

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: September 30, 2020

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From to

Commission File Number: 1-1063

Dana Incorporated

(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

Securities registered pursuant to Section 12(b) of the Act:

Common stock \$0.01 par value

(Title of each class)

DAN

(Trading Symbol)

New York Stock Exchange

(Name of exchange on which registered)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 144,491,212 shares of the registrant's common stock outstanding at October 16, 2020.

**DANA INCORPORATED – FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2020**

TABLE OF CONTENTS

	10-Q Pages
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1	Financial Statements
	Consolidated Statement of Operations (Unaudited)
	Consolidated Statement of Comprehensive Income (Unaudited)
	Consolidated Balance Sheet (Unaudited)
	Consolidated Statement of Cash Flows (Unaudited)
	Notes to Consolidated Financial Statements (Unaudited)
Item 2	Management’s Discussion and Analysis of Financial Condition and Results of Operations
Item 3	Quantitative and Qualitative Disclosures About Market Risk
Item 4	Controls and Procedures
<u>PART II – OTHER INFORMATION</u>	
Item 1	Legal Proceedings
Item 1A	Risk Factors
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds
Item 6	Exhibits
	Signatures

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**Dana Incorporated
Consolidated Statement of Operations (Unaudited)
(In millions, except per share amounts)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales	\$ 1,994	\$ 2,164	\$ 4,998	\$ 6,633
Costs and expenses				
Cost of sales	1,780	1,882	4,588	5,725
Selling, general and administrative expenses	111	128	299	404
Amortization of intangibles	4	2	10	8
Restructuring charges, net	2	5	21	23
Impairment of goodwill			(51)	
Pension settlement charge		(2)		(260)
Other income (expense), net	(8)	(8)	(5)	(31)
Earnings before interest and income taxes	89	137	24	182
Write-off deferred financing costs			(5)	
Interest income	3	3	7	8
Interest expense	38	31	99	92
Earnings (loss) before income taxes	54	109	(73)	98
Income tax expense (benefit)	16	5	34	(27)
Equity in earnings of affiliates	7	8	17	22
Net income (loss)	45	112	(90)	147
Less: Noncontrolling interests net income	4	3	6	9
Less: Redeemable noncontrolling interests net loss	(4)	(2)	(25)	(3)
Net income (loss) attributable to the parent company	\$ 45	\$ 111	\$ (71)	\$ 141
Net income (loss) per share available to common stockholders				

Basic	\$	0.31	\$	0.77	\$	(0.49)	\$	0.98
Diluted	\$	0.31	\$	0.77	\$	(0.49)	\$	0.97
Weighted-average common shares outstanding								
Basic		144.5		144.0		144.4		144.0
Diluted		145.2		144.8		144.4		144.8

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

3

[Table of Contents](#)

Dana Incorporated
Consolidated Statement of Comprehensive Income (Unaudited)
(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 45	\$ 112	\$ (90)	\$ 147
Other comprehensive income (loss), net of tax:				
Currency translation adjustments	14	(46)	(133)	(16)
Hedging gains and losses	1	8	40	15
Defined benefit plans	4	5	11	365
Other comprehensive income (loss)	19	(33)	(82)	364
Total comprehensive income (loss)	64	79	(172)	511
Less: Comprehensive (income) loss attributable to noncontrolling interests	(15)	9	(7)	4
Less: Comprehensive (income) loss attributable to redeemable noncontrolling interests	8	(3)	25	(6)
Comprehensive income (loss) attributable to the parent company	<u>\$ 57</u>	<u>\$ 85</u>	<u>\$ (154)</u>	<u>\$ 509</u>

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

4

[Table of Contents](#)

Dana Incorporated
Consolidated Balance Sheet (Unaudited)
(In millions, except share and per share amounts)

	September 30, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 956	\$ 508
Marketable securities	22	19
Accounts receivable		
Trade, less allowance for doubtful accounts of \$7 in 2020 and \$9 in 2019	1,239	1,103
Other	171	202
Inventories	1,087	1,193
Other current assets	129	137
Total current assets	<u>3,604</u>	<u>3,162</u>
Goodwill	458	493
Intangibles	235	240
Deferred tax assets	594	580
Other noncurrent assets	126	120
Investments in affiliates	174	182
Operating lease assets	177	178
Property, plant and equipment, net	2,154	2,265
Total assets	<u>\$ 7,522</u>	<u>\$ 7,220</u>

Liabilities and equity

Current liabilities		
Short-term debt	\$ 12	\$ 14
Current portion of long-term debt	35	20
Accounts payable	1,187	1,255
Accrued payroll and employee benefits	193	206
Taxes on income	59	46
Current portion of operating lease liabilities	43	42
Other accrued liabilities	308	262
Total current liabilities	<u>1,837</u>	<u>1,845</u>

Long-term debt, less debt issuance costs of \$31 in 2020 and \$28 in 2019	2,839	2,336
Noncurrent operating lease liabilities	141	140
Pension and postretirement obligations	457	459
Other noncurrent liabilities	303	305
Total liabilities	5,577	5,085
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interests	152	167
Parent company stockholders' equity		
Preferred stock, 50,000,000 shares authorized, \$0.01 par value, no shares outstanding	—	—
Common stock, 450,000,000 shares authorized, \$0.01 par value, 144,491,212 and 143,942,539 shares outstanding	2	2
Additional paid-in capital	2,392	2,386
Retained earnings	535	622
Treasury stock, at cost (10,437,276 and 10,111,191 shares)	(156)	(150)
Accumulated other comprehensive loss	(1,070)	(987)
Total parent company stockholders' equity	1,703	1,873
Noncontrolling interests	90	95
Total equity	1,793	1,968
Total liabilities and equity	\$ 7,522	\$ 7,220

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

[Table of Contents](#)

Dana Incorporated
Consolidated Statement of Cash Flows (Unaudited)
(In millions)

	Nine Months Ended September 30,	
	2020	2019
Operating activities		
Net income (loss)	\$ (90)	\$ 147
Depreciation	257	235
Amortization	15	12
Amortization of deferred financing charges	6	5
Write-off of deferred financing costs	5	
Earnings of affiliates, net of dividends received	5	(3)
Stock compensation expense	5	15
Deferred income taxes	(28)	(120)
Pension expense, net	3	207
Impairment of goodwill	51	
Change in working capital	(50)	(197)
Other, net	16	(13)
Net cash provided by operating activities	195	288
Investing activities		
Purchases of property, plant and equipment	(181)	(298)
Acquisition of businesses, net of cash acquired	(6)	(666)
Purchases of marketable securities	(36)	(24)
Proceeds from sales and maturities of marketable securities	32	25
Settlements of undesignated derivatives	(5)	(20)
Other, net	3	(12)
Net cash used in investing activities	(193)	(995)
Financing activities		
Net change in short-term debt	(2)	92
Proceeds from long-term debt	512	675
Repayment of long-term debt	(12)	(121)
Deferred financing payments	(13)	(16)
Dividends paid to common stockholders	(15)	(43)
Distributions to noncontrolling interests	(10)	(14)
Sale of interest to noncontrolling shareholder		53
Contributions from noncontrolling interests	10	4
Payments to acquire noncontrolling interests	(1)	
Repurchases of common stock		(25)
Other, net	(3)	
Net cash provided by financing activities	466	605
Net increase (decrease) in cash, cash equivalents and restricted cash	468	(102)
Cash, cash equivalents and restricted cash – beginning of period	518	520
Effect of exchange rate changes on cash balances	(20)	(6)
Cash, cash equivalents and restricted cash – end of period (Note 5)	\$ 966	\$ 412
Non-cash investing activity		

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

[Table of Contents](#)

Dana Incorporated
Index to Notes to Consolidated Financial Statements

1. [Organization and Summary of Significant Accounting Policies](#)
2. [Acquisitions](#)
3. [Goodwill and Other Intangible Assets](#)
4. [Restructuring of Operations](#)
5. [Supplemental Balance Sheet and Cash Flow Information](#)
6. [Stockholders' Equity](#)
7. [Redeemable Noncontrolling Interests](#)
8. [Earnings per Share](#)
9. [Stock Compensation](#)
10. [Pension and Postretirement Benefit Plans](#)
11. [Financing Agreements](#)
12. [Fair Value Measurements and Derivatives](#)
13. [Commitments and Contingencies](#)
14. [Warranty Obligations](#)
15. [Income Taxes](#)
16. [Other Income \(Expense\), Net](#)
17. [Revenue from Contracts with Customers](#)
18. [Segments](#)
19. [Equity Affiliates](#)

[Table of Contents](#)

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 Incorporated (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; and motors, power inverters, and control systems for electric vehicles 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 statement 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 Annual Report on Form 10-K for the year ended December 31, 2019 (the 2019 Form 10-K).

During the second quarter of 2020, we identified an error in the loss attributable to redeemable noncontrolling interests due to incorrectly excluding the share of the goodwill impairment charge related to the redeemable noncontrolling interests. Of the \$48 million impairment charge recorded for the Commercial Vehicle reporting unit during the quarter ended March 31, 2020, \$20 million should have been attributable to the redeemable noncontrolling interests.

We concluded that the error was not material to the financial statements for the quarter ended March 31, 2020 and therefore, amendment of the previously filed Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 is not required. In accordance with ASC Topic 250, "Accounting Changes and Error Corrections," we have corrected the error in the prior period by revising the year-to-date consolidated financial statements appearing herein. The first quarter of 2020 not presented herein will be revised, as applicable, in future filings. The following historical consolidated financial information includes both the consolidated financial information "as previously reported" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, as well as the consolidated financial information "as revised" to reflect the correction of the error.

	Three Months Ended March 31,		
	2020		
	As Previously Reported	Adjustment (unaudited)	As Revised
Consolidated Statement of Operations			
Net income	\$ 38	\$ —	\$ 38
Less: Noncontrolling interests net income	2		2
Less: Redeemable noncontrolling interests net loss	(2)	(20)	(22)
Net income attributable to the parent company	\$ 38	\$ 20	\$ 58
Net income per share available to common stockholders			
Basic	\$ 0.26	\$ 0.14	\$ 0.40
Diluted	\$ 0.26	\$ 0.14	\$ 0.40
Consolidated Statement of Comprehensive Income			
Total comprehensive loss	\$ (84)	\$ —	\$ (84)
Less: Comprehensive loss attributable to noncontrolling interests	17		17
Less: Comprehensive (income) loss attributable to redeemable noncontrolling interests	(6)	20	14
Comprehensive income (loss) attributable to the parent company	\$ (73)	\$ 20	\$ (53)
Period Ended March 31,			
2020			
	As Previously Reported	Adjustment (unaudited)	As Revised
Consolidated Balance Sheet			
Redeemable noncontrolling interests	\$ 175	\$ (20)	\$ 155
Retained earnings	\$ 644	\$ 20	\$ 664

Recently adopted accounting pronouncements

On January 1, 2020, we adopted *Accounting Standards Update (ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, using the modified retrospective approach and an application date of January 1, 2020. This guidance introduces a new approach to estimating credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The adoption resulted in a noncash cumulative effect adjustment to retained earnings on our opening consolidated balance sheet as of January 1, 2020.

We also adopted the following standard during the first nine months of 2020, which did not have a material impact on our financial statements or financial statement disclosures:

	Standard	Effective Date
2018-15	Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	January 1, 2020
2018-14	Compensation – Retirement Benefits – Defined Benefit Plans – General, Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans	January 1, 2020
2018-13	Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement	January 1, 2020

Recently issued accounting pronouncements

In March 2020, the FASB issued ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This guidance is intended to provide temporary optional expedients and exceptions to the US GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burden related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The amendments in this ASU are elective and are effective upon issuance for all entities through December 31, 2022. We are currently assessing the impact of this guidance on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes – Simplifying the Accounting for Income Taxes*. This guidance is intended to simplify various aspects of income tax accounting including the elimination of certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. This guidance becomes effective January 1, 2021 and early adoption is permitted. Adoption of this guidance requires certain changes to primarily be made prospectively, with some changes to be made retrospectively. We are currently assessing the impact of this guidance on our consolidated financial statements.

Note 2. Acquisitions

Ashwoods Innovations Limited — On February 5, 2020, we acquired Curtis Instruments, Inc.'s (Curtis) 35.4% ownership interest in Ashwoods Innovations Limited (Ashwoods). Ashwoods designs and manufactures permanent magnet electric motors for the automotive, material handling and off-highway vehicle markets. The acquisition of Curtis' interest in Ashwoods, along with our existing ownership interest in Ashwoods, provided us with a 97.8% ownership interest and a controlling financial interest in Ashwoods. We recognized a \$3 gain to other income (expense), net on the required remeasurement of our previously held equity method investment in Ashwoods to fair value. The total purchase consideration of \$22 is comprised of \$8 of cash paid to Curtis at closing, the \$10 fair value of our previously held equity method investment in Ashwoods and \$4 related to the effective settlement of a pre-existing loan payable due from Ashwoods. During March 2020, we acquired the remaining noncontrolling interests in Ashwoods held by employee shareholders. See Hydro-Québec relationship discussion below for details of subsequent changes in our ownership interest in Ashwoods. The pro forma effects of this acquisition would not materially impact our reported results for any period presented, and as a result no pro forma financial information is presented.

Nordresa — On August 26, 2019, we acquired a 100% ownership interest in Nordresa Motors, Inc. (Nordresa) for consideration of \$12, using cash on hand. Nordresa is a prominent integration and application engineering expert for the development and commercialization of electric powertrains for commercial vehicles. The investment further enhances Dana's electrification capabilities by combining its complete portfolio of motors, inverters, chargers, gearboxes, and thermal-management products with Nordresa's proprietary battery-management system, electric powertrain controls and integration expertise to deliver complete electric powertrain systems. The results of operations of the business are reported within our Commercial Vehicle operating segment. The pro forma effects of this acquisition would not materially impact our reported results for any period presented, and as a result no pro forma financial information is presented.

Hydro-Québec Relationship — On July 29, 2019, we broadened our relationship with Hydro-Québec, with Hydro-Québec acquiring an indirect 45% redeemable noncontrolling interest in S.M.E. S.p.A. (SME) and increasing its existing indirect 22.5% noncontrolling interest in Prestolite E-Propulsion Systems (Beijing) Limited (PEPS) to 45%. We received \$65 at closing, consisting of \$53 of cash and a note receivable of \$12. The note is payable in five years and bears annual interest of 5%. Dana will continue to consolidate SME and PEPS as the governing documents continue to provide Dana with a controlling financial interest in these subsidiaries. See Note 7 for additional information. See below for a discussion of Dana's acquisitions of PEPS and SME. On April 14, 2020, Hydro-Québec acquired an indirect 45% redeemable noncontrolling interest in Ashwoods. We received \$9 in cash at closing, inclusive of \$2 in proceeds on a loan from Hydro-Québec. Dana will continue to consolidate Ashwoods as the governing documents continue to provide Dana with a controlling financial interest in this subsidiary.

Prestolite E-Propulsion Systems (Beijing) Limited — On June 6, 2019, we acquired Prestolite Electric Beijing Limited's (PEBL) 50% ownership interest in PEPS. PEPS manufactures and distributes electric mobility solutions, including electric motors, inverters, and generators for commercial vehicles and heavy machinery. PEPS has a state-of-the-art facility in China, enabling us to expand motor and inverter manufacturing capabilities in the world's largest electric-mobility market. The acquisition of PEBL's interest in PEPS, along with our existing ownership interest in PEPS through our TM4 subsidiary, provides us with a 100% ownership interest and a controlling financial interest in PEPS. We recognized a \$2 gain to other income (expense), net on the required remeasurement of our previously held equity method investment in PEPS to fair value. See Hydro-Québec relationship discussion above for details of subsequent changes in our ownership interest in PEPS.

We paid \$50 at closing using cash on hand. The purchase consideration and related allocation to the acquisition date fair values of the assets acquired and liabilities assumed are presented in the following table:

Purchase consideration paid at closing	\$	50
Fair value of previously held equity method investment		45
Total purchase consideration	\$	95
Cash and cash equivalents	\$	2
Accounts receivable - Trade		17
Inventories		9
Goodwill		63
Intangibles		10
Property, plant and equipment		2
Accounts payable		(4)
Other accrued liabilities		(3)
Other noncurrent liabilities		(1)
Total purchase consideration allocation	\$	95

Goodwill recognized in this transaction is primarily attributable to synergies expected to arise after the acquisition and the assembled workforce and is not deductible for tax purposes. We used a combination of the discounted cash flow method, an income approach, and the guideline public company method, a market approach, to value our previously held equity method investment in PEPS. The fair value assigned to intangibles includes \$10 allocated to customer relationships. We used the multi-period excess earnings method, an income approach, to value customer relationships. The customer relationships intangible asset is being amortized on a straight-line basis over seven years.

The results of operations of the business are reported in our Commercial Vehicle operating segment from the date of acquisition. The pro forma effects of this acquisition would not materially impact our reported results for any period presented, and as a result no pro forma financial information is presented. PEPS had an insignificant impact on our consolidated results of operations during 2019.

Oerlikon Drive Systems — On February 28, 2019, we acquired a 100% ownership interest in the Oerlikon Drive Systems (ODS) segment of the Oerlikon Group. ODS is a global manufacturer of high-precision gears, planetary hub drives for wheeled and tracked vehicles, and products, controls, and software that support vehicle electrification across the mobility industry. The acquisition of ODS is expected to deliver significant long-term value by accelerating our commitment to vehicle electrification and strengthening the technology portfolio for each of our end markets while further expanding and balancing the manufacturing presence of our off-highway business in key geographical markets.

We paid \$626 at closing which was funded primarily through debt proceeds. See Note 11 for additional information. The purchase consideration and related allocation to the acquisition date fair values of the assets acquired and liabilities assumed are presented in the following table:

Purchase consideration paid at closing	\$	626
Less purchase consideration to be recovered for indemnified matters		(11)
Total purchase consideration	\$	<u>615</u>
Cash and cash equivalents	\$	76
Accounts receivable - Trade		150
Accounts receivable - Other		15
Inventories		190
Other current assets		16
Goodwill		94
Intangibles		58
Deferred tax assets		24
Other noncurrent assets		2
Investments in affiliates		7
Operating lease assets		4
Property, plant and equipment		333
Current portion of long-term debt		(2)
Accounts payable		(151)
Accrued payroll and employee benefits		(37)
Current portion of operating lease liabilities		(1)
Taxes on income		(5)
Other accrued liabilities		(61)
Long-term debt		(8)
Pension and postretirement obligations		(49)
Noncurrent operating lease liabilities		(2)
Other noncurrent liabilities		(30)
Noncontrolling interests		(8)
Total purchase consideration allocation	\$	<u>615</u>

Goodwill recognized in this transaction is primarily attributable to synergies expected to arise after the acquisition and the assembled workforce and is not deductible for tax purposes. The fair values assigned to intangibles includes \$11 allocated to developed technology, \$13 allocated to trademarks and trade names and \$34 allocated to customer relationships. Various valuation techniques were used to determine the fair value of the intangible assets, with the primary techniques being forms of the income approach, specifically, the relief from-royalty and excess earnings valuation methods, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. Under these valuation approaches, we are required to make estimates and assumptions about sales, operating margins, growth rates, customer attrition rates, royalty rates and discount rates based on anticipated future cash flows and marketplace data. We used a replacement cost method to value fixed assets. The developed technology, trademarks and trade names and customer relationship intangible assets are being amortized on a straight-line basis over seven, ten and twelve years, respectively. Property, plant and equipment is being depreciated on a straight-line basis over useful lives ranging from three to twenty-five years.

