ARVINMERITOR INC
Form 10-K
November 20, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended October 1, 2006

Commission file number 1-15983

ARVINMERITOR, INC.

(Exact name of registrant as specified in its charter)

Indiana **(State or other jurisdiction of incorporation or organization)**	**38-3354643** **(I.R.S. Employer Identification No.)**
2135 West Maple Road **Troy, Michigan** **(Address of principal executive offices)**	**48084-7186** **(Zip Code)**

Registrant s telephone number, including area code: (248) 435-1000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	**Name of each exchange on which registered**
Common Stock, $1 Par Value (including the associated Preferred Share Purchase Rights)	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

The aggregate market value of the registrant s voting and non-voting common equity held by non-affiliates of the registrant on March 31, 2006 (the last business day of the most recently completed second fiscal quarter) was approximately $1,042.4 million.

70,654,731 shares of the registrant s Common Stock, par value $1 per share, were outstanding on October 31, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Shareowners of the registrant to be held on January 26, 2007 is incorporated by reference into Part III.

PART I

Item 1. ***Business*****.**

ArvinMeritor, Inc. (the "company" or "ArvinMeritor"), headquartered in Troy, Michigan, is a global supplier of a broad range of integrated systems, modules and components serving light vehicle, commercial truck, trailer and specialty original equipment manufacturers and certain aftermarkets.

ArvinMeritor was incorporated in Indiana in 2000 in connection with the merger of Meritor Automotive, Inc. ("Meritor") and Arvin Industries, Inc. ("Arvin"). As used in this Annual Report on Form 10-K, the terms "company," "ArvinMeritor," "we," "us" and "our" include ArvinMeritor, its consolidated subsidiaries and its predecessors unless the context indicates otherwise.

The company s fiscal quarters end on the Sundays nearest December 31, March 31 and June 30, and its fiscal year ends on the Sunday nearest September 30. Fiscal year 2006 ended on October 1, 2006 and fiscal year 2005 ended on October 2, 2005. All year and quarter references relate to our fiscal year and fiscal quarters unless otherwise stated. For ease of presentation, September 30 is utilized consistently throughout this report to represent the fiscal year end.

Whenever an item of this Annual Report on Form 10-K refers to information in the Proxy Statement for the Annual Meeting of Shareowners of ArvinMeritor to be held on January 26, 2007 (the "2007 Proxy Statement"), or under specific captions in Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations* or Item 8. *Financial Statements and Supplementary Data,* the information is incorporated in that item by reference.

ArvinMeritor serves a broad range of original equipment manufacturer ("OEM") customers worldwide, including truck OEMs, light vehicle OEMs, trailer producers and specialty vehicle manufacturers, and certain aftermarkets. Our total sales from continuing operations in fiscal year 2006 were $9.2 billion. Our ten largest customers accounted for approximately 74% of fiscal year 2006 sales from continuing operations. We operated 112 manufacturing facilities in 26 countries around the world in fiscal year 2006, including facilities operated by discontinued operations and joint ventures in which we have interests. Sales from continuing operations outside North America accounted for approximately 50% of total sales from continuing operations in fiscal year 2006. Our continuing operations also participated in ten significant non-consolidated joint ventures that generated revenues of approximately $1.8 billion in fiscal year 2006.

In fiscal year 2006, we served customers worldwide through the following businesses:

Continuing Operations:

Light Vehicle Systems ("LVS") supplies emissions systems, aperture systems (roof and door systems), and undercarriage systems (suspension systems and modules and wheel products) for passenger cars, all-terrain vehicles, light trucks and sport utility vehicles to OEMs.

Commercial Vehicle Systems ("CVS") supplies drivetrain systems and components, including axles and drivelines, braking systems, suspension systems, and exhaust and ride control products for medium- and heavy-duty trucks, trailers and specialty vehicles to OEMs and to the commercial vehicle aftermarket.

