

A net loss causes dilutive shares to have an antidilutive effect, so the potentially dilutive shares have been disregarded in calculating diluted earnings per share for the year ended December 31, 2001.

Note 5. Inventories

The components of inventory are as follows:

	December 31	
	2000	2001
Raw materials	\$ 436	\$ 377
Work in process and finished goods	1,128	922
	\$1,564	\$1,299

Inventories amounting to \$1,005 and \$841 at December 31, 2000 and 2001, respectively, were valued using the LIFO method. If all inventories were valued at replacement cost, inventories would be increased by \$119 and \$111 at December 31, 2000 and 2001, respectively.

Note 6. Short-Term Debt

Until the end of 2000, we had generally relied on the issuance of commercial paper to satisfy a significant portion of our short-term financing requirements. These commercial paper borrowings were supported by committed bank lines. However, the debt rating services lowered our credit ratings in the first quarter of 2001, primarily due to the significant downturn in our markets since the fourth quarter of 2000 and the impact of this downturn on our operations. Following the downgrade, the commercial paper markets ceased to be available to us and we began borrowing against the committed bank lines.

In March 2001, we established a \$400 accounts receivable securitization program to supplement our committed bank lines. Under the program, certain of our divisions and subsidiaries either sell or contribute accounts receivable to Dana Asset Funding LLC (DAF), a special purpose entity. DAF funds its accounts receivable purchases in part by pledging a portion of the receivables as collateral for short-term loans from participating banks. DAF uses the amounts borrowed under the program to fund the purchase of accounts receivable. We used the sale proceeds received from DAF to reduce other debt.

The securitized accounts receivable are owned in their entirety by DAF and are not available to satisfy claims of our creditors. However, we are entitled to any dividends paid by DAF and would be entitled to all proceeds from the liquidation of DAF's assets upon the termination of the securitization program and the dissolution of DAF. DAF's receivables are included in our consolidated financial statements solely because DAF does not meet certain technical accounting requirements for treatment as a "qualifying special purpose entity" under generally accepted accounting principles. Accordingly, the sales and contributions of the accounts receivable are eliminated in consolidation and the loans to DAF are reflected as short-term borrowings in our consolidated financial statements.

Expenses incurred to establish the program are being amortized over five years, the contractual life of the program.

In December 2001, we entered into a new 364-day revolving credit facility with a group of banks and amended our existing long-term facility, which matures on November 15, 2005. The 364-day facility provides for a maximum borrowing capacity of \$250 while the long-term facility has a borrowing capacity of \$500. The 364-day facility provides each participating bank the option to terminate its commitment on April 30, 2002 unless we receive net cash proceeds of at least \$200 from the issuance of debt in the capital markets or stock or the sale of assets by April 1, 2002. If the net cash proceeds exceed \$200, the

maximum borrowing capacity under the 364-day facility will be reduced by 50% of the excess. Both facilities require us to maintain specified financial ratios as of the end of each quarter, including the ratio of net senior debt to tangible net worth; the ratio of earnings before interest, taxes and depreciation and amortization (EBITDA) less capital spend to interest expense; and the ratio of net senior debt to EBITDA. For purposes of these ratios, tangible net worth excludes deferred currency translation adjustments, the 2001 minimum pension liability adjustment and intangible assets, while EBITDA is modified to exclude cash restructuring charges incurred from the fourth quarter of 2001 through the first quarter of 2003, to a maximum of \$500, equity earnings, minority interest and certain other non-cash items. The ratio calculations are based on the additional financial information which presents Dana's consolidated financial statements with DCC accounted for on the equity basis.

Because our financial performance is impacted by various economic, financial and industry factors, we may not be able to satisfy these covenants in the future. Noncompliance with these covenants would constitute an event of default, allowing the lenders to accelerate the repayment of any borrowings outstanding under the related arrangement. We believe that we would be able to successfully negotiate amended covenants or obtain waivers if an event of default were imminent; however, we might be required to provide collateral to the lenders or make other financial concessions. Default under either of these facilities or any of our significant note agreements may result in defaults under other debt instruments. Our business, results of operations and financial condition might be adversely affected if we were unable to successfully negotiate amended covenants or obtain waivers on acceptable terms.

Dana, excluding DCC, had total committed borrowing lines of \$1,252 and uncommitted borrowing lines of \$296 at December 31, 2001. At December 31, 2001, Dana, excluding DCC, had \$150 borrowed against the long-term facility, \$260 borrowed under the accounts receivable securitization program and \$33 of notes payable at its non-U.S. subsidiaries.

DCC had also relied on the issuance of commercial paper for short-term borrowings prior to 2001. Its borrowings against committed bank lines also increased after its credit ratings were lowered in the first quarter of 2001.

DCC had committed borrowing lines of \$544, including approximately \$67 denominated in British pounds and Canadian dollars, and uncommitted borrowing lines of \$15 at December 31, 2001. Various lines totaling \$292 mature in 2002; \$250 available under a long-term facility matures in June 2004. DCC had \$231 borrowed against committed U.S. bank lines at December 31, 2001.

Fees are paid to the banks for providing committed lines, but not for uncommitted lines. We paid fees of \$9 in 2001 in connection with our committed bank lines. A portion of these fees is being amortized over the lives of the related credit facilities.

Selected details of short-term borrowings are as follows:

	Amount	Weighted Average Interest Rate
Balance at December 31, 2000	\$1,526	7.0 %
Average during 2000	1,614	6.6
Maximum during 2000 (month end)	1,872	6.7
 Balance at December 31, 2001	 \$ 674	 3.5 %
Average during 2001	1,450	5.4
Maximum during 2001 (month end)	1,919	6.9