The results of operations of the business are primarily reported in our Off-Highway and Commercial Vehicle operating segments. Transaction related expenses associated with completion of the acquisition totaling \$13 in 2019 were charged to other income (expense), net. During 2019, the business contributed sales of \$630.

The following unaudited pro forma information has been prepared as if the ODS acquisition and the related debt financing had occurred on January 1, 2018.

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Net sales	\$ 2,164	\$ 6,778
Net income	\$ 115	\$ 182

The unaudited pro forma results include adjustments primarily related to purchase accounting, interest expense related to the debt proceeds used in connection with the acquisition of ODS, and non-recurring strategic transaction expenses. The unaudited pro forma financial information is not indicative of the operational results that would have been obtained had the transactions actually occurred as of that date, nor is it necessarily indicative of Dana's future operational results.

SME — On January 11, 2019, we acquired a 100% ownership interest in SME. SME designs, engineers, and manufactures low-voltage AC induction and synchronous reluctance motors, inverters, and controls for a wide range of off-highway electric vehicle applications, including material handling, agriculture, construction, and automated-guided vehicles. The addition of SME's low-voltage motors and inverters, which are primarily designed to meet the evolution of electrification in off-highway equipment, significantly expands Dana's electrified product portfolio. See Hydro-Québec relationship discussion above for details of subsequent changes in our ownership interest in SME.

We paid \$88 at closing, consisting of \$62 in cash on hand and a note payable of \$26 which allows for net settlement of potential contingencies as defined in the purchase agreement. The note is payable in five years and bears annual interest of 5%. The purchase consideration and the related allocation to the acquisition date fair values of the assets acquired and liabilities assumed are presented in the following table:

Total purchase consideration	\$	88
Accounts receivable - Trade	\$	4
Accounts receivable - Other		1
Inventories		8
Goodwill		68
Intangibles		24
Property, plant and equipment		5
Short-term debt		(8)
Accounts payable		(6)
Accrued payroll and employee benefits		(1)
Other accrued liabilities		(1)
Other noncurrent liabilities		(6)
Total purchase consideration allocation	\$	88

Goodwill recognized in this transaction is primarily attributable to synergies expected to arise after the acquisition and the assembled workforce and is not deductible for tax purposes. The fair values assigned to intangibles include \$15 allocated to developed technology and \$9 allocated to customer relationships. We used the relief from royalty method, an income approach, to value developed technology. We used the multi-period excess earnings method, an income approach, to value customer relationships. We used a replacement cost method to value fixed assets. The developed technology and customer relationship intangible assets are being amortized on a straight-line basis over twelve and ten years, respectively, and property, plant and equipment is being depreciated on a straight-line basis over useful lives ranging from one to twenty years.

The results of operations of the business are reported in our Off-Highway operating segment from the date of acquisition. The pro forma effects of this acquisition would not materially impact our reported results for any period presented, and as a result no pro forma financial information is presented. During 2019, the business contributed sales of \$21.

Note 3. Goodwill and Other Intangible Assets

Goodwill — Our goodwill is tested for impairment annually as of October 31 for all of our reporting units, and more frequent if events or circumstances warrant such a review. We completed numerous acquisitions in 2018 and 2019 that are included in our Commercial Vehicle and Off-Highway reporting units. These acquisitions were recorded on the balance sheet at their estimated acquisition date fair values and therefore had no cushion of fair value over their carrying value. As a result of the effect of the COVID-19 pandemic on our expected future operating cash flows, a decrease in our share price which reduced our market capitalization below the book value of net assets and lower cushion in our expected reporting unit fair values as a result of the recent acquisitions, we determined certain impairment triggers had occurred in the first quarter of 2020. Accordingly, we performed interim impairment analyses at each of our reporting units as of March 31, 2020.

As discussed in our 2019 Form 10-K, we estimate the fair value of the reporting units using various valuation methodologies, including discounted cash flow projections and multiples of current earnings. In determining fair value using discounted cash flow projections, we make significant assumptions and estimates about the extent and timing of future cash flows, including revenue growth rates, projected gross margins, discount rates, terminal growth rates, and exit earnings multiples. If the estimated fair value of the reporting unit exceeds its carrying value, the goodwill is considered not impaired. If the carrying value of the reporting unit exceeds its estimated fair value, a goodwill impairment charge is recorded for the difference, with the impairment loss limited to the total amount of goodwill allocated to that reporting unit.

Based on the results of our interim impairment tests, we concluded that carrying value exceeded fair value in our Commercial Vehicle and Light Vehicle reporting units and we recorded a goodwill impairment charge of \$51 in the first quarter of 2020. Our testing for the Off-Highway reporting unit indicated that fair value slightly exceeded carrying value and, accordingly, no impairment charge was required. The reduction in fair values, and the corresponding impairment charges, were primarily driven by the negative effect of the COVID-19 pandemic on each reporting unit's near-term cash flows. The remaining balance of goodwill for the Commercial Vehicle and Off-Highway reporting units continues to be at risk for impairment. New shutdowns due to the COVID-19 pandemic or a significant reduction in demand caused by decreased consumer confidence and spending following the pandemic may result in the need to recognize an additional impairment charge in the Commercial Vehicle or Off-Highway reporting units.

The remaining change in the carrying amount of goodwill in 2020 is primarily due to the acquisition of Ashwoods, measurement period adjustments for the Nordresa acquisition and currency fluctuation. See Note 2 for additional information on recent acquisitions.

Changes in the carrying amount of goodwill by segment —

	Light Vehicle	Commercial Vehicle	Off-Highway	Power Technologies	Total
Balance, December 31, 2019	\$ 3	\$ 228	\$ 262	\$ —	\$ 493
Acquisitions		(5)	23		18
Impairment	(3)	(48)			(51)
Currency impact		(6)	4		(2)
Balance, September 30, 2020	\$ —	\$ 169	\$ 289	\$ —	\$ 458

Components of other intangible assets —

	Weighted Average Useful Life (years)	September 30, 2020			December 31, 2019		
		Gross Carrying Amount	Accumulated Impairment and Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Impairment and Amortization	Net Carrying Amount
Amortizable intangible assets							
Core technology	8	\$ 143	\$ (99)	\$ 44	\$ 133	\$ (94)	\$ 39
Trademarks and trade names	13	30	(8)	22	30	(6)	24
Customer relationships	8	515	(421)	94	509	(407)	102
Non-amortizable intangible assets							
Trademarks and trade names		75		75	75		75
		<u>\$ 763</u>	<u>\$ (528)</u>	<u>\$ 235</u>	<u>\$ 747</u>	<u>\$ (507)</u>	<u>\$ 240</u>

The net carrying amounts of intangible assets, other than goodwill, attributable to each of our operating segments at September 30, 2020 were as follows: Light Vehicle — \$23, Commercial Vehicle — \$67, Off-Highway — \$138 and Power Technologies — \$7.

Amortization expense related to amortizable intangible assets —

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Charged to cost of sales	\$ 2	\$ 2	\$ 5	\$ 4
Charged to amortization of intangibles	4	2	10	8
Total amortization	<u>\$ 6</u>	<u>\$ 4</u>	<u>\$ 15</u>	<u>\$ 12</u>

The following table provides the estimated aggregate pre-tax amortization expense related to intangible assets for each of the next five years based on September 30, 2020 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 2020	2021	2022	2023	2024
Amortization expense	\$ 5	\$ 19	\$ 19	\$ 19	\$ 18

[Table of Contents](#)

Note 4. Restructuring of Operations

Our restructuring activities have historically included rationalizing our operating footprint by consolidating facilities, positioning operations in lower cost locations and reducing overhead costs. In recent years our focus has been primarily headcount reduction initiatives to reduce operating costs, including actions taken at acquired businesses to rationalize cost structures and achieve operating synergies. Restructuring expense includes costs associated with current and previously announced actions and is comprised of contractual and noncontractual separation costs and exit costs, including certain operating costs of facilities that we are in the process of closing.

Net restructuring charges of \$2 and \$5 in the third quarters of 2020 and 2019 and \$21 and \$23 in the nine months ended September 30 of 2020 and 2019 were comprised of severance and benefit costs related to integration of recent acquisitions, headcount reductions across our operations and exit costs related to previously announced actions.

Accrued restructuring costs and activity —

	Employee Termination Benefits	Exit Costs	Total
Balance, June 30, 2020	\$ 23	\$ —	\$ 23
Charges to restructuring	1	1	2
Adjustments of accruals			
Cash payments	(3)	(1)	(4)
Balance, September 30, 2020	<u>\$ 21</u>	<u>\$ —</u>	<u>\$ 21</u>
Balance, December 31, 2019	\$ 13	\$ 1	\$ 14
Charges to restructuring	19	3	22
Adjustments of accruals	(1)		(1)
Cash payments	(10)	(4)	(14)
Balance, September 30, 2020	<u>\$ 21</u>	<u>\$ —</u>	<u>\$ 21</u>

At September 30, 2020, the accrued employee termination benefits include costs to reduce approximately 400 employees to be completed over the next year.

Cost to complete — The following table provides project-to-date and estimated future restructuring expenses for completion of our approved restructuring initiatives for our business segments at September 30, 2020.

	Expense Recognized			Future Cost to Complete
	Prior to 2020	2020	Total to Date	
Commercial Vehicle	\$ 39	\$ 1	\$ 40	\$ 3
Power Technologies	\$ —	\$ 1	\$ 1	\$ 1

The future cost to complete includes estimated separation costs, primarily those associated with one-time benefit programs, and exit costs through 2021, equipment transfers and other costs which are required to be recognized as closures are finalized or as incurred during the closure.

Note 5. Supplemental Balance Sheet and Cash Flow Information

Inventory components at —

	September 30, 2020	December 31, 2019
Raw materials	\$ 471	\$ 470
Work in process and finished goods	693	787
Inventory reserves	(77)	(64)
Total	<u>\$ 1,087</u>	<u>\$ 1,193</u>

Cash, cash equivalents and restricted cash at —

	September 30, 2020	December 31, 2019	September 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 956	\$ 508	\$ 402	\$ 510
Restricted cash included in other current assets	7	6	7	7
Restricted cash included in other noncurrent assets	3	4	3	3
Total cash, cash equivalents and restricted cash	<u>\$ 966</u>	<u>\$ 518</u>	<u>\$ 412</u>	<u>\$ 520</u>

14

[Table of Contents](#)

Note 6. Stockholders' Equity

Common stock — Our Board of Directors declared a cash dividend of ten cents per share of common stock in the first quarter of 2020. 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 — On December 11, 2019 our Board of Directors approved an extension of our existing common stock share repurchase program through December 31, 2021. Approximately \$150 remained available for future share repurchases as of September 30, 2020.

Changes in equity —

	Three Months Ended September 30,						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
2020							
Balance, June 30, 2020	\$ 2	\$ 2,390	\$ 490	\$ (156)	\$ (1,082)	\$ 76	\$ 1,720
Net income			45			4	49
Other comprehensive income					12	11	23
Distributions to noncontrolling interests						(2)	(2)
Purchase of noncontrolling interests						1	1
Stock compensation		2					2
Balance, September 30, 2020	<u>\$ 2</u>	<u>\$ 2,392</u>	<u>\$ 535</u>	<u>\$ (156)</u>	<u>\$ (1,070)</u>	<u>\$ 90</u>	<u>\$ 1,793</u>
2019							
Balance, June 30, 2019	\$ 2	\$ 2,376	\$ 456	\$ (150)	\$ (968)	\$ 98	\$ 1,814
Net income			111			3	114
Other comprehensive loss					(26)	(12)	(38)
Common stock dividends			(15)				(15)
Distributions to noncontrolling interests						(2)	(2)
Stock compensation		5					5
Balance, September 30, 2019	<u>\$ 2</u>	<u>\$ 2,381</u>	<u>\$ 552</u>	<u>\$ (150)</u>	<u>\$ (994)</u>	<u>\$ 87</u>	<u>\$ 1,878</u>
	Nine Months Ended September 30,						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
2020							
Balance, December 31, 2019	\$ 2	\$ 2,386	\$ 622	\$ (150)	\$ (987)	\$ 95	\$ 1,968

Adoption of ASU 2016-13 credit losses, January 1, 2020			(1)				(1)
Net income (loss)			(71)			6	(65)
Other comprehensive income (loss)					(83)	1	(82)
Common stock dividends			(15)				(15)
Distributions to noncontrolling interests						(10)	(10)
Purchase of noncontrolling interests		1				(2)	(1)
Stock compensation		5					5
Stock withheld for employee taxes				(6)			(6)
Balance, September 30, 2020	\$ 2	\$ 2,392	\$ 535	\$ (156)	\$ (1,070)	\$ 90	\$ 1,793
2019							
Balance, December 31, 2018	\$ 2	\$ 2,368	\$ 456	\$ (119)	\$ (1,362)	\$ 97	\$ 1,442
Adoption of ASU 2016-02 leases, January 1, 2019			(1)				(1)
Net income			141			9	150
Other comprehensive income (loss)					368	(13)	355
Common stock dividends			(44)				(44)
Distributions to noncontrolling interests						(14)	(14)
Increase from business combination						8	8
Common stock share repurchases				(25)			(25)
Stock compensation		13					13
Stock withheld for employee taxes				(6)			(6)
Balance, September 30, 2019	\$ 2	\$ 2,381	\$ 552	\$ (150)	\$ (994)	\$ 87	\$ 1,878

15

[Table of Contents](#)

Changes in each component of accumulated other comprehensive income (AOCI) of the parent —

	Parent Company Stockholders			
	Foreign Currency Translation	Hedging	Defined Benefit Plans	Accumulated Other Comprehensive Loss
Balance, June 30, 2020	\$ (855)	\$ 9	\$ (236)	\$ (1,082)
Other comprehensive income (loss):				
Currency translation adjustments	7			7
Holding gains and losses		(51)		(51)
Reclassification of amount to net income (a)		52		52
Reclassification adjustment for net actuarial losses included in net periodic benefit cost (b)			5	5
Tax expense			(1)	(1)
Other comprehensive income	7	1	4	12
Balance, September 30, 2020	\$ (848)	\$ 10	\$ (232)	\$ (1,070)
Balance, June 30, 2019	\$ (694)	\$ (47)	\$ (227)	\$ (968)
Other comprehensive income (loss):				
Currency translation adjustments	(39)			(39)
Holding gains and losses		57		57
Reclassification of amount to net income (a)		(49)		(49)
Reclassification adjustment for net actuarial losses included in net periodic benefit cost (b)			6	6
Tax expense			(1)	(1)
Other comprehensive income (loss)	(39)	8	5	(26)
Balance, September 30, 2019	\$ (733)	\$ (39)	\$ (222)	\$ (994)

	Parent Company Stockholders			
	Foreign Currency Translation	Hedging	Defined Benefit Plans	Accumulated Other Comprehensive Loss
Balance, December 31, 2019	\$ (714)	\$ (30)	\$ (243)	\$ (987)
Other comprehensive income (loss):				
Currency translation adjustments	(134)			(134)
Holding gains and losses		(29)		(29)
Reclassification of amount to net income (a)		68		68
Reclassification adjustment for net actuarial losses included in net periodic benefit cost (b)			15	15
Tax (expense) benefit		1	(4)	(3)
Other comprehensive income (loss)	(134)	40	11	(83)
Balance, September 30, 2020	\$ (848)	\$ 10	\$ (232)	\$ (1,070)
Balance, December 31, 2018	\$ (721)	\$ (54)	\$ (587)	\$ (1,362)
Other comprehensive income (loss):				
Currency translation adjustments	(12)			(12)
Holding gains and losses		77		77

Reclassification of amount to net income (a)	(62)	(62)
Net actuarial gains	104	104
Reclassification adjustment for net actuarial losses included in net periodic benefit cost (b)	282	282
Tax expense	(21)	(21)
Other comprehensive income (loss)	(12)	15
	365	368
Balance, September 30, 2019	<u>\$ (733)</u>	<u>\$ (39)</u>
	<u>\$ (222)</u>	<u>\$ (994)</u>

(a) Realized gains and losses from currency-related forward contracts associated with forecasted transactions or from other derivative instruments treated as cash flow hedges are reclassified from AOCI into the same line item in the consolidated statement of operations in which the underlying forecasted transaction or other hedged item is recorded. See Note 12 for additional details.

(b) See Note 10 for additional details.

[Table of Contents](#)

Note 7. Redeemable Noncontrolling Interests

In connection with the acquisition of a controlling financial interest in TM4 from Hydro-Québec on June 22, 2018, we recognized \$102 for Hydro-Québec's 45% redeemable noncontrolling interest in TM4. On July 29, 2019, we broadened our relationship with Hydro-Québec, with Hydro-Québec acquiring an indirect 45% redeemable noncontrolling interest in SME and an additional indirect 22.5% redeemable noncontrolling interest in PEPS which resulted in recognition of additional redeemable noncontrolling interest of \$64. On April 14, 2020, Hydro-Québec acquired an indirect 45% redeemable noncontrolling interest in Ashwoods which resulted in recognition of additional redeemable noncontrolling interest of \$7. The terms of the agreement provide Hydro-Québec with the right to put all, and not less than all, of its ownership interests in TM4, SME, PEPS and Ashwoods to Dana at fair value any time after June 22, 2021. See Note 2 for additional information.

Redeemable noncontrolling interests reflected as of the balance sheet date are the greater of the redeemable noncontrolling interest balances adjusted for comprehensive income items and distributions or the redemption values. Redeemable noncontrolling interest adjustments of redemption value are recorded in retained earnings. See Note 1 for additional information on the correction of the error in net loss attributable to redeemable noncontrolling interests.

Reconciliation of changes in redeemable noncontrolling interests —

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Balance, beginning of period	\$ 159	\$ 105	\$ 167	\$ 100
Capital contribution from redeemable noncontrolling interest	1	2	10	4
Sale of redeemable noncontrolling interest		64		64
Comprehensive income (loss) adjustments:				
Net loss attributable to redeemable noncontrolling interests	(4)	(2)	(25)	(3)
Other comprehensive income (loss) attributable to redeemable noncontrolling interests	(4)	5		9
Balance, end of period	<u>\$ 152</u>	<u>\$ 174</u>	<u>\$ 152</u>	<u>\$ 174</u>

Note 8. Earnings per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss) available to common stockholders - Numerator basic and diluted	<u>\$ 45</u>	<u>\$ 111</u>	<u>\$ (71)</u>	<u>\$ 141</u>
Denominator:				
Weighted-average common shares outstanding - Basic	144.5	144.0	144.4	144.0
Employee compensation-related shares, including stock options	0.7	0.8	—	0.8
Weighted-average common shares outstanding - Diluted	<u>145.2</u>	<u>144.8</u>	<u>144.4</u>	<u>144.8</u>

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 1.6 million and 0.6 million CSEs from the calculation of diluted earnings per share for the third quarters of 2020 and 2019 and excluded 1.3 million and 0.2 million of CSEs for the respective year-to-date periods as the effect of including them would have been anti-dilutive. In addition, we excluded CSEs that satisfied the definition of potentially dilutive shares of 0.5 million for the year-to-date 2020 period since there was no net income available to common stockholders for these periods.

Note 9. 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 2020.

