

Notes to Financial Statements

Dollars in millions

Note 18. Acquisitions

In 1999, we acquired Innovative Manufacturing, Inc., a machining operation that supplies machined castings to our Spicer Outdoor Power Equipment Components Division. We also acquired the remaining interests not previously owned in Industrias Serva S.A. (30%), Dana Heavy Axle Mexico S.A. de C.V. (9%), Automotive Motion Technology Limited (49%) and Echlin Charger Mfg. Co. Pty. Ltd. (8%). These acquisitions were accounted for as purchases and the results of operations and earnings previously allocated to minority owners have been included from the dates of acquisition. The sales and total assets were not material.

In January 2000, we acquired the cardan-jointed propeller shaft business of GKN plc. In March, we acquired a majority interest in Tribometal a.s., a manufacturer of polymer bearings. The automotive axle manufacturing and stamping operations of Invensys plc were acquired in July 2000. In November 2000, we acquired a 30-percent interest in GETRAG Cie, a manufacturer of transmissions, transaxles, axles and other automotive components, and a 49-percent interest in GETRAG's North American operations. Except for the interests in GETRAG, which are being accounted for as equity investments, the acquisitions were accounted for as purchases and the results of their operations have been included in the consolidated financial statements from the dates of acquisition. The acquisitions accounted for as purchases had total assets of \$373 at acquisition and recorded sales of \$195 in 2000.

In June 2001, we acquired the remaining 51% interest in Danaven, a Venezuelan operation in which we previously held a minority position. This acquisition was accounted for as a purchase and the results of operations have been included in the consolidated financial statements since the date we attained 100% ownership. We previously accounted for our 49% interest in Danaven under the equity method of accounting. Total assets and debt of Danaven approximated \$202 and \$92 at June 30, 2001. Sales related to Danaven approximated \$64 in 2001.

Note 19. Divestitures

In October 1999, we sold the Coldform operations of our Engine and Fluid Management Group and in November we sold Sierra International Inc. Coldform manufactured starter components, steering hubs and suspension components and Sierra manufactured and distributed marine and power equipment engine, drive and hose products. Annual sales of these operations were approximately \$50.

In January 2000, we sold our Gresen Hydraulics business, the Truckline Parts Centres heavy-duty distribution business and certain portions of our constant velocity (CV) joint businesses. In February, we sold most of the global Warner Electric businesses and, in March, we sold Commercial Vehicle Cab Systems. In September 2000, we sold the remaining 35% interest in our Brazilian CV joint operation. Net gain recorded on these divestitures totaled \$106. These businesses reported sales of \$666 in 1999; through the dates of divestiture, 2000 sales for these operations totaled \$103.

In March 2001, we sold Mr. Gasket, Inc., a wholly owned subsidiary. In the second quarter of 2001, we divested our Marion, Ohio forging facility and the assets of our Dallas, Texas and Washington, Missouri Engine and Fluid Management Group operations. In July 2001, we completed the sale of our Chelsea power take-off business to Parker Hannifin Corporation. In September 2001, we completed the sale of our Glacier industrial polymer bearings businesses to Goodrich Corporation. A net after-

tax gain of \$10 was recorded on these divestitures. Sales reported by these businesses were \$241 in 2000 and \$105 in 2001, through the dates of divestiture.

Note 20. Restructuring of Operations

During 1999, we continued executing the restructuring and integration plans announced in 1998 following our acquisition of Echlin Inc., including the closing and downsizing of facilities begun in 1998. We incurred integration charges of \$51 for relocating assets, training and relocating employees and other integration activities at the acquired operations. These costs were charged to expense as incurred.

During the fourth quarter of 1999, we announced plans to downsize and close additional operations in the U.S., South America and Europe and recorded restructuring and integration charges totaling \$170. The charges included the costs of exiting businesses, asset impairments and termination benefits. The announced restructuring and integration plans included closing five facilities, downsizing three facilities and terminating 1,280 people. The largest component of these plans was the downsizing of our Reading, Pa., structures facility. In total, \$229 was charged to income during 1999. This amount consisted of \$181 charged to restructuring and integration, \$57 charged to cost of sales and a \$9 gain on the sale of Sierra credited to other income.

During the third quarter of 2000, we announced plans to close our Reading structures facility and terminate approximately 690 people and recorded restructuring charges of \$53. In the fourth quarter of 2000, we approved plans to close facilities in France, the United Kingdom and Argentina, resulting in \$34 of charges and a workforce reduction of approximately 230 people. We also incurred integration expenses in 2000 related to consolidating our Engine Management warehouse operations and moving operations from closed facilities.

In the first quarter of 2001, we recorded \$22 of restructuring expense in connection with the announced closing of six facilities in the ASG and EFMG and workforce reductions at other facilities. These charges included \$10 for employee termination benefits, \$7 for asset impairment and \$5 for other exit costs and impacted net earnings by \$14. We announced additional facility closings in the third quarter and accrued additional restructuring charges of \$12, affecting earnings by \$7.

In October 2001, we announced plans to reduce our global workforce by more than 15 percent and initiated a review of more than 30 facilities for possible consolidation or closure. These actions were undertaken to reduce capacity and outsource the manufacturing of non-core content. As of December 31, 2001, we had announced the closing of 21 facilities and reduced our work force by more than 7 percent in connection with these plans. Charges related to our actions announced in October were \$431 and affected net earnings by \$279. Charges for all restructuring activities totaled \$440, including \$155 for employee terminations, \$196 for asset impairments and \$89 for exit and other costs. We charged cost of sales for \$85 of these expenses, including \$38 for inventory impairment. Net earnings in the fourth quarter were impacted by \$284.

For the year ended December 31, 2001, we recorded total expenses of \$476, including \$390 charged to restructuring expense and \$86 charged to cost of sales, in connection with our restructuring actions. We expect our actions to reduce our break-even point by eliminating excess capacity.