Discontinued Operations:

Light Vehicle Aftermarket ("LVA") supplied exhaust, ride control, motion control and filter products and other automotive parts to the passenger car, light truck and sport utility aftermarket. In October 2004, we announced our intention to divest our LVA business, and we reported this business in discontinued operations for accounting purposes. A significant portion of the LVA businesses were sold in fiscal year 2006, and we expect to complete the divestiture of the remaining LVA businesses in fiscal year 2007. See Strategic Initiatives below.

LVS provided ride control products, including shock absorbers, struts, ministruts and corner modules to OEMs. We substantially completed our plan to exit this business in the first quarter of fiscal year 2006, and we sold the assets related to our shock rod and shock assembly business in the fourth quarter of fiscal year 2006. This business is reported in discontinued operations.

See Notes 1 and 4 of the Notes to Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data* below for information with respect to changes in continuing and discontinued operations and a write-off associated with impairment of goodwill in fiscal year 2006.

See Item 1A. *Risk Factors* below for information on certain risks that could have an impact on our business, financial condition or results of operations in the future.

Note 24 of the Notes to Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data* contains financial information by segment for continuing operations for each of the three years ended September 30, 2006, including information on sales and assets by geographic area. The heading "Products" below includes information on LVS and CVS sales by product for each of the three fiscal years ended September 30, 2006.

References in this Annual Report on Form 10-K to our being a leading supplier or the world's leading supplier, and other similar statements as to our relative market position are based principally on calculations we have made. These calculations are based on information we have collected, including company and industry sales data obtained from internal and available external sources, as well as our estimates. In addition to such quantitative data, our statements are based on other competitive factors such as our technological capabilities, our research and development efforts and innovations and the quality of our products and services, in each case relative to that of our competitors in the markets we address.

Business Strategies

We are a global supplier of a broad range of integrated systems, modules and components for use in commercial, specialty and light vehicles worldwide and we have developed market positions as a leader in most of our served markets. We are working to enhance our leadership positions and capitalize on our existing customer, product and geographic strengths, and to increase sales, earnings and profitability. To achieve these goals, we are working to: (a) rationalize our operations by eliminating excess capacity, (b) refocus our business by evaluating our product portfolio to identify our core competencies, and (c) regenerate and grow the businesses that offer attractive returns. In addition, in November 2006 we announced a new profit improvement initiative, Performance Plus, designed to improve cash flow, earnings and shareowner value.

Several significant factors and trends in the automotive industry present opportunities and challenges to industry suppliers and influence our business strategies. These factors and trends include the cyclicality of the industry; consolidation and globalization of OEMs and their suppliers; increased outsourcing by OEMs; increased demand for modules and systems by OEMs; pricing pressures from OEMs that could negatively impact suppliers earnings even when sales volumes are increasing; the rising cost of raw materials, primarily steel and oil; and an increasing emphasis on engineering and technology. Our specific business strategies, described below, are influenced by these industry factors and trends and are focused on leveraging our resources to create a competitive cost structure.

Minimize the Risks of Cyclicality Through Business Diversity. The automotive industry is cyclical in nature and subject to periodic fluctuations in demand for vehicles. This in turn results in fluctuations in demand for our products. We seek to diversify our business in order to mitigate the effects of market downturns and better accommodate the changing needs of OEMs. We strive to maintain diversity in three areas:

Products. We manufacture and sell a wide range of products in various segments of the automotive and commercial vehicle market. For fiscal year 2006, our annual sales from continuing operations include $4.9 billion for LVS and $4.3 billion for CVS.

Customers. A diverse customer base helps to mitigate market fluctuations. We have a large customer base comprised of most major vehicle producers.

Global Presence. Cycles in the major geographic markets of the automotive industry are not necessarily concurrent or related. We seek to maintain a strong global presence and to expand our global operations to mitigate the effect of periodic fluctuations in demand in one or more geographic areas. A strong global presence also helps to meet the global sourcing needs of our customers.