Granted	Grant Date
---------	------------

	(In millions)	Fair Value*
RSUs	1.2	\$ 15.50
PSUs	0.5	\$ 14.42

* Weighted-average per share

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 margin targets and specified free cash flow targets, with an even distribution between the two targets. 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 awards are not dividend protected.

We paid \$1 of cash to settle RSUs. We issued 0.5 million and 0.3 million shares of common stock based on the vesting of RSUs and PSUs during 2020. We recognized stock compensation expense of \$2 and \$5 during the third quarters of 2020 and 2019 and expense of \$5 and \$15 during the respective year-to-date periods. At September 30, 2020, the total unrecognized compensation cost related to the nonvested awards granted and expected to vest was \$20. This cost is expected to be recognized over a weighted-average period of 1.9 years.

[Table of Contents](#)

Note 10. 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 —

	Pension				OPEB		
	2020		2019		2020		2019
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	Non-U.S.
Three Months Ended September 30,							
Interest cost	\$ 6	\$ 1	\$ 7	\$ 1	\$ —	\$ 1	\$ 1
Expected return on plan assets	(9)	(1)	(10)				
Service cost		2		2			
Settlement charge				2			
Amortization of net actuarial loss	2	3	3	2			
Net periodic benefit cost	<u>\$ (1)</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 1</u>
Nine Months Ended September 30,							
Interest cost	\$ 16	\$ 4	\$ 33	\$ 5	\$ —	\$ 2	\$ 2
Expected return on plan assets	(26)	(3)	(42)	(2)			
Service cost		6		6			
Settlement charge			258	2			
Amortization of net actuarial loss	8	7	18	5			
Net periodic benefit cost (credit)	<u>\$ (2)</u>	<u>\$ 14</u>	<u>\$ 267</u>	<u>\$ 16</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 2</u>

The service cost components of net periodic pension and OPEB costs are included in cost of sales and selling, general and administrative expenses as part of compensation cost and are eligible for capitalization in inventory and other assets. The non-service components are reported in other income (expense), net and are not eligible for capitalization.

Plan termination — In October 2017, upon authorization by the Dana Board of Directors, we commenced the process of terminating one of our U.S. defined benefit pension plans. During the second quarter of 2019, payments were made from plan assets to those plan participants that elected to take the lump-sum payout option. In June 2019, we entered into (a) a definitive commitment agreement by and among Dana, Athene Annuity and Life Company (Athene) and State Street Global Advisors, as independent fiduciary to the plan, and (b) a definitive commitment agreement by and among Dana, Companion Life Insurance Company (Companion) and State Street Global Advisors, as independent fiduciary to the plan. Pursuant to the definitive commitment agreements, the plan purchased group annuity contracts that irrevocably transferred to the insurance companies the remaining future pension benefit obligations of the plan. Plan participant's benefits are unchanged as a result of the termination. We contributed \$59 to the plan prior to the purchase of the group annuity contracts. The purchase of group annuity contracts was then funded directly by the assets of the plan in June 2019. By irrevocably transferring the obligations to Athene and Companion, we reduced our unfunded pension obligation by approximately \$165 and recognized a pre-tax pension settlement charge of \$256 in 2019.

Note 11. Financing Agreements

Long-term debt at —

	Interest Rate	September 30, 2020	December 31, 2019
Senior Notes due December 15, 2024	5.500%	\$ 425	\$ 425
Senior Notes due April 15, 2025	5.750% *	400	400
Senior Notes due June 1, 2026	6.500% *	375	375
Senior Notes due November 15, 2027	5.375%	400	300
Senior Notes due June 15, 2028	5.625%	400	
Term Facility A		467	474
Term Facility B		349	349
Other indebtedness		89	61

Debt issuance costs	<u>(31)</u>	<u>(28)</u>
	2,874	2,356
Less: Current portion of long-term debt	<u>35</u>	<u>20</u>
Long-term debt, less debt issuance costs	<u>\$ 2,839</u>	<u>\$ 2,336</u>

* In conjunction with the issuance of the April 2025 Notes we entered into 8-year fixed-to-fixed cross-currency swaps which have the effect of economically converting the April 2025 Notes to euro-denominated debt at a fixed rate of 3.850%. In conjunction with the issuance of the June 2026 Notes we entered into 10-year fixed-to-fixed cross-currency swaps which have the effect of economically converting the June 2026 Notes to euro-denominated debt at a fixed rate of 5.140%. See Note 12 for additional information.

Interest on the senior notes is payable semi-annually and interest on the Term Facilities is payable quarterly. Other indebtedness includes the note payable to SME, borrowings from various financial institutions, finance lease obligations and the unamortized fair value adjustment related to a terminated interest rate swap. See Note 2 for additional information on the note payable to SME and Note 12 for additional information on the terminated interest rate swap.

Senior notes activity — In June 2020, we completed the sale of \$400 in senior unsecured notes (June 2028 Notes) at 5.625%. The June 2028 Notes rank equally with Dana's other unsecured senior notes. Interest on the notes is payable on December 15 and June 15 of each year, beginning on December 15, 2020. The June 2028 Notes will mature on June 15, 2028. Net proceeds of the offering totaled \$395. Financing costs of \$5 were recorded as deferred costs and are being amortized to interest expense over the life of the notes. The proceeds from the offering were used to pay down outstanding borrowings under our Revolving Facility and for general corporate purposes. Also, we completed the sale of an additional \$100 of November 2027 Notes at 5.375%. The November 2027 Notes rank equally with Dana's other unsecured senior notes. Interest on the notes is payable on May 15 and November 15 of each year, beginning on November 15, 2020. The November 2027 Notes will mature on November 15, 2027. Net proceeds of the offering totaled \$99. Financing costs of \$1 were recorded as deferred costs and are being amortized to interest expense over the life of the notes. The proceeds from the offering were used for general corporate purposes.

We may redeem some or all of the senior notes at the following redemption prices (expressed as percentages of principal amount), plus accrued and unpaid interest to the redemption date, if redeemed during the 12-month period commencing on the anniversary date of the senior notes in the year set forth below:

Year	Redemption Price				
	December 2024 Notes	April 2025 Notes	June 2026 Notes	November 2027 Notes	June 2028 Notes
2020	101.833%	104.313%			
2021	100.917%	102.875%	103.250%		
2022	100.000%	101.438%	102.167%	102.688%	
2023	100.000%	100.000%	101.083%	101.344%	102.813%
2024		100.000%	100.000%	100.000%	101.406%
2025			100.000%	100.000%	100.000%
2026				100.000%	100.000%
2027					100.000%

At any time prior to November 15, 2022, we may redeem up to 35% of the aggregate principal amount of the November 2027 Notes in an amount not to exceed the amount of proceeds of one or more equity offerings, at a price equal to 105.375% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, provided that at least 50% of the original aggregate principal amount of the November 2027 Notes remains outstanding after the redemption. Prior to November 15, 2022, we may redeem some or all of the November 2027 Notes at a redemption price of 100.000% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date plus a "make-whole" premium. We have not separated the make-whole premium from the underlying debt instrument to account for it as a derivative instrument as the economic characteristics and the risks of this embedded derivative are clearly and closely related to the economic characteristics and risks of the underlying debt.

At any time prior to June 15, 2023, we may redeem up to 35% of the aggregate principal amount of the June 2028 Notes in an amount not to exceed the amount of proceeds of one or more equity offerings, at a price equal to 105.625% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, provided that at least 50% of the original aggregate principal amount of the June 2028 Notes remains outstanding after the redemption. Prior to June 15, 2023, we may redeem some or all of the June 2028 Notes at a redemption price of 100.000% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date plus a "make-whole" premium. We have not separated the make-whole premium from the underlying debt instrument to account for it as a derivative instrument as the economic characteristics and the risks of this embedded derivative are clearly and closely related to the economic characteristics and risks of the underlying debt.

Credit agreement — On February 28, 2019, we entered into an amended credit and guaranty agreement comprised of a \$500 term facility (the Term A Facility), a \$450 term facility (the Term B Facility and, together with the Term A Facility, the Term Facilities) and a \$750 revolving credit facility (the Revolving Facility). The Term A Facility and the Revolving Facility were expansions of our existing facilities. On February 28, 2019, we drew the \$225 available under the Term A Facility and the \$450 available under the Term B Facility. The proceeds from the Term Facilities were used to acquire the Oerlikon Drive Systems segment of the Oerlikon Group and pay for related integration activities. We were required to make equal quarterly installments on the Term A Facility on the last day of each fiscal quarter of \$8 beginning March 31, 2019 and 0.25% of the aggregate principal advances of the Term B Facility quarterly commencing on June 30, 2019. On August 30, 2019, we amended our credit and guaranty agreement, increasing the Revolving Facility to \$1,000 and extending the maturities and reducing the interest rates of both the Revolving Facility and the Term A Facility. On August 30, 2019, we borrowed \$100 on the Revolving Facility and paid down a similar amount of the Term B Facility. We are now required to make quarterly installments on the Term A Facility on the last day of each fiscal quarter of \$7 beginning on September 30, 2020 and are no longer required to make quarterly installments on the Term B Facility. We may prepay some or all of the amounts under the Term Facilities without penalty. We recorded deferred fees of \$13 and \$4 related to the amendments to the Term Facilities and the Revolving Facility, respectively. The deferred fees are being amortized over the life of the applicable facilities. Deferred financing costs on our Revolving Facility are included in other noncurrent assets. The Revolving Facility and the Term A Facility mature on August 17, 2024. The Term B Facility matures on February 28, 2026.

On April 16, 2020, we amended certain provisions of our credit and guaranty agreement including gradually increasing the first lien net leverage ratio from a maximum of 2.00 to 1.00 to a maximum of 4.00 to 1.00 for the quarter ending December 31, 2020 and then, starting with the quarter ending December 31, 2021, decrease the ratio quarterly until it returns to its prior level of 2.00 to 1.00 for and after the quarter ending September 30, 2022, unless Dana, in its sole discretion, elects to return the first lien net leverage ratio to its prior level earlier than such date. We also amended certain restrictive covenants to provide additional limitations until December 31, 2021, unless Dana, in its sole discretion, elects to return the first lien net leverage ratio to its prior level prior to December 31, 2021.

The Term Facilities and the Revolving Facility are guaranteed by all of our wholly-owned domestic subsidiaries subject to certain exceptions (the guarantors) and are secured by a first-priority lien on substantially all of the assets of Dana and the guarantors, subject to certain exceptions.

Advances under the Term A Facility and the Revolving Facility bear interest at a floating rate based on, at our option, the base rate or Eurodollar rate (each as described in the credit agreement) plus a margin as set forth below:

Total Net Leverage Ratio	Margin	
	Base Rate	Eurodollar Rate
Less than or equal to 1.00:1.00	0.25%	1.25%
Greater than 1.00:1.00 but less than or equal to 2.00:1.00	0.50%	1.50%
Greater than 2.00:1.00	0.75%	1.75%

The Term B Facility bears interest based on, at our option, the Base Rate plus 1.25% or the Eurodollar rate plus 2.25%. We have elected to pay interest on our advances under the Term Facilities at the Eurodollar Rate. The interest rate on the Term A Facility was 2.750% and the Term B Facility was 2.400%, inclusive of the applicable margins, as of September 30, 2020.

Commitment fees are applied based on the average daily unused portion of the available amounts under the Revolving Facility as set forth below:

Total Net Leverage Ratio	Commitment Fee
Less than or equal to 1.00:1.00	0.250%
Greater than 1.00:1.00 but less than or equal to 2.00:1.00	0.375%
Greater than 2.00:1.00	0.500%

Up to \$275 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 margin for Eurodollar rate advances based on a quarterly average availability under issued and undrawn letters of credit under the Revolving Facility and a per annum fronting fee of 0.125%, payable quarterly.

At September 30, 2020, we had no outstanding borrowings under the Revolving Facility and had utilized \$21 for letters of credit. We had availability at September 30, 2020 under the Revolving Facility of \$979 after deducting the letters of credit.

Bridge facility — On April 16, 2020, we entered into a \$500 bridge facility (the Bridge Facility). We recorded deferred fees of \$5 related to the Bridge Facility. The deferred fees were being amortized over the life of the Bridge Facility. The Bridge Facility was to mature on April 15, 2021. On June 19, 2020, in connection with the issuance of our June 2028 Notes, we terminated the Bridge Facility and wrote off the \$5 of deferred fees associated with the Bridge Facility.

Debt covenants — At September 30, 2020, we were in compliance with the covenants of our financing agreements. Under the Term Facilities, Revolving Facility and the senior notes, we are required to comply with certain incurrence-based covenants customary for facilities of these types and, in the case of the Term A Facility and Revolving Facility, a maintenance covenant tested on the last day of each fiscal quarter requiring us to maintain a first lien net leverage ratio not to exceed 3.00 to 1.00 for the quarter ending September 30, 2020.

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:

Category	Balance Sheet Location	Fair Value Level	Fair Value	
			September 30, 2020	December 31, 2019
Certificates of deposit	Marketable securities	2	\$ 22	\$ 19
Currency forward contracts				
Cash flow hedges	Accounts receivable - Other	2	3	14
Cash flow hedges	Other accrued liabilities	2	8	2
Undesignated	Accounts receivable - Other	2	5	1
Undesignated	Other accrued liabilities	2	5	1
Interest rate collars	Other accrued liabilities	2	9	3
Currency swaps				
Cash flow hedges	Other noncurrent liabilities	2	62	71

Fair Value Level 1 assets and liabilities reflect quoted prices in active markets. Fair Value Level 2 assets and liabilities reflect the use of significant other observable inputs.

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

	Fair Value Level	September 30, 2020		December 31, 2019	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Long term debt	2	\$ 2,832	\$ 2,884	\$ 2,384	\$ 2,450

Interest rate derivatives — Our portfolio of derivative financial instruments periodically includes interest rate swaps and interest rate collars designed to mitigate our interest rate risk. As of September 30, 2020, no fixed-to-floating interest rate swaps remain outstanding. However, a \$4 fair value adjustment to the carrying amount of our December 2024 Notes, associated with a fixed-to-floating interest rate swap that had been executed but was subsequently terminated during 2015, remains deferred at September 30, 2020. This amount is being amortized as a reduction of interest expense through the period ending December 2024, the scheduled maturity date of the December 2024 Notes. The amount amortized as a reduction of interest expense was not material during the three months and nine months ended September 30, 2020. We have outstanding interest rate collars with a notional value of \$425 that will mature in December 2021. For interest rate collars, no payments or receipts are exchanged unless interest rates rise or fall in excess of a predetermined ceiling or floor rate.

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 fifteen months, as well as currency swaps associated with certain recorded external notes payable and intercompany loans receivable and payable. Periodically, our foreign currency derivatives also include net investment hedges of certain of our investments in foreign operations.

We have executed fixed-to-fixed cross-currency swaps in conjunction with the issuance of certain notes to eliminate the variability in the functional-currency-equivalent cash flows due to changes in exchange rates associated with the forecasted principal and interest payments. All of the underlying designated financial instruments, and any subsequent replacement debt, have been designated as the hedged items in each respective cash flow hedge relationship, as shown in the table below. Designated as cash flow hedges of the forecasted principal and interest payments of the underlying designated financial instruments, or subsequent replacement debt, all of the swaps economically convert the underlying designated financial instruments into the functional currency of each respective holder. The impact of the interest rate differential between the inflow and outflow rates on all fixed-to-fixed cross-currency swaps is recognized during each period as a component of interest expense.

The following fixed-to-fixed cross-currency swaps were outstanding at September 30, 2020:

Underlying Financial Instrument				Derivative Financial Instrument			
Description	Type	Face Amount	Rate	Designated	Traded	Inflow Rate	Outflow Rate
				Notional Amount	Amount		
June 2026 Notes	Payable	\$ 375	6.50%	\$ 375	€ 338	6.50%	5.14%
April 2025 Notes	Payable	\$ 400	5.75%	\$ 400	€ 371	5.75%	3.85%
Luxembourg Intercompany Notes	Receivable	€ 278	3.70%	€ 278	\$ 300	5.38%	3.70%

All of the swaps are expected to be highly effective in offsetting the corresponding currency-based changes in cash outflows related to the underlying designated financial instruments. Based on our qualitative assessment that the critical terms of all of the underlying designated financial instruments and all of the associated swaps match and that all other required criteria have been met, we do not expect to incur any ineffectiveness. As effective cash flow hedges, changes in the fair value of the swaps will be recorded in OCI during each period. Additionally, to the extent the swaps remain effective, the appropriate portion of AOCI will be reclassified to earnings each period as an offset to the foreign exchange gain or loss resulting from the remeasurement of the underlying designated financial instruments. See Note 11 for additional information about the June 2026 Notes and the April 2025 Notes. To the extent the swaps are no longer effective, changes in their fair values will be recorded in earnings.

The total notional amount of outstanding foreign currency forward contracts, involving the exchange of various currencies, was \$263 at September 30, 2020 and \$508 at December 31, 2019. The total notional amount of outstanding foreign currency swaps, including the fixed-to-fixed cross-currency swaps, was \$1,105 at September 30, 2020 and \$1,090 at December 31, 2019.

The following currency derivatives were outstanding at September 30, 2020:

Functional Currency	Traded Currency	Notional Amount (U.S. Dollar Equivalent)			Maturity
		Designated	Undesignated	Total	
U.S. dollar	Mexican peso, euro	\$ 54	\$ 43	\$ 97	Jun-2021
	U.S. dollar, Canadian dollar, Hungarian forint, British pound, Swiss franc, Indian rupee, Russian ruble, Mexican peso, Australian dollar, Singapore dollar, Japanese yen, Chinese renminbi	55	29	84	Jan-2024
Euro	U.S. dollar, euro		6	6	Nov-2020
British pound	U.S. dollar, Thai baht	1	5	6	Dec-2020
South African rand	U.S. dollar	1		1	Feb-2021
Canadian dollar	U.S. dollar, euro	32	11	43	Jun-2021
Brazilian real	U.S. dollar, British pound, euro		21	21	Jun-2021
Indian rupee	Canadian dollar, euro		5	5	Oct-2020
Chinese renminbi					
Total forward contracts		143	120	263	
U.S. dollar	euro	330		330	Nov-2027
Euro	U.S. dollar	775		775	Jun-2026
Total currency swaps		1,105	—	1,105	
Total currency derivatives		\$ 1,248	\$ 120	\$ 1,368	

Designated cash flow hedges — With respect to contracts designated as cash flow hedges, changes in fair value during the period in which the contracts remain outstanding are reported in OCI to the extent such contracts remain effective. Effectiveness is measured by using regression analysis to determine the degree of correlation between the change in the fair value of the derivative instrument and the change in the associated foreign currency exchange rates. Changes in fair value of contracts not designated as cash flow hedges or as net investment hedges are recognized in other income (expense), net in the period in which the changes occur. Realized gains and losses from currency-related forward contracts associated with forecasted transactions or from other derivative instruments, including those that have been designated as cash flow hedges and those that have not been designated, are recognized in the same line item in the consolidated statement of operations in which the underlying forecasted transaction or other hedged item is recorded. Accordingly, amounts are potentially recorded in sales, cost of sales or, in certain circumstances, other income (expense), net.

