revolving credit facility (the Amended Revolving Facility) which expires on June 20, 2018. In connection with the Amended Revolving Facility, we paid $3 in deferred financing costs to be amortized to interest expense over the life of the facility. We wrote off $2 of previously deferred financing costs associated with our prior revolving credit facility to other income, net.

The Amended Revolving Facility is guaranteed by all of our domestic subsidiaries except for Dana Credit Corporation and Dana Companies, LLC and their respective subsidiaries (the guarantors) and grants a first priority lien on Dana's and the guarantors' accounts receivable and inventories and, under certain circumstances, to the extent Dana and the guarantors grant a first-priority lien on certain other assets and property, a second-priority lien on such other assets and property.

Advances under the Amended Revolving Facility bear interest at a floating rate based on, at our option, the base rate or LIBOR (each as described in the revolving credit agreement) plus a margin based on the undrawn amounts available under the agreement as set forth below:

Remaining Borrowing Availability	Base Rate		LIBOR Rate	
Greater than $350	0.50	%	1.50	%
Greater than $150 but less than or equal to $350	0.75	%	1.75	%
$150 or less	1.00	%	2.00	%

Commitment fees are applied based on the average daily unused portion of the available amounts under the Amended Revolving Facility. If the average daily unused portion of the revolving facility is less than 50%, the applicable fee will be 0.25% per annum. If the average daily unused portion of the revolving facility is equal to or greater than 50%, the applicable fee will be 0.375% per annum. Up to $300 of the revolving facility may be applied to letters of credit, which reduces availability. We pay a fee for issued and undrawn letters of credit in an amount per annum equal to the applicable LIBOR margin based on quarterly average availability under the revolving facility and a per annum fronting fee of 0.125%, payable quarterly.

There were no borrowings under the revolving facility at June 30, 2014 but we had utilized $48 for letters of credit. Based on our borrowing base collateral of $357, we had potential availability at June 30, 2014 under the revolving facility of $309 after deducting the outstanding letters of credit.

European receivables loan facility — Effective December 31, 2013 we terminated our European accounts receivable backed credit facility (the European Facility). The European facility was scheduled to terminate on March 8, 2016 and permitted borrowings of up to €75. No borrowings were outstanding under the European Facility as of the termination date. We wrote off $2 of previously deferred financing costs associated with the European Facility to other income, net.

Debt covenants — At June 30, 2014, we were in compliance with the covenants of our financing agreements. Under the Amended Revolving Facility and the senior notes, we are required to comply with certain incurrence-based covenants customary for facilities of these types.

Note 12. Fair Value Measurements and Derivatives

In measuring the fair value of our assets and liabilities, we use market data or assumptions that we believe market participants would use in pricing an asset or liability including assumptions about risk when appropriate. Our valuation techniques include a combination of observable and unobservable inputs.

Fair value measurements on a recurring basis — Assets and liabilities that are carried in our balance sheet at fair value are as follows:

		Fair Value Measurements Using		
June 30, 2014	Total	Quoted Prices in Active Markets (Level 1)	Significant Inputs Observable (Level 2)	Significant Inputs Unobservable (Level 3)
Marketable securities - current asset	$168	$72	$96	$—
Currency forward contracts - current asset	3		3	
Currency forward contracts - current liability	2		2	
Currency swaps - current asset	2		2	
Currency swaps - current liability	4		4	
December 31, 2013				
Notes receivable - current asset	$75	$—	$75	$—
Marketable securities - current asset	110	33	77	
Currency forward contracts - current asset	3		3	
Currency forward contracts - current liability	2		2	
Currency swaps - noncurrent asset	2		2	
Currency swaps - noncurrent liability	2		2	

Changes in Level 3 recurring fair value measurements —

	Three Months Ended June 30,		Six Months Ended June 30,	
Notes receivable, including current portion	2014	2013	2014	2013
Beginning of period	$—	$133	$—	$129
Accretion of value (interest income)		3		7
Payment received		(61)		(61)
End of period	$—	$75	$—	$75

During January 2014, we sold our interest in a payment-in-kind callable note to a third party for $75. Accordingly, we reclassified the note to current assets and, with observable market value readily available, we reduced the unrealized gain and transferred the note from Level 3 to Level 2 at December 31, 2013.

18

Fair value of financial instruments – The financial instruments that are not carried in our balance sheet at fair value are as follows:

	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior notes	$1,500	$1,602	$1,500	$1,567
Other indebtedness	79	76	99	98
Total	$1,579	$1,678	$1,599	$1,665

The fair value of our senior notes is estimated based upon a market approach (Level 2) while the fair value of our other indebtedness is based upon an income approach (Level 2).

Fair value measurements on a nonrecurring basis — In addition to items that are measured at fair value on a recurring basis, we also have long-lived assets that may be measured at fair value on a nonrecurring basis. These assets include intangible assets and property, plant and equipment which may be written down to fair value as a result of impairment.

Foreign currency derivatives — Our foreign currency derivatives include forward contracts associated with forecasted transactions, primarily involving the purchases and sales of inventory through the next eighteen months, as well as currency swaps associated with certain recorded intercompany loans receivable and payable.

The total notional amount of outstanding foreign currency forward contracts, involving the exchange of various currencies, was $282 as of June 30, 2014 and $252 as of December 31, 2013. The total notional amount of outstanding foreign currency swaps was $71 as of June 30, 2014 and $297 as of December 31, 2013.

The following foreign currency derivatives were outstanding at June 30, 2014:

		Notional Amount (U.S. Dollar Equivalent)			
Functional Currency	Traded Currency	Designated as Cash Flow Hedges	Undesignated	Total	Maturity
U.S. dollar	Mexican peso, Euro	$114	$4	$118	Aug-15
Euro	U.S. dollar, Canadian dollar, Hungarian forint, British pound, Swiss franc, Indian rupee	61	15	76	Dec-15
British pound	U.S. dollar, Euro	27	1	28	Aug-15
Swedish krona					