Focus on Organic Growth While Reviewing Strategic Opportunities. Our goal is to grow businesses that offer attractive returns and are core to our operations. We have identified the areas of our core business that we believe have the most potential for leveraging into other products and markets, and we are focusing our resources on these areas. We also seek to take advantage of opportunities for operating synergies and cross-selling of products between our light vehicle and commercial vehicle businesses. For example, we continue to adapt products and technologies, originally developed by the LVS emissions technologies business unit, in the development of emissions control products for its commercial vehicle customers. See Products Commercial Vehicle Systems Undercarriage and Drivetrain Systems Emissions Systems below. In addition, we are exploring opportunities to apply our CVS drivetrain expertise in the development of undercarriage component systems for our LVS customers.

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We also consider strategic opportunities that could enhance the company s growth. Automotive suppliers continue to consolidate into larger, more efficient and more capable companies and collaborate with each other in an effort to better serve the global needs of their OEM customers. We regularly evaluate various strategic and business development opportunities, including licensing agreements, marketing arrangements, joint ventures, acquisitions and dispositions. We remain committed to selectively pursuing alliances and acquisitions that would allow us to leverage our capabilities, gain access to new customers and technologies, enter new product markets and implement our business strategies. We also continue to review the prospects of our existing businesses to determine whether any of them should be modified, restructured, sold or otherwise discontinued. See Strategic Initiatives and Joint Ventures below for information on recent activities in these areas.

Grow Content Per Vehicle Through Technologically Advanced Systems and Modules. Increased outsourcing by OEMs has resulted in higher overall per vehicle sales by independent suppliers. This presents an opportunity for supplier sales growth at a faster rate than the overall automotive industry growth trend. OEMs are also demanding modules and integrated systems that require little assembly by the OEM customer.

One of our significant growth strategies is to provide engineering and design expertise, develop new products and improve existing products that meet these customer needs. We will continue to invest in new technologies and product development and work closely with our customers to develop and implement design, engineering, manufacturing and quality improvements. We will also continue to integrate our existing product lines by using our design, engineering and manufacturing expertise and teaming with technology partners to expand sales of higher-value modules and systems.

Management believes that the strategy of continuing to introduce new and improved systems and technologies will be an important factor in our efforts to achieve our growth objectives. We will draw upon the engineering resources of our technical centers in Detroit, Michigan; Columbus, Indiana; and Augsburg, Germany, and our engineering centers of expertise in the United States, Brazil, Canada, France, Germany, India and the United Kingdom. See Research and Development below.

Enhance Core Products to Address Safety and Environmental Issues. Another industry trend is the increasing amount of equipment required for changes in environmental and safety-related regulatory provisions. OEMs select suppliers based not only on the cost and quality of products, but also on their ability to meet these demands. We use our technological expertise to anticipate trends and to develop products that address safety and environmental concerns.

To address safety, our LVS group designs its aperture systems with stronger materials, creates designs that enhance the vehicle s crashworthiness and develops undercarriage systems that offer improved ride and vehicle control dynamics. Our CVS group is focusing on the integration of braking and stability products and suspension products, as well as the development of electronic control capabilities. CVS, through its Meritor WABCO joint venture, is also developing braking systems technology to improve braking performance and reduce stopping distances for commercial motor vehicles.

With respect to emissions regulations, LVS is an industry leader in emissions technologies that improve fuel economy and reduce air pollutants, while we are leveraging our expertise in light vehicle emissions technologies to bring products to the commercial vehicle market. Looking forward, we will continue to seek to develop products that will permit us to assist customers in meeting new and more stringent emissions requirements that will be phased in over the next several years in our North American, European and Asia/Pacific markets.

We believe these more stringent emissions regulations will result in continued growth in Europe, and potential growth in North America, of diesel engines. Diesel engines today have the advantage of improved fuel economy, better performance and improving emissions levels. LVS began production in 2004 under contracts to provide diesel emissions systems to light vehicle OEMs in Europe. In fiscal year 2006, approximately 47% of all new vehicles in Europe were sold with diesel engine powertrains.