The following table provides a summary of deferred gains (losses) reported in AOCI as well as the amount expected to be reclassified to income in one year or less:

	Deferred Gain (Loss) in AOCI		
	September 30, 2020	December 31, 2019	Gain (loss) expected to be reclassified into income in one year or less
Forward Contracts	\$ (5)	\$ 6	\$ (5)
Collar	(9)	(3)	
Cross-Currency Swaps	20	(36)	
Total	\$ 6	\$ (33)	\$ (5)

[Table of Contents](#)

The following table provides a summary of the location and amount of gains or losses recognized in the consolidated statement of operations associated with cash flow hedging relationships:

Derivatives Designated as Cash Flow Hedges	Three Months Ended September 30, 2020		
	Net sales	Cost of sales	Other income (expense), net
Total amounts of income and expense line items presented in the consolidated statement of operations in which the effects of cash flow hedges are recorded	\$ 1,994	\$ 1,780	\$ (8)
(Gain) or loss on cash flow hedging relationships			
Foreign currency forwards			
Amount of (gain) loss reclassified from AOCI into income		3	
Cross-currency swaps			
Amount of (gain) loss reclassified from AOCI into income			49

Derivatives Designated as Cash Flow Hedges	Nine Months Ended September 30, 2020		
	Net sales	Cost of sales	Other income (expense), net
Total amounts of income and expense line items presented in the consolidated statement of operations in which the effects of cash flow hedges are recorded	\$ 4,998	\$ 4,588	\$ (5)
(Gain) or loss on cash flow hedging relationships			
Foreign currency forwards			
Amount of (gain) loss reclassified from AOCI into income	1	15	1
Cross-currency swaps			

Derivatives Designated as Cash Flow Hedges	Three Months Ended September 30, 2019		
	Net sales	Cost of sales	Other income (expense), net
Total amounts of income and expense line items presented in the consolidated statement of operations in which the effects of cash flow hedges are recorded	\$ 2,164	\$ 1,882	\$ (8)
(Gain) or loss on cash flow hedging relationships			
Foreign currency forwards			
Amount of (gain) loss reclassified from AOCI into income		(2)	
Cross-currency swaps			
Amount of (gain) loss reclassified from AOCI into income			(47)
Derivatives Designated as Cash Flow Hedges	Nine Months Ended September 30, 2019		
	Net sales	Cost of sales	Other income (expense), net
Total amounts of income and expense line items presented in the consolidated statement of operations in which the effects of cash flow hedges are recorded	\$ 6,633	\$ 5,725	\$ (31)
(Gain) or loss on cash flow hedging relationships			
Foreign currency forwards			
Amount of (gain) loss reclassified from AOCI into income		(7)	
Cross-currency swaps			
Amount of (gain) loss reclassified from AOCI into income			(55)

The amounts reclassified from AOCI into income for the cross-currency swaps represent an offset to a foreign exchange loss on our foreign currency-denominated intercompany and external debt instruments.

[Table of Contents](#)

Certain of our hedges of forecasted transactions have not formally been designated as cash flow hedges. As undesignated forward contracts, the changes in the fair value of such contracts are included in earnings for the duration of the outstanding forward contract. Any realized gain or loss on the settlement of such contracts is recognized in the same period and in the same line item in the consolidated statement of operations as the underlying transaction. The following table provides a summary of the location and amount of gains or losses recognized in the consolidated statement of operations associated with undesignated hedging relationships.

Derivatives Not Designated as Hedging Instruments	Amount of Gain (Loss) Recognized in Income		Location of Gain or (Loss) Recognized in Income
	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	
Foreign currency forward contracts	\$ (2)	\$ (3)	Other income (expense), net
Derivatives Not Designated as Hedging Instruments	Amount of Gain (Loss) Recognized in Income		Location of Gain or (Loss) Recognized in Income
	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	
Foreign currency forward contracts	\$ (8)	\$ (15)	Other income (expense), net

During the first quarter of 2019 we settled the outstanding undesignated Swiss franc notional deal contingent forward related to the ODS acquisition for \$21, resulting in a realized loss of \$13 included in other income (expense), net in the first quarter of 2019.

Net investment hedges — We periodically designate derivative contracts or underlying non-derivative financial instruments as net investment hedges. With respect to contracts designated as net investment hedges, we apply the forward method, but for non-derivative financial instruments designated as net investment hedges, we apply the spot method. Under both methods, we report changes in fair value in the cumulative translation adjustment (CTA) component of OCI during the period in which the contracts remain outstanding to the extent such contracts and non-derivative financial instruments remain effective.

Note 13. Commitments and Contingencies

Product liabilities — Accrued product liability costs were \$1 at September 30, 2020 and \$10 at December 31, 2019. We had also recognized amounts recoverable from third parties of \$14 at September 30, 2020 and \$13 at December 31, 2019. Payments made to claimants precede recovery of amounts from third parties, and may result in recoverable amounts in excess of the total liability. We estimate these liabilities based on current information and assumptions about the value and likelihood of the claims against us.

Environmental liabilities — Accrued environmental liabilities were \$10 at September 30, 2020 and \$13 at December 31, 2019. We consider the most probable method of remediation, current laws and regulations and existing technology in estimating our environmental liabilities.

Guarantee of lease obligations — In connection with the divestiture of our Structural Products business in 2010, leases covering three U.S. facilities were assigned to a U.S. affiliate of Metalsa. Under the terms of the sale agreement, we will guarantee the affiliate's performance under the leases, which run through June 2025, including approximately \$6 of annual payments. In the event of a required payment by Dana as guarantor, we are entitled to pursue full recovery from Metalsa of the amounts paid under the guarantee and to take possession of the leased property.

Other legal matters — We are subject to various pending or threatened legal proceedings arising out of the normal course of business or operations. In view of the inherent difficulty of predicting the outcome of such matters, we cannot state what the eventual outcome of these matters will be. However, based on current knowledge and after consultation with legal counsel, we believe that any liabilities that may result from these proceedings will not have a material adverse effect on our liquidity, financial condition or results of operations.

Note 14. Warranty Obligations

We record a liability for estimated warranty obligations at the dates our products are sold. We record the liability based on our estimate of costs to settle future claims. Adjustments to our estimated costs at time of sale are made as claim experience and other new information becomes available. Obligations for service campaigns and other occurrences are recognized as adjustments to prior estimates when the obligation is probable and can be reasonably estimated.

Changes in warranty liabilities —

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Balance, beginning of period	\$ 96	\$ 95	\$ 101	\$ 75
Acquisitions				17
Amounts accrued for current period sales	12	9	26	26
Adjustments of prior estimates	(4)		(1)	2
Settlements of warranty claims	(11)	(11)	(32)	(27)
Currency impact	2	(2)	1	(2)
Balance, end of period	\$ 95	\$ 91	\$ 95	\$ 91

24

[Table of Contents](#)

Note 15. Income Taxes

We estimate the effective tax rate expected to be applicable for the full fiscal year and use that rate to provide for income taxes in interim reporting periods. We also recognize the tax impact of certain unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur.

We have generally not recognized tax benefits on losses generated in several entities where the recent history of operating losses does not allow us to satisfy the “more likely than not” criterion for the recognition of deferred tax assets. Consequently, there is no income tax expense or benefit recognized on the pre-tax income or losses in these jurisdictions as valuation allowances are adjusted to offset the associated tax expense or benefit. We believe it is reasonably possible that valuation allowances up to \$25 related to a subsidiary in Australia will be released in the next twelve months.

We record interest and penalties related to uncertain tax positions as a component of income tax expense. Net interest expense for the periods presented herein is not significant.

We reported an income tax expense of \$16 and \$5 for the third quarters of 2020 and 2019 and income tax expense of \$34 and income tax benefit of \$27 for the respective year-to-date periods. Our effective tax rates were (46)% and (28)% for the first nine months of 2020 and 2019. In the second quarter of 2020 we recorded an income tax expense of \$56 for valuation allowances in foreign jurisdictions due to reduced income projections. During the first quarter of 2020, a pre-tax goodwill impairment charge of \$51 with an associated income tax benefit of \$1 was recorded. Also, during the first quarter of 2020, we recorded tax benefits of \$37 related to tax actions that adjusted federal tax credits, tax expense of \$2 to record additional valuation allowance in the U.S. based on reduced income projections, and tax expense of \$4 to record valuation allowances in foreign jurisdictions due to reduced income projections. During the third quarter of 2019, we recognized a benefit of \$22 for the release of a valuation allowance in a subsidiary in Brazil based on the recent history of profitability and increased income projections. In the second quarter of 2019, a pre-tax pension settlement charge of \$258 with an associated income tax benefit of \$9 was recorded. Also, during the second quarter of 2019, we recorded tax benefits of \$48 related to tax actions that adjusted federal tax credits and \$30 related to the development of a tax planning strategy which reduced valuation allowances on existing federal tax credits. During the first quarter of 2019, we recognized a benefit of \$22 related to the release of valuation allowances in the U.S. based on increased income projections. Partially offsetting this benefit was \$6 of expense related to a U.S. state law change. Excluding these items, the effective tax rate would be (45)% and 28% for the 2020 and 2019 nine-month periods, respectively. Our effective income tax rates vary from the U.S. federal statutory rate of 21% due to establishment, release and adjustment of valuation allowances in several countries, nondeductible expenses and deemed income, local tax incentives in several countries outside the U.S., different statutory tax rates outside the U.S. and withholding taxes related to repatriations of international earnings. The effective income tax rate may vary significantly due to fluctuations in the amounts and sources, both foreign and domestic, of pretax income and changes in the amounts of non-deductible expenses.

Dividends of earnings from non-U.S. operations are generally no longer subjected to U.S. income tax. We continue to analyze and adjust the estimated tax impact of the income and non-U.S. withholding tax liabilities based on the amounts and sources of these earnings.

Note 16. Other Income (Expense), Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Non-service cost components of pension and OPEB costs	\$ (3)	\$ (4)	\$ (8)	\$ (19)

Government grants and incentives	3	3	9	11
Foreign exchange gain (loss)	(2)	(1)	5	(11)
Strategic transaction expenses	(4)	(8)	(15)	(32)
Non-income tax legal judgment				6
Other, net	(2)	2	4	14
Other income (expense), net	<u>\$ (8)</u>	<u>\$ (8)</u>	<u>\$ (5)</u>	<u>\$ (31)</u>

Foreign exchange gains and losses on cross-currency intercompany loan balances that are not of a long-term investment nature are included above. Foreign exchange gains and losses on intercompany loans that are permanently invested are reported in OCI. Foreign exchange loss in 2019 included a loss on the undesignated Swiss franc notional deal contingent forward related to the ODS acquisition. See Note 12 for additional information.

Strategic transaction expenses relate primarily to costs incurred in connection with acquisition and divestiture related activities, including costs to complete the transaction and post-closing integration costs. Strategic transaction expenses in 2020 were primarily attributable to the acquisitions of ODS and Nordresa and certain other strategic initiatives. Strategic transaction expenses in 2019 were primarily attributable to the acquisition of ODS. See Note 2 for additional information.

During the first quarter of 2019, we won a legal judgment regarding the methodology used to calculate PIS/COFINS tax in Brazil.

Included in other noncurrent assets in our September 30, 2020 balance sheet are \$16 of convertible notes receivable from our investment in Hyliion Inc. On October 1, 2020, Hyliion completed its merger with Tortoise Acquisition Corp. The business combination will result in the combined company being renamed Hyliion Holdings Corp., with its common stock being listed on the New York Stock Exchange under the ticker symbol HYLN. Effective with the completed merger, our notes receivable were converted into 2,988,229 common shares of HYLN. Our investment in Hyliion will be included in noncurrent marketable securities and carried at fair value with changes in fair value included in net income in future periods. The strategic partnership with Hyliion establishes Dana as the preferred supplier for e-propulsion systems to Hyliion as long as Dana maintains a minimum equity investment in Hyliion.

[Table of Contents](#)

Note 17. Revenue from Contracts with Customers

We generate revenue from selling production parts to original equipment manufacturers (OEMs) and service parts to OEMs and aftermarket customers. While we provide production and service parts to certain OEMs under awarded multi-year programs, these multi-year programs do not contain any commitment to volume by the customer. As such, individual customer releases or purchase orders represent the contract with the customer. Our customer contracts do not provide us with an enforceable right to payment for performance completed to date throughout the contract term. As such, we recognize part sales revenue at the point in time when the parts are shipped, and risk of loss has transferred to the customer. We have elected to continue to include shipping and handling fees billed to customers in revenue, while including costs of shipping and handling in costs of sales. Taxes collected from customers are excluded from revenues and credited directly to obligations to the appropriate government agencies. Payment terms with our customers are established based on industry and regional practices and generally do not exceed 180 days.

Certain of our customer contracts include rebate incentives. We estimate expected rebates and accrue the corresponding refund liability, as a reduction of revenue, at the time covered product is sold to the customer based on anticipated customer purchases during the rebate period and contractual rebate percentages. Refund liabilities are included in other accrued liabilities on our consolidated balance sheet. We provide standard fitness for use warranties on the products we sell, accruing for estimated costs related to product warranty obligations at time of sale. See Note 14 for additional information.

Contract liabilities are primarily comprised of cash deposits made by customers with cash in advance payment terms. Generally, our contract liabilities turn over frequently given our relatively short production cycles. Contract liabilities were \$27 and \$23 at September 30, 2020 and December 31, 2019. Contract liabilities are included in other accrued liabilities on our consolidated balance sheet.

Disaggregation of revenue —

The following table disaggregates revenue for each of our operating segments by geographical market:

	Light Vehicle	Commercial Vehicle	Off-Highway	Power Technologies	Total
Three Months Ended September 30, 2020					
North America	\$ 694	\$ 190	\$ 60	\$ 125	\$ 1,069
Europe	94	50	321	112	577
South America	32	50	9	5	96
Asia Pacific	93	24	117	18	252
Total	<u>\$ 913</u>	<u>\$ 314</u>	<u>\$ 507</u>	<u>\$ 260</u>	<u>\$ 1,994</u>
Nine Months Ended September 30, 2020					
North America	\$ 1,518	\$ 510	\$ 192	\$ 310	\$ 2,530
Europe	233	136	929	290	1,588
South America	72	138	22	12	244
Asia Pacific	235	63	297	41	636
Total	<u>\$ 2,058</u>	<u>\$ 847</u>	<u>\$ 1,440</u>	<u>\$ 653</u>	<u>\$ 4,998</u>
Three Months Ended September 30, 2019					
North America	\$ 699	\$ 238	\$ 89	\$ 132	\$ 1,158
Europe	80	49	381	104	614
South America	34	85	11	4	134
Asia Pacific	117	26	101	14	258
Total	<u>\$ 930</u>	<u>\$ 398</u>	<u>\$ 582</u>	<u>\$ 254</u>	<u>\$ 2,164</u>

Nine Months Ended September 30, 2019					
North America	\$ 2,042	\$ 745	\$ 245	\$ 412	\$ 3,444
Europe	256	181	1,243	325	2,005
South America	105	245	31	15	396
Asia Pacific	360	95	289	44	788
Total	<u>\$ 2,763</u>	<u>\$ 1,266</u>	<u>\$ 1,808</u>	<u>\$ 796</u>	<u>\$ 6,633</u>

26

[Table of Contents](#)

Note 18. Segments

We are a global provider of high-technology products to virtually every major vehicle manufacturer in the world. We also serve the stationary industrial market. Our technologies include drive systems (axles, driveshafts, transmissions, and wheel and track drives); motion systems (winches, slew drives, and hub drives); electrodynamic technologies (motors, inverters, software and control systems, battery-management systems, and fuel cell plates); sealing solutions (gaskets, seals, cam covers, and oil pan modules); thermal-management technologies (transmission and engine oil cooling, battery and electronics cooling, charge air cooling, and thermal-acoustical protective shielding); and digital solutions (active and passive system controls and descriptive and predictive analytics). We serve our global light vehicle, medium/heavy vehicle and off-highway markets through four operating segments – Light Vehicle Drive Systems (Light Vehicle), Commercial Vehicle Drive and Motion Systems (Commercial Vehicle), Off-Highway Drive and Motion Systems (Off-Highway) and Power Technologies, which is the center of excellence for sealing and thermal-management technologies that span all customers in our on-highway and off-highway markets. These operating segments have global responsibility and accountability for business commercial activities and financial performance.

Dana evaluates the performance of its operating segments based on external sales and segment EBITDA. Segment EBITDA is a primary driver of cash flows from operations and a measure of our ability to maintain and continue to invest in our operations and provide shareholder returns. Our segments are charged for corporate and other shared administrative costs. Segment EBITDA may not be comparable to similarly titled measures reported by other companies.

Segment information —

Three Months Ended September 30,	2020			2019		
	External Sales	Inter-Segment Sales	Segment EBITDA	External Sales	Inter-Segment Sales	Segment EBITDA
Light Vehicle	\$ 913	\$ 27	\$ 89	\$ 930	\$ 30	\$ 113
Commercial Vehicle	314	20	16	398	27	33
Off-Highway	507	12	65	582	3	79
Power Technologies	260	6	34	254	7	28
Eliminations and other		(65)			(67)	
Total	<u>\$ 1,994</u>	<u>\$ —</u>	<u>\$ 204</u>	<u>\$ 2,164</u>	<u>\$ —</u>	<u>\$ 253</u>
Nine Months Ended September 30,						
Light Vehicle	\$ 2,058	\$ 76	\$ 140	\$ 2,763	\$ 99	\$ 333
Commercial Vehicle	847	49	29	1,266	80	115
Off-Highway	1,440	30	175	1,808	13	264
Power Technologies	653	13	63	796	17	90
Eliminations and other		(168)			(209)	
Total	<u>\$ 4,998</u>	<u>\$ —</u>	<u>\$ 407</u>	<u>\$ 6,633</u>	<u>\$ —</u>	<u>\$ 802</u>

27

[Table of Contents](#)

Reconciliation of segment EBITDA to consolidated net income —

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Segment EBITDA	\$ 204	\$ 253	\$ 407	\$ 802
Corporate expense and other items, net	(3)	(3)	(6)	(9)
Depreciation	(88)	(82)	(257)	(235)
Amortization	(6)	(4)	(15)	(12)
Non-service cost components of pension and OPEB costs	(3)	(4)	(8)	(19)
Restructuring charges, net	(2)	(5)	(21)	(23)
Stock compensation expense	(2)	(5)	(5)	(15)
Strategic transaction expenses	(4)	(8)	(15)	(32)
Impairment of goodwill			(51)	
Acquisition related inventory adjustments		(3)		(12)
Non-income tax legal judgment				6
Other items	(7)		(5)	(9)
Pension settlement charges, net		(2)		(260)
Earnings before interest and income taxes	<u>89</u>	<u>137</u>	<u>24</u>	<u>182</u>

Write-off deferred financing costs			(5)	
Interest income	3	3	7	8
Interest expense	38	31	99	92
Earnings (loss) before income taxes	54	109	(73)	98
Income tax expense (benefit)	16	5	34	(27)
Equity in earnings of affiliates	7	8	17	22
Net income (loss)	\$ 45	\$ 112	\$ (90)	\$ 147

Note 19. Equity Affiliates

We have a number of investments in entities that engage in the manufacture and supply of vehicular parts (primarily axles, axle housings, driveshafts and wheel-end braking systems) and motors for electric vehicles and industrial applications.