Strengthen our Presence in Emerging Global Markets. Geographic expansion to meet the global sourcing needs of customers and to address new markets is an important element of our growth strategy. ArvinMeritor currently has joint ventures and wholly-owned subsidiaries in China and India and participates in programs to support customers as they establish and expand operations in those markets. We also have wholly-owned operations and regional joint ventures in South America, a market with potential for significant growth.

Drive a Continuous Improvement Culture Focused on Return on Capital. The ArvinMeritor Performance System (AMPS) is a continuous improvement initiative that guides our philosophy for achieving operational excellence, eliminating waste, improving quality and earning customer loyalty. Throughout the company, continuous improvement teams work to achieve significant cost savings, increase productivity and efficiency and streamline operations. They focus on eliminating non-value-added tasks, reducing lead and cycle times and improving customer service. A continuous improvement culture is important to our business operations and to maintaining and improving our earnings.

Products

ArvinMeritor designs, develops, manufactures, markets, distributes, sells, services and supports a broad range of products for use in commercial, specialty and light vehicles. In addition to sales of original equipment systems and components, we provide our products to OEMs, dealers, distributors, fleets and other end-users in certain aftermarkets.

In recent years, we have executed a strategy of analyzing our product portfolio and refocusing the business on our core competencies, resulting in divestiture of some businesses and product lines. Since the beginning of fiscal year 2006, we have sold a significant portion of the LVA business and have exited the LVS ride control business (see Strategic Initiatives and Joint Ventures below). All of these businesses have been reported in discontinued operations for accounting purposes.

The following chart sets forth operating segment sales as a percentage of total sales for continuing operations by product for each of the three fiscal years ended September 30, 2006. A narrative description of the principal products of our continuing operations, as well as the principal products of our discontinued operations, follows the chart.

	Fiscal Year Ended September 30,		
LVS:	**2006**	**2005**	**2004**
Emissions Technologies	31 %	29 %	33 %
Aperture Systems	13 %	15 %	19 %
Undercarriage Systems	9 %	10 %	7 %
Total LVS	53 %	54 %	59 %
CVS:			
Undercarriage and Drivetrain Systems	43 %	40 %	35 %
Specialty Systems (1)	4 %	6 %	6 %
Total CVS	47 %	46 %	41 %
Total	100 %	100 %	100 %

(1) In October 2005, we sold certain assets of our off-highway brake business (see Strategic Initiatives below). Sales from these products are included in CVS Specialty Systems for fiscal years 2004 and 2005.

Light Vehicle Systems

Emissions Technologies

We are a leading global supplier of a complete line of exhaust systems and exhaust system components, including mufflers, exhaust pipes, catalytic converters, diesel particulate filters and exhaust manifolds. We sell these products to OEMs primarily as original equipment, while also supporting manufacturers needs for replacement parts and dealers needs for service parts. We participate in this business both directly and through joint ventures and affiliates. These alliances include our 50% interest in Arvin Sango Inc., an exhaust joint venture based in North America.

See Business Strategies Enhance Core Products to Address Safety and Environmental Issues above for information on the importance of diesel technology to LVS strategies for future growth.

Aperture Systems

Roof Systems. ArvinMeritor is one of the world's leading independent suppliers of sunroofs and roof systems products for use in passenger cars, light trucks and sport utility vehicles, including our Golde® brand sunroofs. We make complete roofs, some of which incorporate sunroofs, that provide OEMs with cost savings by reducing assembly time and parts. Our roof system manufacturing facilities are located in North America and Europe.

Door Systems. We are a leading supplier of integrated door modules and systems, including manual and power window regulators and latch systems. Our power and manual door system products utilize numerous technologies, including our own electric motors with electronic function capabilities, including anti-squeeze technologies, which are custom designed for individual applications to maximize operating efficiency and reduce noise levels. We manufacture window regulators at plants in North and South America, Europe and the Asia/Pacific region for light vehicle and heavy-duty commercial vehicle OEMs.

We also supply manual and power activated latch systems to light vehicle manufacturers. Our access control products include modular and integrated door latches, actuators, trunk and hood latches and fuel flap locking devices, with a leadership market position in Europe. We manufacture access control systems at assembly facilities in North and South America, Europe and the Asia/Pacific region.

Undercarriage Systems

Suspension Systems. We are one of the leading independent suppliers of products used in suspension systems for passenger cars, light trucks and sport utility vehicles in North America through our 57%-owned joint venture with Mitsubishi Steel Manufacturing Co. Our suspension system products, which are manufactured at facilities in the United States and Canada, include coil springs, stabilizer bars and torsion bars.

Suspension Modules. Using our expertise in ride control and vehicle dynamics, we offer final assembly of upper and complete corner modules as well as front and rear cross vehicle modules. This capability gives us the ability to incorporate components that we manufacture into these modules, thus enhancing value content.

Wheel Products. We are a leading supplier of steel wheel products to the light vehicle OEM market, principally in North and South America. We have wheel manufacturing facilities in Brazil and Mexico. Our wheel products include fabricated steel wheels, bead seat attached wheels, full-face designed wheels and clad wheels with the appearance of a chrome finish. Our cladding process offers enhanced styling options previously available only in aluminum wheels.

Commercial Vehicle Systems

Undercarriage and Drivetrain Systems

Truck Axles. We are one of the world's leading independent suppliers of axles for medium- and heavy-duty commercial vehicles, with axle manufacturing facilities located in North America, South America, Europe and the Asia/Pacific region. Our extensive truck axle product line includes a wide range of drive and non-drive front steer axles and single and tandem rear drive axles, which can include driver-controlled differential lock for extra traction, aluminum carriers to reduce weight and pressurized filtered lubrication systems for longer life. Our front steer and rear drive axles can be equipped with our cam, wedge or disc brakes, automatic slack adjusters and anti-lock braking systems.

Drivelines and Other Products. We also supply universal joints and driveline components, including our Permalube universal joint and Permalube driveline, which are low maintenance, permanently lubricated designs used in the high mileage on-highway market.

Suspension Systems and Trailer Products. We are one of the world's leading manufacturers of heavy-duty trailer axles, with leadership positions in North America and in Europe. Our trailer axles are available in over 40 models in capacities from 20,000 to 30,000 pounds for virtually all heavy trailer applications and are available with our broad range of brake products, including anti-lock braking systems (ABS). In addition, we supply trailer air suspension systems and products for which we have strong market positions in Europe and an increasing market presence in North America.

Through our 50%-owned joint venture with Randon Participacoes, we develop, manufacture and sell truck suspensions, trailer axles and suspensions and related wheel-end products in the South American market.

In the fourth quarter of fiscal year 2006, we announced our intention to build a new trailer axle and suspension system facility in China, to supply OEMs in the Chinese market and to export components to the North American and European markets. The facility is scheduled to begin production in the first half of 2007.

Braking Systems. We are a leading independent supplier of air and hydraulic brakes to medium- and heavy-duty commercial vehicle manufacturers in North America and Europe. In Brazil, the third largest truck and trailer market in the world, our 49%-owned joint venture with Randon S. A. Veiculos e Implementos is a leading supplier of brakes and brake-related products.

Through manufacturing facilities located in North America and Europe, we manufacture a broad range of foundation air brakes, as well as automatic slack adjusters for brake systems. Our foundation air brake products include cam drum brakes, which offer improved lining life and tractor/trailer interchangeability; air disc brakes, which provide fade resistant braking for demanding applications; wedge drum brakes, which are lightweight and provide automatic internal wear adjustment; hydraulic brakes; and wheel end components such as hubs, drums and rotors.