Equity method investments exceeding \$5 at September 30, 2020 —

	Ownership Percentage	Investment
Dongfeng Dana Axle Co., Ltd. (DDAC)	50%	\$ 94
Bendix Spicer Foundation Brake, LLC	20%	56
Axles India Limited	48%	8
All others as a group		14
Investments in equity affiliates		172
Investments in affiliates carried at cost		2
Investments in affiliates		\$ 174

Summarized financial information for DDAC —

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Sales	\$ 236	\$ 178	\$ 691	\$ 616
Gross profit	\$ 27	\$ 22	\$ 91	\$ 66
Earnings before income taxes	\$ 13	\$ 9	\$ 35	\$ 29
Net income	\$ 11	\$ 9	\$ 29	\$ 30
Dana's equity in earnings of affiliate	\$ 6	\$ 4	\$ 14	\$ 14

On October 1, 2020, we received a \$4 cash dividend from Bendix Spicer Foundation Brake, LLC (BSFB). Immediately following the receipt of the cash dividend, we sold our 20% ownership interest in BSFB to Bendix Commercial Vehicle Systems LLC. We received \$51 at closing, consisting of \$21 in cash, a note receivable of \$25 and deferred proceeds of \$5. The proceeds received approximated the carrying value of our investment in BSFB. The note receivable and deferred proceeds are due in one year and bear interest at 1.65%. The deferred proceeds are subject to adjustment based on BSFB's cash, working capital and indebtedness balances as of the closing date.

On October 20, 2020, we acquired a 49% ownership interest in Pi Innovo Holdings Limited (Pi Innovo) for consideration of \$17, using cash on hand. The consideration paid is subject to adjustment based on cash and working capital balances as of the closing date. Pi Innovo designs, develops and manufactures electronic control units spanning a range of applications and industries. We will account for our investment in Pi Innovo by applying the equity method.

[Table of Contents](#)

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.

Forward-Looking Information

Statements in this report (or otherwise made by us or on our behalf) that are not entirely historical constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements can often be identified by words such as "anticipates," "expects," "believes," "intends," "plans," "predicts," "seeks," "estimates," "projects," "outlook," "may," "will," "should," "would," "could," "potential," "continue," "ongoing" and similar expressions, variations or negatives of these words. These statements represent the present expectations of Dana Incorporated and its consolidated subsidiaries (Dana) 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 and in our other filings with the Securities and Exchange Commission (SEC). All forward-looking statements speak only as of the date made and we undertake no obligation to publicly update or revise any forward-looking statement to reflect events or circumstances that may arise after the date of this report.

Management Overview

Dana is headquartered in Maumee, Ohio, and was incorporated in Delaware in 2007. We are a global provider of high-technology products to virtually every major vehicle manufacturer in the world. We also serve the stationary industrial market. Our technologies include drive systems (axles, driveshafts,

transmissions, and wheel and track drives); motion systems (winches, slew drives, and hub drives); electrodynamic technologies (motors, inverters, software and control systems, battery-management systems, and fuel cell plates); sealing solutions (gaskets, seals, cam covers, and oil pan modules); thermal-management technologies (transmission and engine oil cooling, battery and electronics cooling, charge air cooling, and thermal-acoustical protective shielding); and digital solutions (active and passive system controls and descriptive and predictive analytics). We serve our global light vehicle, medium/heavy vehicle and off-highway markets through four business units – Light Vehicle Drive Systems (Light Vehicle), Commercial Vehicle Drive and Motion Systems (Commercial Vehicle), Off-Highway Drive and Motion Systems (Off-Highway) and Power Technologies, which is the center of excellence for sealing and thermal-management technologies that span all customers in our on-highway and off-highway markets. We have a diverse customer base and geographic footprint, which minimizes our exposure to individual market and segment declines. At September 30, 2020, we employed approximately 36,300 people, operated in 34 countries and had 145 major facilities housing manufacturing and distribution operations, service and assembly operations, technical and engineering centers and administrative offices.

External sales by operating segment for the periods ended September 30, 2020 and 2019 are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Dollars	% of Total	Dollars	% of Total	Dollars	% of Total	Dollars	% of Total
Light Vehicle	\$ 913	45.8%	\$ 930	43.0%	\$ 2,058	41.2%	\$ 2,763	41.6%
Commercial Vehicle	314	15.8%	398	18.4%	847	16.9%	1,266	19.1%
Off-Highway	507	25.4%	582	26.9%	1,440	28.8%	1,808	27.3%
Power Technologies	260	13.0%	254	11.7%	653	13.1%	796	12.0%
Total	\$ 1,994		\$ 2,164		\$ 4,998		\$ 6,633	

See Note 18 to our consolidated financial statements in Item 1 of Part I for further financial information about our operating segments.

Our internet address is www.dana.com. The inclusion of our website address in this report is an inactive textual reference only and is not intended to include or incorporate by reference the information on our website into this report.

Operational and Strategic Initiatives

Our enterprise strategy builds on our strong technology foundation and leverages our resources across the organization while driving a customer centric focus, expanding our global markets, and delivering innovative solutions as we evolve into the era of vehicle electrification.

Central to our strategy is *leveraging our core operations*. This foundational element enables us to infuse strong operational disciplines throughout the strategy, making it practical, actionable, and effective. It enables us to capitalize on being a major drive systems supplier across all three end-mobility markets. We are achieving improved profitability by actively seeking synergies across our engineering, purchasing, and manufacturing base. We have strengthened the portfolio by acquiring critical assets; and we are utilizing our physical and intellectual capital to amplify innovation across the enterprise. Leveraging these core elements can further expand the cost efficiencies of our common technologies and deliver a sustainable competitive advantage for Dana.

Driving customer centricity continues to be at the heart of who we are. Putting our customers at the center of our value system is firmly embedded in our culture and is driving growth by focusing on customer relationships and providing value to our customers. These relationships are strengthened as we are physically where we need to be in order to provide unparalleled service and we are prioritizing our customers' needs as we engineer solutions that differentiate their products, while making it easier to do business with Dana by digitizing their experience. Our customer centric focus has uniquely positioned us to win more than our fair share of new business and capitalize on future customer outsourcing initiatives.

[Table of Contents](#)

We continue to enhance and expand our global footprint, optimizing it to capture growth across all of our end markets. *Expanding global markets* means utilizing our global capabilities and presence to further penetrate growth markets, focusing on Asia due to its position as the largest mobility market in the world with the highest market growth rate and its lead in the adoption of new energy vehicles. We are investing across various avenues to increase our presence in Asia Pacific by forging new partnerships, expanding inorganically, and growing organically. We continue to operate in this region through wholly owned subsidiaries and joint ventures with local market partners. We have recently made acquisitions that have augmented our footprint in the region, specifically in India and China. All the while, we have been making meaningful organic investments to grow with existing and new customers, primarily in Thailand, India, and China. These added capabilities have enabled us to target the domestic Asia Pacific markets and utilize the capacity for export to other global markets.

Delivering innovative solutions enables us to capitalize on market growth trends as we evolve our core technology capabilities. We are also focused on enhancing our physical products with digital content to provide smart systems and we see an opportunity to become a digital systems provider by delivering software as a service to our traditional end customers. This focus on delivering solutions based on our core technology is leading to new business wins and increasing our content per vehicle. We have made significant investments - both organically and inorganically - allowing us to move to the next phase, which is to *Lead electric propulsion*.

Over the past year we have achieved our goal to accelerate hybridization and electrification through both core Dana technologies and targeted strategic acquisitions and are positioned today to lead the market. The four recent acquisitions of electrodynamic expertise and technologies combined with Dana's longstanding mechatronics capabilities has allowed us to develop and deliver fully integrated e-Propulsion systems that are power-dense and achieve optimal efficiency through the integration of the components that we offer due to our mechatronics capabilities. With recent electric vehicle program awards, we are well on our way to achieving our growth objectives in this emerging market.

The development and implementation of our enterprise strategy is positioning Dana to grow profitably due to increased customer focus as we leverage our core capabilities, expand into new markets, develop and commercialize new technologies including for hybrid and electric vehicles.

See Trends in Our Markets discussion below for additional information on our operational and strategic initiatives.

Capital Structure Initiatives

In addition to investing in our business, we plan to continue prioritizing the allocation of capital to reduce debt and maintain a strong financial position. In January 2018, we announced our intention to drive toward investment grade metrics as part of a balanced approach to our capital allocation priorities and our goal of further strengthening our balance sheet.

Shareholder return actions — When evaluating capital structure initiatives, we balance our growth opportunities and shareholder value initiatives with maintaining a strong balance sheet and access to capital. Our strong financial position has enabled us to simplify our capital structure while providing returns to our shareholders in the form of cash dividends and a reduction in the number of shares outstanding. Our Board of Directors authorized a \$200 share repurchase program effective in 2018 which expires at the end of 2021. Through September 30, 2020, we have used cash of \$50 to repurchase common shares under the program. Through the first quarter of 2020, we had declared and paid quarterly common stock dividends for thirty-three consecutive quarters. In response to the global COVID-19 pandemic, we have temporarily suspended the declaration and payment of dividends to common shareholders and the repurchase of common stock under our existing common stock share repurchase program.

Financing actions — During 2019 we expanded our credit and guaranty agreement, entering into \$675 of additional floating rate term loans to fund the ODS acquisition (see Acquisitions section below) and increasing our revolving credit facility to \$1,000 and extending its maturity by two years. We completed a \$300 2027 note offering and used the proceeds to repay \$300 of higher cost 2023 notes. During 2019, we terminated one of our U.S. defined benefit pension plans, settling approximately \$165 of previously unfunded pension obligations and eliminating future funding risk associated with interest rate and other market developments. In response to the global COVID-19 pandemic, during June 2020, we completed a \$400 2028 note offering and a \$100 add on to our 2027 notes. See Note 11 to our consolidated financial statements in Item 1 of Part I for additional information.

Other Initiatives

Aftermarket opportunities — We have a global group dedicated to identifying and developing aftermarket growth opportunities that leverage the capabilities within our existing businesses – targeting increased future aftermarket sales. Powered by recognized brands such as Dana®, Spicer®, Victor Reinz®, Albarus™, Brevini™, PIV™, Fairfield®, Glaser®, Graziano™, GWB®, Spicer Select™, Thompson™, Tru-Cool®, and Transejes™, Dana delivers a broad range of aftermarket solutions – including genuine, all-makes, and value lines – servicing passenger car, commercial vehicle, off-highway equipment and industrial applications across the globe.

Selective acquisitions — Although transformational opportunities like the GKN plc driveline business transaction that we pursued in 2018 will be considered when strategically and economically attractive, our acquisition focus is principally directed at “bolt-on” or adjacent acquisition opportunities that have a strategic fit with our existing core businesses, particularly opportunities that support our enterprise strategy and enhance the value proposition of our product offerings. Any potential acquisition will be evaluated in the same manner we currently consider customer program opportunities and other uses of capital – with a disciplined financial approach designed to ensure profitable growth and increased shareholder value.

[Table of Contents](#)

Acquisitions

Ashwoods Innovations Limited — On February 5, 2020, we acquired Curtis Instruments, Inc.'s (Curtis) 35.4% ownership interest in Ashwoods Innovations Limited (Ashwoods). Ashwoods designs and manufactures permanent magnet electric motors for the automotive, material handling and off-highway vehicle markets. The acquisition of Curtis' interest in Ashwoods, along with our existing ownership interest in Ashwoods, provided us with a 97.8% ownership interest and a controlling financial interest in Ashwoods. We recognized a \$3 gain to other income (expense), net on the required remeasurement of our previously held equity method investment in Ashwoods to fair value. The total purchase consideration of \$22 is comprised of \$8 of cash paid to Curtis at closing, the \$10 fair value of our previously held equity method investment in Ashwoods and \$4 related to the effective settlement of a pre-existing loan payable due from Ashwoods. During March 2020, we acquired the remaining noncontrolling interests in Ashwoods held by employee shareholders. See Hydro-Québec relationship discussion below for details of the subsequent change in our ownership interest in Ashwoods. The results of operations of Ashwoods are reported within our Off-Highway operating segment. Ashwoods had an insignificant impact on our consolidated results of operations during 2020.

Nordresa — On August 26, 2019, we acquired a 100% ownership interest in Nordresa Motors, Inc. (Nordresa) for consideration of \$12, using cash on hand. Nordresa is a prominent integration and application engineering expert for the development and commercialization of electric powertrains for commercial vehicles. The investment further enhances Dana's electrification capabilities by combining its complete portfolio of motors, inverters, chargers, gearboxes, and thermal-management products with Nordresa's proprietary battery-management system, electric powertrain controls and integration expertise to deliver complete electric powertrain systems. The results of operations of Nordresa are reported within our Commercial Vehicle operating segment. Nordresa had an insignificant impact on our consolidated results of operations during 2019.

Prestolite E-Propulsion Systems (Beijing) Limited — On June 6, 2019, we acquired Prestolite Electric Beijing Limited's (PEBL) 50% ownership interest in Prestolite E-Propulsion Systems (Beijing) Limited (PEPS). PEPS manufactures and distributes electric mobility solutions, including electric motors, inverters, and generators for commercial vehicles and heavy machinery. PEPS has a state-of-the-art facility in China, enabling us to expand motor and inverter manufacturing capabilities in the world's largest electric-mobility market. The acquisition of PEBL's interest in PEPS, along with our existing ownership interest in PEPS through our TM4 subsidiary, provides us with a 100% ownership interest and a controlling financial interest in PEPS. We recognized a \$2 gain to other income (expense), net on the required remeasurement of our previously held equity method investment in PEPS to fair value. We paid \$50 at closing using cash on hand. Reference is made to Note 2 of our consolidated financial statements in Item 1 of Part I for the allocation of purchase consideration to assets acquired and liabilities assumed. The results of operations of PEPS are reported within our Commercial Vehicle operating segment. The PEPS acquisition contributed \$8 of sales and de minimis adjusted EBITDA in 2019. See Hydro-Québec relationship discussion below for details of the subsequent change in our ownership interest in PEPS.

Oerlikon Drive Systems — On February 28, 2019, we acquired a 100% ownership interest in the Oerlikon Drive Systems (ODS) segment of the Oerlikon Group. ODS is a global manufacturer of high-precision gears, planetary hub drives for wheeled and tracked vehicles, and products, controls, and software that support vehicle electrification across the mobility industry. We paid \$626 at closing, which was primarily funded through debt proceeds. Reference is made to Note 2 of our consolidated financial statements in Item 1 of Part I for the allocation of purchase consideration to assets acquired and liabilities

assumed. The results of operations of ODS are reported primarily within our Off-Highway and Commercial Vehicle operating segments. The ODS acquisition added \$630 of sales and \$87 of adjusted EBITDA during 2019.

SME — On January 11, 2019, we acquired a 100% ownership interest in S.M.E. S.p.A. (SME). SME designs, engineers, and manufactures low-voltage AC induction and synchronous reluctance motors, inverters, and controls for a wide range of off-highway electric vehicle applications, including material handling, agriculture, construction, and automated-guided vehicles. The addition of SME's low-voltage motors and inverters, which are primarily designed to meet the evolution of electrification in off-highway equipment, significantly expands Dana's electrified product portfolio. We paid \$88 at closing, consisting of \$62 in cash on hand and a note payable of \$26 which allows for net settlement of potential contingencies as defined in the purchase agreement. The note is payable in five years and bears annual interest of 5%. Reference is made to Note 2 of our consolidated financial statements in Item 1 of Part I for the allocation of purchase consideration to assets acquired and liabilities assumed. The SME acquisition added \$21 of sales and de minimis adjusted EBITDA during 2019. See Hydro-Québec relationship discussion below for details of the subsequent change in our ownership interest in SME.

Hydro-Québec Relationship

On June 22, 2018, we acquired a 55% ownership interest in TM4 from Hydro-Québec. On July 29, 2019, we broadened our relationship with Hydro-Québec, with Hydro-Québec acquiring an indirect 45% redeemable noncontrolling interest in SME and increasing its existing indirect 22.5% noncontrolling interest in PEPS to 45%. We received \$65 at closing, consisting of \$53 of cash and a note receivable of \$12. The note is payable in five years and bears annual interest of 5%. Dana will continue to consolidate SME and PEPS as the governing documents continue to provide Dana with a controlling financial interest in these subsidiaries. See Acquisitions section above for a discussion of Dana's acquisitions of PEPS and SME. On April 14, 2020, Hydro-Québec acquired an indirect 45% redeemable noncontrolling interest in Ashwoods. We received \$9 in cash at closing, inclusive of \$2 in proceeds on a loan from Hydro-Québec. Dana will continue to consolidate Ashwoods as the governing documents continue to provide Dana with a controlling financial interest in this subsidiary. See Acquisitions section above for a discussion of Dana's acquisition of Ashwoods.

[Table of Contents](#)

Trends in Our Markets

The global novel coronavirus disease (COVID-19) pandemic has had and may continue to have an adverse effect on our business, results of operations, cash flows and financial condition. The global COVID-19 pandemic has negatively impacted the global economy, disrupted our operations as well as those of our customers, suppliers and the global supply chains in which we participate, and created significant volatility and disruption of financial markets. The extent of the impact of the COVID-19 pandemic on our business and financial performance, including our ability to execute our near-term and long-term operational, strategic and capital structure initiatives, will depend on future developments, including the duration and severity of the pandemic, which are uncertain and cannot be predicted.

The company's response to the global COVID-19 pandemic has been measured, swift and decisive with an emphasis on health and safety, cash conservation and enhancing liquidity. Our top priority is the health and safety of our employees, their families, our customers, and our communities. We have implemented protocols throughout our global footprint to ensure their health and safety including, but not limited to: temporarily closing a significant number of our facilities; restricting access to and enhancing cleaning and disinfecting protocols of those facilities that continue to operate; use of personal protection equipment; adhering to social distancing guidelines; instituting remote work; and restricting travel.

In response to the rapid dissipation of customer demand, the company has taken actions to conserve cash by flexing its conversion costs across its global manufacturing, assembly and distribution facilities and aggressively reducing its cost base and eliminating discretionary spending at its technical centers and administrative offices. Cost flex activities at our operating facilities has included reduction of material orders, flexing labor costs, halting non-production spending and delaying capital spending where and when appropriate. Cost reduction activities at our technical centers and administrative offices has included a temporary 20% reduction in salaried employee wages, a temporary 20% reduction in board of director remuneration, a temporary 50% reduction in the Chief Executive Officer's compensation, reduction of cash incentive compensation, a moratorium on travel and entertainment expenditures and delaying capital spending and investment in research and development activities where and when appropriate. The company is also temporarily suspending the declaration and payment of dividends to common shareholders and temporarily suspending the repurchase of common stock under its existing common stock share repurchase program. In addition, the company is taking advantage of various government programs and subsidies in the countries in which it operates, including certain provisions of the Coronavirus Aid, Relief and Economic Security (CARES) Act.

As of September 30, 2020, we had total liquidity of \$1,955 including cash and cash equivalents (less deposits), marketable securities and availability from our Revolving Facility. Also, the company has no meaningful debt maturities before 2024.

While we have seen a marked improvement in our end markets during the third quarter of 2020, that improvement has varied significantly by market and by region. As we continue to manage through the unprecedented disruption in our markets and associated economic uncertainty resulting from the global COVID-19 pandemic, we will continue to respond in a measured, swift and decisive manner with continued emphasis on health and safety, cash conservation and maintenance of our liquidity position.