Federal regulations require that new heavy- and medium-duty vehicles sold in the United States be equipped with ABS. Our 50%-owned joint venture with WABCO Automotive Products ("WABCO"), a wholly-owned subsidiary of American Standard Inc., is the leading supplier of ABS and a supplier of other electronic and pneumatic control systems for North American heavy-duty commercial vehicles. The joint venture also supplies hydraulic ABS to the North American medium-duty truck market and produces stability control systems for tractors and trailers, which are designed to help maintain vehicle stability and aid in reducing tractor-trailer rollovers.

Transmissions. In fiscal year 2004, we dissolved our 50%-owned joint venture with ZF Friedrichshafen AG ("ZF), which produced transmission components and systems for heavy vehicle OEMs and the aftermarket in the United States, Canada and Mexico. The joint venture was replaced by a marketing arrangement that allows us to provide the redesigned FreedomLine , a fully automated mechanical truck transmission without a clutch pedal, to our customers. This transmission product line enabled us in fiscal year 2006 to supply a complete drivetrain system to heavy-duty commercial vehicle manufacturers in North America.

Emissions Systems. CVS has adapted products and applications from the LVS emissions technologies business unit and introduced new technologies to develop a portfolio of technologically advanced emissions control products and applications to address increasingly stringent regulatory standards for diesel particulate matter and nitrogen oxide (NOx) emissions in commercial vehicles. These products and applications include:

- Diesel Oxidation Catalysts capable of removing up to 90% of hydrocarbon and carbon monoxide emissions and 30% of particulate matter. This technology is available currently.
- Thermal Regenerator on demand, active regeneration technology that offers a safe and effective way to remove diesel particulate matter, using diesel fuel as a heat source, without the use of a catalytic coating or precious metals. This technology was released for OEM use in 2006, in preparation for the EPA s 2007 particulate matter emission standards.
- Catalyzed Diesel Particulate Filter a filter that traps the diesel particulate matter from the exhaust and prevents it from reaching the atmosphere. It is expected to be available in 2007 to meet the new 2007 U.S. regulations.
- Selective Catalytic Reduction (SCR) System a compact, low-weight option to effectively reduce NOx emissions to the levels required to meet 2008 European standards. The system also achieves reduction of diesel particulate matter and allows the engine to operate in ways that could maximize fuel economy.
- Plasma Fuel Reformer a system that creates a hydrogen-rich gas from hydrocarbon fuel sources, which enables more efficient control of NOx from diesel engine exhaust through effective regeneration of NOx adsorbers or lean NOx traps. This technology could be less sensitive to sulfur contamination and could use less fuel than conventional regeneration and consume minimal power. This technology, which is expected to be available for production in 2010, also has potential for future applications in gasoline combustion engines.

Specialty Systems

Off-Highway Vehicle Products. We supply heavy-duty axles and drivelines in the Asia/Pacific region, for use in numerous off-highway vehicle applications, including construction, material handling, agriculture, mining and forestry. These products are designed to tolerate high tonnages and operate under extreme conditions. Prior to the first quarter of fiscal year 2006, when we sold the off-highway brakes business (see Strategic Initiatives below), we also supplied brakes in North America, South America, Europe and the Asia/Pacific region.

Government Products. We supply axles, brakes and brake system components including ABS, trailer products, transfer cases and drivelines for use in medium-duty and heavy-duty military tactical wheeled vehicles, principally in North America.

Specialty Vehicle Products. We supply axles, brakes and transfer cases for use in buses, coaches and recreational, fire and other specialty vehicles in North America and Europe, and we are the leading supplier of bus and coach axles and brakes in North America.

Discontinued Operations

Light Vehicle Aftermarket. Prior to the divestiture of a significant portion of the LVA businesses in fiscal year 2006 (see Strategic Initiatives), the principal LVA products included mufflers; exhaust and tail pipes; catalytic converters; shock absorbers; struts; gas lift supports and vacuum actuators; and automotive oil, air, and fuel filters. These products were sold under the brand names Arvin® (mufflers); Gabriel® (shock absorbers); and Purolator® (filters). LVA also marketed products under private label to some customers.

LVS Ride Control Systems. Prior to exiting this business in fiscal year 2006 (see Strategic Initiatives below), we provided ride control products, including shock absorbers, struts, ministruts and corner modules to OEMs.

Customers; Sales and Marketing

ArvinMeritor's operating segments have numerous customers worldwide and have developed long-standing business relationships with many of these customers. Our ten largest customers accounted for approximately 74% of our total sales from continuing operations in fiscal year 2006. In recent years, we have been adversely impacted by the weakened financial strength of certain of our customers, including those that have filed for protection under bankruptcy and administration laws. See Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations Overview* and *Results of Operations.*

Both LVS and CVS market and sell products principally to OEMs. LVS and CVS generally compete for new business from OEMs, both at the beginning of the development of new vehicle platforms and upon the redesign of existing platforms. New platform development generally begins two to four years prior to start-up of production. In North America, CVS also markets truck and trailer products directly to dealers, fleets and other end-users, which may designate the components and systems of a particular supplier for installation in the vehicles they purchase from OEMs. CVS also provides truck and trailer products and off-highway and specialty products to OEMs, dealers and distributors in the aftermarket.

Consistent with industry practice, LVS and CVS make most of their sales to OEMs through open purchase orders, which do not require the purchase of a minimum number of products. The customer typically may cancel these purchase orders on reasonable notice. LVS and CVS also sell products to certain customers under long-term arrangements that require us to provide annual cost reductions (through price reductions or other cost benefits for the OEMs). If we are unable to generate sufficient cost savings in the future to offset such price reductions, our gross margins will be adversely affected (see Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations* below).

See Item 1A. *Risk Factors* for information on customers accounting for 10% or more of our consolidated revenues in fiscal year 2006 and certain risks associated with our dependence on large OEM customers.

Competition

LVS and CVS compete worldwide with a number of North American and international providers of components and systems, some of which are owned by or associated with some of our customers. The principal competitive factors are price, quality, service, product performance, design and engineering capabilities, new product innovation and timely delivery. In addition, certain OEMs manufacture for their own use products of the types we supply.

LVS has numerous competitors across its various product lines worldwide, including Tenneco, Faurecia, Eberspaecher and Benteler (emissions technologies); Webasto, Inalfa and Aisin (roof systems); Brose, Intier, Kiekert AG, Mitsui, Valeo, Aisin and Grupo Antolin (door and access control systems); Tenneco Automotive, ZF, Delphi, Thyssen-Krupp, Benteler and TRW (suspension modules); Thyssen-Krupp, NHK Spring, Rassini, Mubea and Sogefi (suspension systems); and Hayes-Lemmerz, Topy, Accuride and CMW (wheel products). The major competitors of CVS are Dana Corporation (truck axles and drivelines); Knorr/Bremse, Haldex and WABCO (braking systems); Hendrickson and Neway (suspension systems); Hendrickson and Dana (trailer products); and Eaton Corporation (transmissions).

See Item 1A. *Risk Factors* for information on certain risks associated with our competitive environment.

Raw Materials and Supplies

We concentrate our purchases of certain raw materials and parts over a limited number of suppliers, some of which are located in developing countries and some of which are in weakened financial condition. We are dependent upon the ability of our suppliers to meet performance and quality specifications and delivery schedules. The inability of a supplier to meet these requirements, the loss of a significant supplier, or any labor issues or work stoppages at a significant supplier, could have an adverse effect on us.