Foreign Currency

With 52% of our year-to-date 2020 sales coming from outside the U.S., international currency movements can have a significant effect on our sales and results of operations. The euro zone countries and Brazil accounted for 52% and 7% of our year-to-date 2020 non-U.S. sales, respectively, while China, India and Thailand accounted for 10%, 7% and 5%, respectively. Although sales in Argentina and South Africa were each less than 5% of our non-U.S. sales, exchange rate movements of those countries have been volatile and significantly impacted sales from time to time. International currencies strengthened against the U.S. dollar in 2018, with sales increasing by \$16 principally due to a stronger euro, Thai baht and Chinese renminbi, partially offset by a weaker Brazilian real, Argentine peso and Indian rupee. Weaker international currencies during 2019 decreased sales by \$177, with the euro, Brazilian real and South African rand accounting for \$103, \$30 and \$15 of the decrease, respectively. Weaker international currencies decreased sales by \$63 during the first nine months of 2020 compared to the same period last year, with the Brazilian real, South African rand, Indian rupee and Chinese renminbi accounting for \$47, \$9, \$8 and \$5 of the decrease, respectively, while a stronger euro increased sales by \$9.

During the second quarter of 2018, we determined that Argentina's economy met the GAAP definition of a highly inflationary economy. In assessing Argentina's economy as highly inflationary we considered its three-year cumulative inflation rate along with other factors. As a result, effective July 1,

2018, the U.S. dollar is the functional currency for our Argentine operations, rather than the Argentine peso. Beginning July 1, 2018, peso-denominated monetary assets and liabilities are remeasured into U.S. dollars using current Argentine peso exchange rates with resulting translation gains or losses included in results of operations. Nonmonetary assets and liabilities are remeasured into U.S. dollar using historic Argentine peso exchange rates.

[Table of Contents](#)

International Markets

Trade actions initiated by the U.S. imposing tariffs on imports have been met with retaliatory tariffs by other countries, adding a level of tension and uncertainty to the global economic environment. In November 2018, the U.S., Mexico and Canada executed the U.S.-Mexico-Canada Agreement (USMCA), the successor agreement to the North American Free Trade Agreement (NAFTA). The agreement includes the imposition of tariffs on vehicles that do not meet regional raw material (steel and aluminum), part and labor content requirements. The agreement was ratified by the U.S. in January 2020. These and other actions are likely to impact trade policies with other countries and the overall global economy. The United Kingdom's decision to exit the European Union ("Brexit") continues to provide some uncertainty and potential volatility around European currencies, along with uncertain effects of future trade and other cross-border activities of the United Kingdom with the European Union and other countries.

The Brazil market is an important market for our Commercial Vehicle segment, representing about 16% of this segment's year-to-date 2020 sales. Our medium/heavy truck sales in Brazil account for approximately 76% of our year-to-date 2020 sales in the country. Reduced market demand resulting from the weak economic environment in Brazil during 2015 and 2016 lead to significant production level declines in the light truck and medium/heavy markets. In response to the challenging economic conditions in this country, we implemented restructuring and other cost reduction actions and reduced costs to the extent practicable. The Brazilian economy rebounded in 2017 and 2018, leading to increased medium/heavy and light truck production of more than 40% in each of those segments over the two-year period. Sales by our operations in Brazil were \$393 in 2019, up 1% from 2018, reflective of modestly higher medium/heavy and light truck production levels in 2019. Sales by our operations in Brazil were \$182 in the nine months of 2020, down 41% from the same period of 2019, reflective of lower medium/heavy truck production levels.

As indicated above, Argentina has experienced significant inflationary pressures the past few years, contributing to significant devaluation of its currency among other economic challenges. Our Argentine operation supports our Light Vehicle operating segment. Our sales in Argentina for the first nine months of 2020 of approximately \$51 are approximately 1% of our consolidated sales and our net asset exposure related to Argentina was approximately \$20, including \$5 of net fixed assets, at September 30, 2020.

Commodity Costs

The cost of our products may be significantly impacted by changes in raw material commodity prices, the most important to us being those of various grades of steel, aluminum, copper and brass. The effects of changes in commodity prices are reflected directly in our purchases of commodities and indirectly through our purchases of products such as castings, forgings, bearings and component parts that include commodities. Beginning in 2018, commodity prices have been impacted by imposed tariffs. Suppliers directly impacted by the tariffs are attempting to pass through the cost of the tariffs while suppliers not subject to the tariffs are advantaging themselves by raising prices. Most of our major customer agreements provide for the sharing of significant commodity price changes with those customers based on the movement in various published commodity indexes. Where such formal agreements are not present, we have historically been successful implementing price adjustments that largely compensate for the inflationary impact of material costs. Material cost changes will customarily have some impact on our financial results as customer pricing adjustments typically lag commodity price changes.

Prices for commodities such as steel and aluminum rose during 2019, due to strong global demand. Higher commodity prices reduced year-over-year earnings in 2019 by approximately \$30, as compared to year-over-year earnings reductions of \$115 in 2018. Material recovery and other pricing actions decreased earnings in 2019 by \$10, whereas pricing and recovery actions increased year-over-year earnings in 2018 by \$80. Lower commodity prices increased year-over-year third-quarter and nine-month earnings in 2020 by \$13 and \$35, as compared to year-over-year earnings reductions of \$2 and \$46 in the same periods last year. Material cost recovery and other pricing actions decreased year-over-year earnings in the third quarter and first nine months of 2020 by \$18 and \$69, whereas pricing and recovery actions decreased year-over-year third quarter earnings in 2019 by \$14 while they increased year-over-year nine-months earnings by \$8.

Sales, Earnings and Cash Flow Outlook

	2020 Outlook	2019	2018
Sales	\$6,650 - \$6,950	\$ 8,620	\$ 8,143
Adjusted EBITDA	\$530 - \$590	\$ 1,019	\$ 957
Net cash provided by operating activities	~5.1% of Sales	\$ 637	\$ 568
Discretionary pension contributions	\$ —	\$ 61	\$ —
Purchases of property, plant and equipment	~4.4% of Sales	\$ 426	\$ 325
Adjusted Free Cash Flow	~0.7% of Sales	\$ 272	\$ 243

Adjusted EBITDA and adjusted free cash flow are non-GAAP financial measures. See the Non-GAAP Financial Measures discussion below for definitions of our non-GAAP financial measures and reconciliations to the most directly comparable U.S. generally accepted accounting principles (GAAP) measures. We have not provided a reconciliation of our adjusted EBITDA outlook to the most comparable GAAP measure of net income. Providing net income guidance is potentially misleading and not practical given the difficulty of projecting event driven transactional and other non-core operating items that are included in net income, including restructuring actions, asset impairments and certain income tax adjustments. The accompanying reconciliations of these non-GAAP measures with the most comparable GAAP measures for the historical periods presented are indicative of the reconciliations that will be prepared upon completion of the periods covered by the non-GAAP guidance.

Our updated 2020 sales, adjusted EBITDA and adjusted free cash flow outlook assumes a continued dissipation of the impact of the global COVID-19 pandemic on our end markets, our customers and our operations. Our updated 2020 outlook does not anticipate significant market disruption or any of our major customers having to temporarily close plants or otherwise curtail production in response to a resurgence of the global COVID-19 pandemic.

[Table of Contents](#)**Summary Consolidated Results of Operations (Third Quarter, 2020 versus 2019)**

	Three Months Ended September 30,				Increase/ (Decrease)
	2020		2019		
	Dollars	% of Net Sales	Dollars	% of Net Sales	
Net sales	\$ 1,994		\$ 2,164		\$ (170)
Cost of sales	1,780	89.3%	1,882	87.0%	(102)
Gross margin	214	10.7%	282	13.0%	(68)
Selling, general and administrative expenses	111	5.6%	128	5.9%	(17)
Amortization of intangibles	4		2		2
Restructuring charges, net	2		5		(3)
Pension settlement charge			(2)		2
Other income (expense), net	(8)		(8)		—
Earnings before interest and income taxes	89		137		(48)
Interest income	3		3		—
Interest expense	38		31		7
Earnings before income taxes	54		109		(55)
Income tax expense	16		5		11
Equity in earnings of affiliates	7		8		(1)
Net income	45		112		(67)
Less: Noncontrolling interests net income	4		3		1
Less: Redeemable noncontrolling interests net loss	(4)		(2)		(2)
Net income attributable to the parent company	\$ 45		\$ 111		\$ (66)

Sales — The following table shows changes in our sales by geographic region.

	Three Months Ended September 30,		Increase/ (Decrease)	Amount of Change Due To		
	2020	2019		Currency Effects	Acquisitions (Divestitures)	Organic Change
North America	\$ 1,069	\$ 1,158	\$ (89)	\$ —	\$ —	\$ (89)
Europe	577	614	(37)	24	4	(65)
South America	96	134	(38)	(23)		(15)
Asia Pacific	252	258	(6)	(3)		(3)
Total	\$ 1,994	\$ 2,164	\$ (170)	\$ (2)	\$ 4	\$ (172)

[Table of Contents](#)

Sales in 2020 were \$170 lower than in 2019. Weaker international currencies decreased sales by \$2, principally due to a weaker Brazilian real and Indian rupee, partially offset by a stronger euro. The acquisition of PEPS in last year's second quarter and Ashwoods in this year's first quarter, generated a year-over-year increase in sales of \$4. The organic sales decrease of \$172, or 8%, resulted from the continued, but dissipating, effects of the global COVID-19 pandemic, partially offset by the conversion of sales backlog. The impact of the global COVID-19 pandemic on our operations as well as those of our customers, suppliers and the global supply chains in which we participate, was most notable during April 2020, with a measured ramp up in production beginning in May with continued sequential month-over-month improvement through September 2020. Pricing actions, including material commodity price and inflationary cost adjustments, reduced sales by \$18.

The North America organic sales decrease of 8% was driven principally by weaker light and medium/heavy duty truck production volumes resulting from the global COVID-19 pandemic, partially offset by the conversion of sales backlog. Third-quarter 2020 full frame light truck production was down 2% while production of Class 8 and Classes 5-7 trucks were down 38% and 25%, respectively.

Excluding currency and acquisition effects, sales in Europe were down 11% compared with 2019. With our significant Off-Highway presence in the region, weaker construction/mining and agricultural markets due to the continued, but dissipating, effects of the global COVID-19 pandemic were a major factor. Organic sales in this operating segment were down 15% compared with the third quarter of 2019.

Excluding currency effects, third quarter sales in South America decreased 11% compared to 2019 due primarily to the continued, but dissipating, effects of the global COVID-19 pandemic. Third-quarter 2020 medium/heavy truck production was down 27% and light truck production was down 6%.

Excluding currency and acquisition effects, sales in Asia Pacific decreased slightly compared to 2019. Asia Pacific is the first region to have largely recovered from the effects of the global COVID-19 pandemic. Medium/heavy truck production was up 33%, while Light truck productions was flat and light vehicle engine production was down 6% compared with the third quarter of 2019.

Cost of sales and gross margin — Cost of sales for the third quarter of 2020 decreased \$102, or 5% when compared to 2019. Cost of sales as a percent of sales in 2020 was 230 basis points higher than in the previous year. Cost of sales attributed to acquisitions was approximately \$8. Excluding the effects of acquisitions, cost of sales as a percent of sales was 89.0%, 200 basis points higher than in the previous year. The increase in cost of sales as a percent of sales was largely attributable to actions to flex down our cost structure lagging the rapid dissipation of customer demand across all of our end markets as a result of the global COVID-19 pandemic, our inability to effectively reduce labor costs in certain countries due to government requirements, as well as

our inability to reduce fixed costs including depreciation and rent expense. Partially offsetting the impact of the rapid dissipation of customer demand were lower commodity prices which lowered material costs by \$13 and continued material cost savings of approximately \$19.

Gross margin of \$214 for 2020 decreased \$68 from 2019. Gross margin as a percent of sales was 10.7% in 2020, 230 basis points lower than in 2019. The decline in margin as a percent of sales was driven principally by the cost of sales factors referenced above.

Selling, general and administrative expenses (SG&A) — SG&A expenses in 2020 were \$111 (5.6% of sales) as compared to \$128 (5.9% of sales) in 2019. SG&A attributed to acquisitions was \$2. Excluding the increase associated with acquisitions, SG&A expenses were 40 basis points lower than the same period of 2019. The year-over-year decrease of \$19 exclusive of acquisitions was primarily due to lower year-over-year salaried employee wages, benefits, travel expenses, marketing expenses and professional fees resulting from the execution of cost reduction initiatives in response to the global COVID-19 pandemic, partially offset by higher incentive compensation.

Amortization of intangibles — Amortization expense was \$4 in 2020 and \$2 in 2019. The increase in amortization expense is primarily due to higher levels of intangible assets as the result of acquisition activity.

Restructuring charges, net — Restructuring charges of \$2 in 2020 were primarily comprised of exit costs related to previously announced actions. Restructuring charges of \$5 in 2019 were comprised of severance and benefit costs primarily related to integration of recent acquisitions, headcount reductions across our operations and exit costs related to previously announced actions.

Other income (expense), net — The following table shows the major components of other income (expense), net.

	Three Months Ended	
	September 30,	
	2020	2019
Non-service cost components of pension and OPEB costs	\$ (3)	\$ (4)
Government grants and incentives	3	3
Foreign exchange gain (loss)	(2)	(1)
Strategic transaction expenses	(4)	(8)
Other, net	(2)	2
Other income (expense), net	\$ (8)	\$ (8)

Strategic transaction expenses in 2020 were primarily attributable to non-acquisition related strategic initiatives. Strategic transaction expenses in 2019 were primarily attributable to the acquisition of ODS. See Note 2 of our consolidated financial statements in Item 1 of Part I for additional information.

[Table of Contents](#)

Interest income and interest expense — Interest income was \$3 in both 2020 and 2019. Interest expense increased from \$31 in 2019 to \$38 in 2020, primarily due to higher average debt levels. The increase in average debt levels is primarily attributable to the issuances of \$400 of our June 2028 Notes and an additional \$100 of our November 2027 Notes in June 2020. Average effective interest rates, inclusive of amortization of debt issuance costs, approximated 5.1% in 2020 and 5.0% in 2019.

Income tax expense — We reported an income tax expense of \$16 and \$5 for the third quarter, 2020 and 2019, respectively. During the third quarter of 2019, we recognized a benefit of \$22 for the release of a valuation allowance in a subsidiary in Brazil based on the recent history of profitability and increased income projections. Excluding this item, the effective tax rate would be 30% and 25% for the 2020 and 2019 three-month period. Our effective income tax rates vary from the U.S. federal statutory rate of 21% due to establishment, release and adjustment of valuation allowances in several countries, nondeductible expenses and deemed income, local tax incentives in several countries outside the U.S., different statutory tax rates outside the U.S. and withholding taxes related to repatriations of international earnings. The effective income tax rate may vary significantly due to fluctuations in the amounts and sources, both foreign and domestic, of pretax income and changes in the amounts of nondeductible expenses.

In countries where our history of operating losses does not allow us to satisfy the “more likely than not” criterion for recognition of deferred tax assets, we have generally recognized no income tax on the pre-tax income or losses as valuation allowance adjustments offset the associated tax effects. Consequently, there is no income tax expense or benefit recognized on the pre-tax income or losses in these jurisdictions as valuation allowances are adjusted to offset the associated tax expense or benefit. We believe it is reasonably possible that valuation allowances up to \$25 related to a subsidiary in Australia will be release in the next twelve months.

Equity in earnings of affiliates — Net earnings from equity investments was \$7 in 2020 and \$8 in 2019. Equity in earnings from DDAC was \$6 in 2020 and \$4 in 2019. After experiencing significant impacts resulting from the global COVID-19 pandemic during the first quarter of 2020, DDAC experienced higher demand levels during the third quarter of 2020 primarily driven by increased demand for certain medium/heavy vehicles by the Chinese government. Equity in earnings from BSFB was \$1 in 2020 and \$4 in 2019. The quarter-over-quarter decrease in BSFB's earnings is primarily attributable to the global COVID-19 pandemic.

[Table of Contents](#)

Summary Consolidated Results of Operations (Year-to-Date, 2020 versus 2019)

	Nine Months Ended September 30,				Increase/ (Decrease)
	2020		2019		
	Dollars	% of Net Sales	Dollars	% of Net Sales	
Net sales	\$ 4,998		\$ 6,633		\$ (1,635)

Cost of sales	4,588	91.8%	5,725	86.3%	(1,137)
Gross margin	410	8.2%	908	13.7%	(498)
Selling, general and administrative expenses	299	6.0%	404	6.1%	(105)
Amortization of intangibles	10		8		2
Restructuring charges, net	21		23		(2)
Impairment of goodwill	(51)				(51)
Pension settlement charge			(260)		260
Other income (expense), net	(5)		(31)		26
Earnings before interest and income taxes	24		182		(158)
Write-off deferred financing costs	(5)				(5)
Interest income	7		8		(1)
Interest expense	99		92		7
Earnings (loss) before income taxes	(73)		98		(171)
Income tax expense (benefit)	34		(27)		61
Equity in earnings of affiliates	17		22		(5)
Net income (loss)	(90)		147		(237)
Less: Noncontrolling interests net income	6		9		(3)
Less: Redeemable noncontrolling interests net loss	(25)		(3)		(22)
Net income (loss) attributable to the parent company	\$ (71)		\$ 141		\$ (212)

Sales — The following table shows changes in our sales by geographic region.

	Nine Months Ended September 30,		Increase/ (Decrease)	Amount of Change Due To		
	2020	2019		Currency Effects	Acquisitions (Divestitures)	Organic Change
North America	\$ 2,530	\$ 3,444	\$ (914)	\$ (1)	\$ 30	\$ (943)
Europe	1,588	2,005	(417)		64	(481)
South America	244	396	(152)	(48)		(104)
Asia Pacific	636	788	(152)	(14)	29	(167)
Total	\$ 4,998	\$ 6,633	\$ (1,635)	\$ (63)	\$ 123	\$ (1,695)

37

[Table of Contents](#)

Sales in 2020 were \$1,635 lower than in 2019. Weaker international currencies decreased sales by \$63, principally due to a weaker Brazilian real, euro, South African rand, Indian rupee and Chinese renminbi. The acquisitions of ODS in last year's first quarter, PEPS in last year's second quarter and Ashwoods in this year's first quarter, generated a year-over-year increase in sales of \$123. The organic sales decrease of \$1,695, or 26%, resulted from weaker light and medium/heavy truck markets and lower global off-highway demand in January and February 2020 and the rapid dissipation in production volumes across all of our end markets beginning in March 2020 as a result of the global COVID-19 pandemic, partially offset by the conversion of sales backlog. The impact of the global COVID-19 pandemic on our operations as well as those of our customers, suppliers and the global supply chains in which we participate, was most notable during April 2020, with a measured ramp up in production beginning in May with continued sequential month-over-month improvement through September 2020. Pricing actions, including material commodity price and inflationary cost adjustments, reduced sales by \$69.

The North America organic sales decrease of 27% was driven principally by weaker light and medium/heavy duty truck production volumes resulting from the global COVID-19 pandemic, partially offset by the conversion of sales backlog. Full frame light truck production was down 26% during the first nine months of 2020 while production of Class 8 and Classes 5-7 trucks were down 47% and 31%, respectively.

Excluding currency and acquisition effects, sales in Europe were down 24% compared with 2019. With our significant Off-Highway presence in the region, weakening construction/mining and agricultural markets due to the global COVID-19 pandemic were a major factor. Organic sales in this operating segment were down 26% compared with the first nine months of 2019.

Excluding currency effects, sales in South America decreased 26% compared to the first nine months of 2019 primarily due to the global COVID-19 pandemic. Medium/heavy truck production was down 35% and light truck production was down 30% compared to the first nine months of 2019.

Excluding currency and acquisition effects, sales in Asia Pacific decreased about 21% as China's economy showed signs of weakening even before the onset of the COVID-19 pandemic. Light truck and light vehicle engine production were down 15% and 20%, respectively, while medium/heavy truck production was up 3% compared to the first nine months of 2019.

Cost of sales and gross margin — Cost of sales for the first nine months of 2020 decreased \$1,137, or 20% when compared to 2019. Cost of sales as a percent of sales in 2020 was 550 basis points higher than in the previous year. Cost of sales attributed to acquisitions was approximately \$133. Excluding the effects of acquisitions, cost of sales as a percent of sales was 91.4%, 510 basis points higher than in the previous year. The increase in cost of sales as a percent of sales was largely attributable to actions to flex down our cost structure lagging the rapid dissipation of customer demand across all of our end markets as a result of the global COVID-19 pandemic, our inability to effectively reduce labor costs in certain countries due to government requirements, as well as our inability to reduce fixed costs including depreciation and rent expense. Partially offsetting the impact of the rapid dissipation of customer demand were lower commodity prices which lowered material costs by \$35 and continued material cost savings of approximately \$49.

Gross margin of \$410 for 2020 decreased \$498 from 2019. Gross margin as a percent of sales was 8.2% in 2020, 550 basis points lower than in 2019. The decline in margin as a percent of sales was driven principally by the cost of sales factors referenced above.

Selling, general and administrative expenses (SG&A) — SG&A expenses in 2020 were \$299 (6.0% of sales) as compared to \$404 (6.1% of sales) in 2019. SG&A attributed to acquisitions was \$10. Excluding the increase associated with acquisitions, SG&A expenses as a percent of sales were 20 basis points lower than the same period of 2019. The year-over-year decrease of \$115 exclusive of acquisitions was primarily due to lower year-over-year incentive

compensation as well as lower salaried employee wages, benefits, travel expenses, marketing expenses and professional fees resulting from the execution of cost reduction initiatives in response to the global COVID-19 pandemic.

Amortization of intangibles — Amortization expense was \$10 in 2020 and \$8 in 2019. The increase in amortization expense is primarily due to higher levels of intangible assets as the result of acquisition activity.

Restructuring charges — Restructuring charges of \$21 in 2020 were comprised of severance and benefit costs primarily related to headcount reductions across our operations in response to the global COVID-19 pandemic and exit costs related to previously announced actions. Restructuring charges of \$23 in 2019 were comprised of severance and benefit costs primarily related to integration of recent acquisitions, headcount reductions across our operations and exit costs related to previously announced actions.

Impairment of goodwill — During the first quarter of 2020, we recorded a \$51 goodwill impairment charge. See Note 3 of our consolidated financial statements in Item 1 of Part I for additional information.

Pension settlement charge — See Note 10 of the consolidated financial statements in Item 1 of Part I for a discussion of the termination of one of our U.S. defined benefit pension plans.

Other income (expense), net — The following table shows the major components of other income (expense), net.

	Nine Months Ended September 30,	
	2020	2019
Non-service cost components of pension and OPEB costs	\$ (8)	\$ (19)
Government grants and incentives	9	11
Foreign exchange gain (loss)	5	(11)
Strategic transaction expenses	(15)	(32)
Non-income tax legal judgment	6	6
Other, net	4	14
Other income (expense), net	<u>\$ (5)</u>	<u>\$ (31)</u>

Foreign exchange loss in 2019 included a loss on the undesignated Swiss franc notional deal contingent forward related to the ODS acquisition. See Note 12 of our consolidated financial statements in Item 1 of Part I for additional information. Strategic transaction expenses in 2020 were primarily attributable to the acquisitions of Nordresa and ODS and certain other strategic initiatives. Strategic transaction expenses in 2019 were primarily attributable to the acquisition of ODS. See Note 2 of our consolidated financial statements in Item 1 of Part I for additional information. During the first quarter of 2019, we won a legal judgment regarding the methodology used to calculate PIS/COFINS tax in Brazil.

[Table of Contents](#)

Write-off deferred financing costs — On June 19, 2020, in connection with the issuance of our June 2028 Notes, we terminated our \$500 bridge facility and wrote off \$5 of deferred fees associated with the bridge facility. See Note 11 of the consolidated financial statements in Item 1 of Part I for additional information.

Interest income and interest expense — Interest income was \$7 in 2020 and \$8 in 2019. Interest expense was \$99 in 2020 and \$92 in 2019, as the benefit of lower average effective interest rates was offset by higher average debt levels. The increase in average debt levels is primarily attributable to outstanding borrowings under the Revolving Facility during the first half of 2020 and the issuances of \$400 of our June 2028 Notes and an additional \$100 of our November 2027 Notes in June 2020. Average effective interest rates, inclusive of amortization of debt issuance costs, approximated 4.9% in 2020 and 5.1% in 2019.

Income tax expense (benefit) — We reported an income tax expense of \$34 and an income tax benefit of \$27 for the nine months ended September 30, 2020 and 2019, respectively. Our effective tax rates were (46)% and (28)% for the first nine months of 2020 and 2019. In the second quarter of 2020 we recorded an income tax expense of \$56 for valuation allowances in foreign jurisdictions due to reduced income projections. During the first quarter of 2020, a pre-tax goodwill impairment charge of \$51 with an associated income tax benefit of \$1 was recorded. Also, during the first quarter of 2020, we recorded tax benefit of \$37 related to tax actions that adjusted federal tax credits, tax expense of \$2 to record additional valuation allowance in the U.S. based on reduced income projections, and tax expense of \$4 to record valuation allowances in foreign jurisdictions due to reduced income projections. During the third quarter of 2019, we recognized a benefit of \$22 for the release of a valuation allowance in a subsidiary in Brazil based on the recent history of profitability and increased income projections. In the second quarter of 2019, a pre-tax pension settlement charge of \$258 with an associated income tax benefit of \$9 was recorded. Also, during the second quarter of 2019, we recorded tax benefits of \$48 related to tax actions that adjusted federal tax credits and \$30 related to the development of a tax planning strategy which reduced valuation allowances on existing federal tax credits. During the first quarter of 2019, we recognized a benefit of \$22 related to release of valuation allowances in the U.S. based on improved income projections. Partially offsetting this benefit was \$6 of expenses related to a U.S. state law change. Excluding these items, the effective tax rate would be (45)% and 28% for the 2020 and 2019 nine-month periods, respectively. Our effective income tax rates vary from the U.S. federal statutory rate of 21% due to establishment, release and adjustment of valuation allowances in several countries, nondeductible expenses and deemed income, local tax incentives in several countries outside the U.S., different statutory tax rates outside the U.S. and withholding taxes related to repatriations of international earnings. The effective income tax rate may vary significantly due to fluctuations in the amounts and sources, both foreign and domestic, of pretax income and changes in the amounts of nondeductible expenses.

In countries where our history of operating losses does not allow us to satisfy the “more likely than not” criterion for recognition of deferred tax assets, we have generally recognized no income tax on the pre-tax income or losses as valuation allowance adjustments offset the associated tax effects. Consequently, there is no income tax expense or benefit recognized on the pre-tax income or losses in these jurisdictions as valuation allowances are adjusted to offset the associated tax expense or benefit. We believe it is reasonably possible that valuation allowances up to \$25 related to a subsidiary in Australia will be release in the next twelve months.

Equity in earnings of affiliates — Net earnings from equity investments was \$17 in 2020 and \$22 in 2019. Equity in earnings from DDAC was \$14 in both 2020 and 2019. After experiencing significant impacts resulting from the global COVID-19 pandemic during the first quarter of 2020, DDAC experienced

higher demand levels during the second and third quarters of 2020 primarily driven by increased demand for certain medium/heavy vehicles by the Chinese government. Equity in earnings form BSFB was \$4 in 2020 and \$8 in 2019. The year-over-year decrease in BSFB's earnings is primarily attributable to the global COVID-19 pandemic.

[Table of Contents](#)

Segment Results of Operations (2020 versus 2019)

Light Vehicle

	Three Months			Nine Months		
	Sales	Segment EBITDA	Segment EBITDA Margin	Sales	Segment EBITDA	Segment EBITDA Margin
2019	\$ 930	\$ 113	12.2%	\$ 2,763	\$ 333	12.1%
Volume and mix	3	(2)		(639)	(167)	
Performance	(17)	(22)		(52)	(26)	
Currency effects	(3)			(14)		
2020	\$ 913	\$ 89	9.7%	\$ 2,058	\$ 140	6.8%

Light Vehicle sales in the third quarter and the first nine months of 2020, exclusive of currency effects, were 2% and 25% lower than the same periods of 2019. Full frame light truck production rapidly dissipated across all regions beginning in March 2020 as a result of the global COVID-19 pandemic. The impact of the global COVID-19 pandemic on our Light Vehicle operations was most notable during April 2020, with a measured ramp up in production beginning in May and continued sequential month-over-month increases in production continuing through September 2020. Year-over-year full frame light truck production declined in this year's third quarter in North America, Europe and South America by 2%, 8% and 6%, respectively, while production in Asia Pacific was flat with the same period of 2019. Year-over-year full frame light truck production for the first nine months of 2019 declined in North America, Europe, South America and Asia Pacific by 26%, 28%, 30% and 15%, respectively. Net customer pricing and cost recovery actions further decreased year-over-year sales by \$11 and \$43 in this year's third quarter and first nine months, respectively.

Light Vehicle third-quarter segment EBITDA decreased by \$24 from last year, with the first nine months earnings lower by \$193. Lower sales volumes provided a year-over-year headwind of \$167 (26.1% decremental margin) in the first nine months as actions to flex down our cost structure lagged the rapid dissipation of customer demand resulting from the global COVID-19 pandemic. The year-over-year performance-related earnings decrease in the third quarter was driven by operational inefficiencies of \$26, lower net pricing and material cost recovery of \$11, higher warranty expense of \$3 and higher incentive compensation of \$1. Partially offsetting these performance-related earnings decreases were the benefit of commodity cost decreases of \$9, material cost savings of \$8 and lower salaried employee wages of \$2. The year-over-year performance related-earnings decrease in the first nine months was driven by lower net pricing and material cost recovery of \$43, operational inefficiencies of \$40 and incremental safety costs of \$2 directly related to the global COVID-19 pandemic. Partially offsetting these performance-related earnings decreases were commodity cost decreases of \$23, material cost savings of \$18, lower salaried employee wages of \$8, certain benefits of the CARES Act of \$5, lower incentive compensation of \$4 and lower warranty expense of \$1.

Commercial Vehicle

	Three Months			Nine Months		
	Sales	Segment EBITDA	Segment EBITDA Margin	Sales	Segment EBITDA	Segment EBITDA Margin
2019	\$ 398	\$ 33	8.3%	\$ 1,266	\$ 115	9.1%
Volume and mix	(70)	(20)		(380)	(99)	
Acquisitions	1	(1)		7	(8)	
Performance	(1)	5		(10)	23	
Currency effects	(14)	(1)		(36)	(2)	
2020	\$ 314	\$ 16	5.1%	\$ 847	\$ 29	3.4%

Commercial Vehicle sales in the third quarter and first nine months of 2020, exclusive of currency effects and the impact of acquisitions, were 18% and 31% lower than the same period of 2019. Declining market conditions coming out of 2019 deteriorated further with the rapid dissipation in customer demand resulting from the global COVID-19 pandemic. Year-over-year North America Class 8 production was down 38% and Classes 5-7 production was down 25% in this year's third quarter. Year-over-year medium/heavy truck production in Europe and South America were down 28% and 27%, respectively, in this year's third quarter. Year-over-year North America Class 8 production was down 47% and Classes 5-7 production was down 31% in this year's first nine months. Year-over-year medium/heavy truck production in Europe and South America were down 33% and 35%, respectively. Asia Pacific was impacted by the global COVID-19 pandemic earlier than the other regions, with its most significant year-over-year production decline occurring during the first quarter of 2020. Year-over-year Asia Pacific medium/heavy truck production was up 33% and 3% for third quarter and first nine months, respectively. Net customer pricing and cost recovery actions further decreased year-over-year sales by \$2 and \$11 in this year's third quarter and first nine months, respectively.

Commercial Vehicle third-quarter segment EBITDA decreased by \$17 from last year, with the first nine months earnings lower by \$86. Lower sales volumes provided a year-over-year headwind of \$20 (28.6% decremental margin) and \$99 (26.1% decremental margin) in the third quarter and first nine months, respectively, as actions to flex down our cost structure lagged the rapid dissipation of customer demand resulting from the global COVID-19 pandemic. The year-over-year performance-related earnings increase in the third quarter was driven by improved operational efficiencies of \$4, material cost savings of \$3, commodity cost decreases of \$1, lower warranty expense of \$1 and lower salaried employee wages of \$1. Partially offsetting these performance-related earnings increases were lower net pricing and material recovery of \$2, higher incentive compensation of \$2 and incremental safety costs of \$1 directly related to the global COVID-19 pandemic, including facility sanitization and personal protective equipment. The year-over-year performance-related earnings increase in the first nine month was driven by material cost savings of \$10, lower salaried employee wages of \$6, commodity

cost decreases of \$5, improved operational efficiencies of \$4, lower premium freight of \$4, lower incentive compensation of \$3, certain benefits of the CARES Act of \$2 and lower warranty expense of \$2. Partially offsetting these performance-related earnings increases were lower net pricing and material recovery actions of \$11 and incremental safety costs of \$2 directly related to the global COVID-19 pandemic, including facility sanitization and personal protective equipment.

[Table of Contents](#)

Off-Highway

	Three Months			Nine Months		
	Sales	Segment EBITDA	Segment EBITDA Margin	Sales	Segment EBITDA	Segment EBITDA Margin
2019	\$ 582	\$ 79	13.6%	\$ 1,808	\$ 264	14.6%
Volume and mix	(86)	(19)		(461)	(111)	
Acquisitions	3	1		116	20	
Performance	(3)	3		(12)	4	
Currency effects	11	1		(11)	(2)	
2020	\$ 507	\$ 65	12.8%	\$ 1,440	\$ 175	12.2%

Excluding currency effects and the impact of the ODS and Ashwoods acquisitions, third-quarter and first nine months 2020 sales in our Off-Highway segment decreased 15% and 26% compared to last year. Already declining global construction/mining and agricultural equipment markets coming out of 2019 deteriorated further with the rapid dissipation of customer demand resulting from the global COVID-19 pandemic. Net customer pricing and cost reduction actions further decreased year-over-year sales by \$3 and \$12 in this year's third quarter and first nine months, respectively.

Off-Highway third-quarter segment EBITDA decreased by \$14 from last year, with the first nine months earnings lower by \$89. Lower sales volumes provided a year-over-year headwind of \$19 (22.1% decremental margin) and \$111 (24.1% decremental margin) in the third quarter and first nine months, respectively, as actions to flex down our cost structure lagged the rapid dissipation of customer demand resulting from the global COVID-19 pandemic. The year-over-year performance-related earnings increase in the third quarter was driven by material cost savings of \$6, lower warranty expense of \$5, commodity cost decreases of \$3 and lower salaried employee wages of \$2. Partially offsetting these performance-related earnings increases were operational inefficiencies of \$7, lower net pricing and material recovery of \$3, higher incentive compensation of \$2 and incremental safety costs of \$1 directly related to the global COVID-19 pandemic, including facility sanitization and personal protective equipment. The year-over-year performance-related earnings increase in the first nine months was driven by material cost savings of \$16, lower salaried employee wages of \$9, commodity cost decreases of \$7, lower warranty expense of \$3 and certain benefits of the CARES Act of \$1. Partially offsetting these performance-related earnings increases were operational inefficiencies of \$17, lower net pricing and material recovery of \$12 and incremental safety costs of \$3 directly related to the global COVID-19 pandemic.

Power Technologies

	Three Months			Nine Months		
	Sales	Segment EBITDA	Segment EBITDA Margin	Sales	Segment EBITDA	Segment EBITDA Margin
2019	\$ 254	\$ 28	11.0%	\$ 796	\$ 90	11.3%
Volume and mix	4	2		(138)	(43)	
Performance	(2)	4		(3)	16	
Currency effects	4			(2)		
2020	\$ 260	\$ 34	13.1%	\$ 653	\$ 63	9.6%

Power Technologies primarily serves the light vehicle market but also sells product to the medium/heavy truck and off-highway markets. Net of currency effects, sales for the third quarter 2020 were comparable with the third quarter of 2019 while first nine months 2020 sales were 18% lower than the same periods of 2019, primarily due to lower market demand resulting from the global COVID-19 pandemic. Light vehicle engine production declined in North America, Europe and Asia Pacific compared to last year's third quarter and first nine months.

Power Technologies third-quarter segment EBITDA increased \$6 from last year, with the first nine months earnings lower by \$27. Lower sales volumes provided a year-over-year headwind of \$43 (31.2% decremental margin) in the first nine months as actions to flex down our cost structure lagged the rapid dissipation of customer demand resulting from the global COVID-19 pandemic. The year-over-year performance-related earnings increase in the third quarter was driven by operational efficiencies of \$9, material cost savings of \$2 and lower salaried employee wages of \$1. Partially offsetting these performance-related earnings increases was higher incentive compensation of \$3, lower net pricing and material recovery of \$2, higher warranty expense of \$2 and incremental safety costs of \$1 directly related to the global COVID-19 pandemic, including facility sanitization and personal protective equipment. The year-over-year performance-related earnings increase in the first nine months was driven by operational efficiencies of \$11, lower salaried employee wages of \$6, material savings cost of \$5 and certain benefits of the CARES Act of \$1. Partially offsetting these performance-related earnings increases were lower net pricing and material recovery of \$3, higher warranty expense of \$2 and incremental safety costs of \$2 directly related to the global COVID-19 pandemic, including facility sanitization and personal protective equipment.

Non-GAAP Financial Measures

Adjusted EBITDA

We have defined adjusted EBITDA as net income (loss) before interest, income taxes, depreciation, amortization, equity grant expense, restructuring expense, non-service cost components of pension and other postretirement benefits (OPEB) costs and other adjustments not related to our core operations (gain/loss on debt extinguishment, pension settlements, divestitures, impairment, etc.). Adjusted EBITDA is a measure of our ability to maintain and

continue to invest in our operations and provide shareholder returns. We use adjusted EBITDA in assessing the effectiveness of our business strategies, evaluating and pricing potential acquisitions and as a factor in making incentive compensation decisions. In addition to its use by management, we also believe adjusted EBITDA is a measure widely used by securities analysts, investors and others to evaluate financial performance of our company relative to other Tier 1 automotive suppliers. Adjusted EBITDA should not be considered a substitute for earnings (loss) before income taxes, net income (loss) or other results reported in accordance with GAAP. Adjusted EBITDA may not be comparable to similarly titled measures reported by other companies.

[Table of Contents](#)

The following table provides a reconciliation of net income (loss) to adjusted EBITDA.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 45	\$ 112	\$ (90)	\$ 147
Equity in earnings of affiliates	7	8	17	22
Income tax expense (benefit)	16	5	34	(27)
Earnings (loss) before income taxes	54	109	(73)	98
Depreciation and amortization	94	86	272	247
Restructuring charges, net	2	5	21	23
Interest expense, net	35	28	92	84
Write-off deferred financing costs			5	
Impairment of goodwill			51	
Pension settlement charges		2		260
Other*	16	20	33	81
Adjusted EBITDA	\$ 201	\$ 250	\$ 401	\$ 793

* Other includes non-service cost components of pension and OPEB costs, stock compensation expense, strategic transaction expenses and other items. See Note 18 to our consolidated financial statements in Item 1 of Part I for additional details.

Free Cash Flow and Adjusted Free Cash Flow

We have defined free cash flow as cash provided by (used in) operating activities less purchases of property, plant and equipment. We have defined adjusted free cash flow as cash provided by (used in) operating activities excluding discretionary pension contributions less purchases of property, plant and equipment. We believe these measures are useful to investors in evaluating the operational cash flow of the company inclusive of the spending required to maintain the operations. Free cash flow and adjusted free cash flow are not intended to represent nor be an alternative to the measure of net cash provided by (used in) operating activities reported in accordance with GAAP. Free cash flow and adjusted free cash flow may not be comparable to similarly titled measures reported by other companies.

The following table reconciles net cash flows provided by (used in) operating activities to adjusted free cash flow.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net cash provided by operating activities	\$ 321	\$ 231	\$ 195	\$ 288
Purchases of property, plant and equipment	(60)	(108)	(181)	(298)
Free cash flow	261	123	14	(10)
Discretionary pension contribution	—	2	—	64
Adjusted free cash flow	\$ 261	\$ 125	\$ 14	\$ 54

Liquidity

The following table provides a reconciliation of cash and cash equivalents to liquidity, a non-GAAP measure, at September 30, 2020:

Cash and cash equivalents	\$ 956
Less: Deposits supporting obligations	(2)
Available cash	954
Additional cash availability from Revolving Facility	979
Marketable securities	22
Total liquidity	\$ 1,955

Cash deposits are maintained to provide credit enhancement for certain agreements and are reported as part of cash and cash equivalents. For most of these deposits, the cash may be withdrawn if a comparable security is provided in the form of letters of credit. Accordingly, these deposits are not considered to be restricted. Marketable securities are included as a component of liquidity as these investments can be readily liquidated at our discretion. We had availability of \$979 at September 30, 2020 under the Revolving Facility after deducting \$21 of outstanding letters of credit.

The components of our September 30, 2020 consolidated cash balance were as follows:

	U.S.	Non-U.S.	Total
Cash and cash equivalents	\$ 532	\$ 320	\$ 852
Cash and cash equivalents held as deposits		2	2
Cash and cash equivalents held at less than wholly-owned subsidiaries	2	100	102
Consolidated cash balance	\$ 534	\$ 422	\$ 956

[Table of Contents](#)

A portion of the non-U.S. cash and cash equivalents is utilized for working capital and other operating purposes. Several countries have local regulatory requirements that restrict the ability of our operations to repatriate this cash. Beyond these restrictions, there are practical limitations on repatriation of cash from certain subsidiaries because of the resulting tax withholdings and subsidiary by-law restrictions which could limit our ability to access cash and other assets.

At September 30, 2020, we were in compliance with the covenants of our financing agreements. Under the Term Facilities, the Revolving Facility and our senior notes, we are required to comply with certain incurrence-based covenants customary for facilities of these types. The incurrence-based covenants in the Term Facilities and the Revolving Facility permit us to, among other things, (i) issue foreign subsidiary indebtedness, (ii) incur general secured indebtedness subject to a pro forma first lien net leverage ratio not to exceed 1.50:1.00 in the case of first lien debt and a pro forma secured net leverage ratio of 2.50:1.00 in the case of other secured debt and (iii) incur additional unsecured debt subject to a pro forma total net leverage ratio not to exceed 3.50:1.00, tested at the time of incurrence. We may also make dividend payments in respect of our common stock as well as certain investments and acquisitions subject to a pro forma total net leverage ratio of 2.75:1.00. In addition, the Term A Facility and the Revolving Facility are subject to a financial covenant requiring us to maintain a first lien net leverage ratio not to exceed 3.00:1.00. The indentures governing the senior notes include other incurrence-based covenants that may subject us to additional specified limitations.

In response to the COVID-19 pandemic we have taken controlled and measured actions to preserve liquidity including but not limited to flexing our cost structure, reducing capital spending and investments in research and development activities where and when appropriate, taking advantage of various government programs and subsidies including certain provisions of the CARES Act, temporarily suspending the declaration and payment of dividends to common shareholders and temporarily suspending the repurchase of common stock under our existing common stock share repurchase program. During June 2020, we completed the sale of \$400 in senior unsecured notes due June 15, 2028 (June 2028 Notes) as well as a \$100 add on to our senior unsecured notes due November 15, 2027 (November 2027 Notes).

On April 16, 2020, we amended certain provisions of our credit and guaranty agreement including gradually increasing the first lien net leverage ratio from a maximum of 2.00 to 1.00 to a maximum of 4.00 to 1.00 for the quarter ending December 31, 2020 and then, starting with the quarter ending December 31, 2021, decrease the ratio quarterly until it returns to its prior level of 2.00 to 1.00 for and after the quarter ending September 30, 2022, unless Dana, in its sole discretion, elects to return the first lien net leverage ratio to its prior level of 2.00 to 1.00 earlier than such date. We also amended certain restrictive covenants to provide additional limitations on incurring additional liens, taking on additional debt, paying dividends, entering into certain transactions with affiliates, making certain investments and disposing of certain assets until December 31, 2021, unless Dana, in its sole discretion, elects to return the first lien net leverage ratio to its prior level prior to December 31, 2021. At September 30, 2020, we were in compliance with the covenants of our financing agreements.

The principal sources of liquidity available for our future cash requirements are expected to be (i) cash flows from operations, (ii) cash and cash equivalents on hand and (iii) borrowings from our Revolving Facility. We believe that our overall liquidity and operating cash flow will be sufficient to meet our anticipated cash requirements for capital expenditures, working capital, debt obligations and other commitments during the next twelve months. While uncertainty surrounding the current economic environment could adversely impact our business, based on our current financial position, we believe it is unlikely that any such effects would preclude us from maintaining sufficient liquidity.

Cash Flow

The following table summarizes our consolidated statement of cash flows:

	Nine Months Ended September 30,	
	2020	2019
Cash used for changes in working capital	\$ (50)	\$ (197)
Other cash provided by operations	245	485
Net cash provided by operating activities	195	288
Net cash used in investing activities	(193)	(995)
Net cash provided by financing activities	466	605
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 468</u>	<u>\$ (102)</u>

Operating activities — Exclusive of working capital, other cash provided by operations was \$245 and \$485 in 2020 and 2019. The year-over-year decrease is primarily attributable to lower operating earnings as a result of the global COVID-19 pandemic, partially offset by a \$62 discretionary pension contribution made to one of our U.S. defined benefit pension plans in the second quarter of 2019. Reference is made to Note 10 of the consolidated financial statements in Item 1 of Part I for a discussion of the settlement of this U.S. defined benefit pension plan.

Working capital used cash of \$50 and \$197 in 2020 and 2019. Cash of \$120 and \$81 was used to finance increased receivables in 2020 and 2019. The higher level of cash required for receivables in 2020 was primarily due to the ramp up in customer demand that occurred during the third quarter of 2020 as the impact of the global COVID-19 pandemic began to dissipate. Cash of \$105 was provided by lower inventory levels in 2020, while cash of \$26 was used to fund higher inventory levels in 2019. The lower levels of inventory in 2020 were largely due to management's controlled and measured actions to preserve liquidity in response to the global COVID-19 pandemic. Cash of \$35 and \$90 was used to reduce accounts payable and other net liabilities in 2020 and 2019.

Investing activities — Expenditures for property, plant and equipment were \$181 and \$298 during 2020 and 2019. The elevated level of capital spend during 2019 was primarily in support of new customer programs and information systems upgrades. During 2020, capital spending has been delayed where and when appropriate in response to the global COVID-19 pandemic. During the first quarter of 2020, we paid \$8 to acquire Curtis' 35.4% ownership interest in Ashwoods. The acquisition of Curtis's interest in Ashwoods, along with our existing ownership interest in Ashwoods, provided us with a controlling financing interest in Ashwoods. During 2019, we paid \$545, net of cash and restricted cash acquired, to purchase ODS, we paid \$61 to acquire SME, we paid \$48, net of cash acquired, to purchase PEPS and we paid \$10 to acquire Nordresa. During 2019, we paid \$21 to settle the undesignated Swiss franc notional deal contingent forward related to the ODS acquisition. During 2020 and 2019, purchases of marketable securities were largely funded by proceeds from sales and maturities of marketable securities.

[Table of Contents](#)

Financing activities — During 2020, we completed the issuance of \$400 of our June 2028 Notes and the issuance of an additional \$100 of our November 2027 Notes, paying financing cost of \$8. During 2020, we entered into a \$500 bridge facility, paying financing cost of \$5. We subsequently terminated the bridge facility. During 2020, we made principle payments of \$8 on the Term A Facility. During 2019, we entered into an amended credit and guaranty agreement comprised of a \$500 Term A Facility, a \$450 Term B Facility and a \$1,000 Revolving Facility. The Term A Facility was an expansion of our existing \$275 term facility. We drew the \$225 available under the Term A Facility and the \$450 available under the Term B Facility. We paid financing costs of \$16 to amend the credit and guaranty agreement. During 2019, we drew \$100 on our Revolving Facility and made combined principle payments of \$117 on the Term Facilities. During the third quarter of 2019, we broadened our relationship with Hydro-Québec, with Hydro-Québec acquiring an indirect 45% redeemable noncontrolling interest in SME and increasing its existing indirect 22.5% noncontrolling interest in PEPS to an indirect 45% redeemable noncontrolling interest. We received \$53 of cash at closing. We used \$15 and \$43 for dividend payments to common stockholders during 2020 and 2019, respectively. We used \$25 to repurchase 1,432,275 shares of our common stock during 2019. During the second quarter of 2020, we temporarily suspended the declaration and payment of dividends to common stockholders and temporarily suspended the repurchase of common stock under our existing common stock repurchase program in response to the global COVID-19 pandemic.

Off-Balance Sheet Arrangements

There have been no material changes at September 30, 2020 in our off-balance sheet arrangements from those reported or estimated in the disclosures in Item 7 of our 2019 Form 10-K.

Contractual Obligations

There have been no material changes in our contractual obligations from those disclosed in Item 7 of our 2019 Form 10-K.

Contingencies

For a summary of litigation and other contingencies, see Note 13 to our consolidated financial statements in Item 1 of Part I. Based on information available to us at the present time, we do not believe that any liabilities beyond the amounts already accrued that may result from these contingencies will have a material adverse effect on our liquidity, financial condition or results of operations.

Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with GAAP requires us to use estimates and make judgments and assumptions about future events that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosures. See Item 7 in our 2019 Form 10-K for a description of our critical accounting estimates and Note 1 to our consolidated financial statements in Item 8 of our 2019 Form 10-K for our significant accounting policies. There were no changes to our critical accounting estimates in the nine months ended September 30, 2020. See Note 1 to our consolidated financial statements in this Form 10-Q for a discussion of new accounting guidance adopted during the first nine months of 2020.

Long-term interest rates on high quality corporate debt instruments, which are used to determine the discount rates used in the valuation of our other U.S. defined benefit pension obligations, have decreased during 2020. The lower interest rates, if unchanged during the fourth quarter, would result in a year-end discount rate of 2.59% for our U.S. plans versus the 3.21% discount rate used at the end of 2019. Our return on pension assets through the first nine months of 2020 has been higher than our 5.0% annual expected return on the related plan assets. Notwithstanding other changes in assumptions, we would expect the use of a discount rate of 2.59% and earning a 5.0% annualized return on plan assets during the fourth quarter to result in an immaterial actuarial loss for these U.S. defined benefit plans at December 31, 2020.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to market risk exposures related to changes in currency exchange rates, interest rates or commodity costs from those discussed in Item 7A of our 2019 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 (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Our CEO and CFO have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective.

Changes in internal control over financial reporting — There was no change in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

CEO and CFO certifications — The certifications of our CEO and CFO that are attached to this report as Exhibits 31.1 and 31.2 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 Part II of our 2019 Form 10-K for a more complete understanding of the matters covered by the certifications.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to various pending judicial and administrative proceedings that arose in the ordinary course of business. After reviewing the currently pending lawsuits and proceedings (including the probable outcomes, reasonably anticipated costs and expenses 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. Legal proceedings are also discussed in Note 13 to our consolidated financial statements in Item 1 of Part I of this Form 10-Q.

Item 1A. Risk Factors

The risk factor “*A downturn in the global economy could have a substantial adverse effect on our business.*” disclosed in Item 1A of our 2019 Form 10-K has been updated to read as follows:

A downturn in the global economy could have a substantial adverse effect on our business.

Our business is tied to general economic and industry conditions as demand for vehicles depends largely on the strength of the economy, employment levels, consumer confidence levels, the availability and cost of credit and the cost of fuel. These factors have had and could continue to have a substantial impact on our business.

Certain political developments occurring the past several years have provided increased economic uncertainty. The United Kingdom's decision in 2016 to exit the European Union has not had significant economic ramifications to date; however, transition details continue to develop and could have potential economic implications in the United Kingdom and elsewhere. Political climate changes in the U.S., including tax reform legislation, easing of regulatory requirements and potential trade policy actions, are likely to impact economic conditions in the U.S. and various countries, the cost of importing into the U.S. and the competitive landscape of our customers, suppliers and competitors.

Adverse global economic conditions could also cause our customers and suppliers to experience severe economic constraints in the future, including bankruptcy, which could have a material adverse impact on our financial position and results of operations.

The risk factor “*Our results of operations could be adversely affected by climate change, natural catastrophes or public health crises, in the locations in which we, our customers or our suppliers operate.*” disclosed in Item 1A of our 2019 Form 10-K has been updated to read as follows:

Our results of operations could be adversely affected by climate change, natural catastrophes or public health crises, in the locations in which we, our customers or our suppliers operate.

A natural disaster could disrupt our operations, or our customers’ or suppliers’ operations and could adversely affect our results of operations and financial condition. Although we have continuity plans designed to mitigate the impact of natural disasters on our operations, those plans may be insufficient, and any catastrophe may disrupt our ability to manufacture and deliver products to our customers, resulting in an adverse impact on our business and results of operations. Also, climate change poses both regulatory and physical risks that could harm our results of operations or affect the way we conduct our businesses. For example, new or modified regulations could require us to spend substantial funds to enhance our environmental compliance efforts. In addition, our global operations expose us to risks associated with public health crises, such as pandemics and epidemics, which could harm our business and cause our operating results to suffer.

The novel coronavirus disease (COVID-19) pandemic is expected to have an adverse effect on our business, results of operations, cash flows and financial condition. The COVID-19 pandemic has negatively impacted the global economy, disrupted our operations as well as those of our customers, suppliers and the global supply chains in which we participate, and created significant volatility and disruption of financial markets. The extent of the impact of the COVID-19 pandemic on our business and financial performance, including our ability to execute our near-term and long-term operational, strategic and capital structure initiatives, will depend on future developments, including the duration and severity of the pandemic, which are uncertain and cannot be predicted.

As a result of the COVID-19 pandemic, and in response to government mandates or recommendations, rapid dissipation of customer demand, as well as decisions we have made to protect the health and safety of our employees and communities, we temporarily closed a significant number of our facilities globally. We may face long term facility closure requirements and other operational restrictions with respect to some or all of our locations for prolonged periods of time due to, among other factors, evolving and increasingly stringent governmental restrictions including public health directives, quarantine policies or social distancing measures. We operate as part of the complex integrated global supply chains of our largest customers. As the COVID-19 pandemic dissipates at varying times and rates in different regions around the world, we anticipate a pro-longed negative impact on these global supply chains. Our ability to continue operations at our previously closed facilities will be impacted by the interdependencies of the various participants of these global supply chains, which are largely beyond our direct control. A pro-longed shut down of these global supply chains will have a material adverse effect on our business, results of operations, cash flows and financial condition.

Consumer spending may also be negatively impacted by general macroeconomic conditions and consumer confidence, including the impacts of any recession, resulting from the COVID-19 pandemic. This may negatively impact the markets we serve and may cause our customers to purchase fewer products from us. Any significant reduction in demand caused by decreased consumer confidence and spending following the pandemic, would result in a loss of sales and profits and other material adverse effects.

The risk factor “*Our ability to utilize our net operating loss carryforwards may be limited.*” disclosed in Item 1A of our 2019 Form 10-K has been updated to read as follows:

Our ability to utilize our net operating loss carryforwards may be limited.

Net operating loss carryforwards (NOLs) approximating \$281 were available at December 31, 2019 to reduce future U.S. income tax liabilities. Our ability to utilize these NOLs may be limited as a result of certain change of control provisions of the U.S. Internal Revenue Code of 1986, as amended (Code). The NOLs are treated as losses incurred before the change of control in January 2008 and are limited to annual utilization of \$84. There can be no

assurance that trading in our shares will not effect another change in control under the Code, which could further limit our ability to utilize our available NOLs and certain other tax attributes. Such limitations may cause us to pay income taxes earlier and in greater amounts than would be the case if the NOLs and certain other tax attributes were not subject to limitation.

[Table of Contents](#)

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer's purchases of equity securities — On December 11, 2019 our Board of Directors approved an extension of our existing common stock share repurchase program through December 31, 2021. Approximately \$150 remained available under the program for future share repurchases as of September 30, 2020. We repurchase shares utilizing available excess cash either in the open market or through privately negotiated transactions. Stock repurchases are subject to prevailing market conditions and other considerations. No shares of our common stock were repurchased under the program during the third quarter of 2020.

Item 6. Exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. Filed with this Report.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. Filed with this Report.
32	Section 1350 Certifications (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002). Filed with this Report.
101	The following materials from Dana Incorporated's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Statement of Operations, (ii) the Consolidated Statement of Comprehensive Income, (iii) the Consolidated Balance Sheet, (iv) the Consolidated Statement of Cash Flows and (v) Notes to the Consolidated Financial Statements. Filed with this Report.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

[Table of Contents](#)

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, hereunto duly authorized.

DANA INCORPORATED

Date: October 28, 2020

By: /s/ Jonathan M. Collins
Jonathan M. Collins
Executive Vice President and
Chief Financial Officer

Certification of Chief Executive Officer

I, James K. Kamsickas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dana Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2020

/s/ James K. Kamsickas
James K. Kamsickas
Chairman and Chief Executive Officer

Certification of Chief Financial Officer

I, Jonathan M. Collins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dana Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2020

/s/ Jonathan M. Collins
Jonathan M. Collins
Executive Vice President and Chief Financial
Officer

Certifications Pursuant to 18 U.S.C. Section 1350

In connection with the Quarterly Report of Dana Incorporated (Dana) on Form 10-Q for the three months ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the Report), each of the undersigned officers of Dana certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Dana as of the dates and for the periods expressed in the Report.

Date: October 28, 2020

/s/ James K. Kamsickas

James K. Kamsickas
Chairman and Chief Executive Officer

/s/ Jonathan M. Collins

Jonathan M. Collins
Executive Vice President and Chief Financial Officer