Prices of certain raw materials, primarily steel and oil, for our business segments' manufacturing needs negatively impacted our operating income in fiscal year 2006. We are taking actions to mitigate the effects of higher steel prices, including alternative sourcing of materials or components, consolidating and selling scrap from our facilities, re-engineering our products to be less dependent on steel, and negotiating with customers to recover some of the increased costs, and we have had some success in recovering a portion of higher steel prices from our customers. However, if supplies are inadequate for our needs, or if prices remain at current levels or increase and we are unable to either pass these prices to our customer base or otherwise mitigate the costs, our operating income could continue to be adversely affected.

Strategic Initiatives

As described above, our business strategies are focused on enhancing our market position by eliminating excess capacity, evaluating our product portfolio to identify our core competencies, and growing the businesses that offer the most attractive returns. Implementing these strategies involves various types of strategic initiatives.

Restructuring. As part of our strategy to rationalize our business, in fiscal year 2005, we announced restructuring plans with respect to continuing operations to eliminate approximately 500 salaried positions and 1,750 hourly positions and to consolidate, downsize, close or sell 11 global facilities, primarily in the LVS segment. During fiscal year 2006, we identified approximately 550 salaried and hourly additional headcount reductions in LVS. These actions are intended to align capacity with industry conditions, utilize assets more efficiently and improve operations. Estimated total costs of $135 million include employee severance and other exit costs, as well as asset impairments. Total costs recorded for these actions are $127 million, of which $37 million was recorded in fiscal year 2006. We expect to complete these restructuring actions and record the remaining costs in fiscal year 2007. See Note 5 of the Notes to Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data* below.

In addition, we recently announced plans to restructure our emissions technologies business in response to significant challenges, including higher raw material costs, intense pricing pressures, increased competition and a downturn in production at certain North American manufacturers. These plans include downsizing certain facilities and realigning our manufacturing footprint to utilize assets more efficiently, improve operations and lower costs. The total estimated cost of these actions is $50 million, of which approximately $40 million is expected to be cash costs. This restructuring program will be executed over the next 12 to 36 months. No amounts have been recorded for this restructuring program at September 30, 2006.

Divestitures. As part of our strategy to refocus our business, we regularly review the prospects of our existing businesses to determine whether any of them should be modified, restructured, sold or otherwise discontinued. We completed the following initiatives since the beginning of fiscal year 2006 (see Notes 3 and 6 of the Notes to Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data* below):

- We previously announced our intention to divest the LVA business segment, enabling the company to focus more resources on our core competencies and thereby better support our OEM customers. Since the beginning of fiscal year 2006, a significant portion of the LVA businesses have been sold, including the following transactions. We expect to complete the divestiture of the remaining LVA businesses in fiscal year 2007.
  - We sold our 39% interest in Purolator India, a joint venture, in the first quarter of fiscal year 2006;
  - We completed the sale of our LVA North American filters and exhaust businesses in the second quarter of fiscal year 2006; and
  - We completed the sale of our Gabriel South Africa ride control business and our North American motion control business in the fourth quarter of fiscal year 2006.
- In the first quarter of fiscal year 2006, we sold certain assets of our CVS off-highway brakes business.
- In the first quarter of fiscal year 2006, we sold our LVS ride control business located in Asti, Italy, and in the fourth quarter of fiscal year 2006, we completed the sale of the assets related to our shock rods and shock assemblies business. These sales, together with previous divestitures, complete our plan to exit the LVS ride control business.

Acquisitions and Other Growth Initiatives. As part of our strategy to regenerate our profitable businesses, we regularly consider various strategic and business opportunities, including licensing agreements, marketing arrangements and acquisitions, as well as joint ventures (discussed below). We believe that the industry in which we operate could experience significant further consolidation among suppliers. This trend is due in part to globalization and increased outsourcing of product engineering and manufacturing by OEMs, and in part to OEMs reducing the total number of their suppliers by more frequently awarding long-term, sole-source or preferred supplier contracts to the most capable global suppliers. Speed is an important competitive factor, with the fastest industry participants able to maximize key resources and contain costs.

No assurance can be given as to whether or when any strategic growth initiatives will be consummated in the future. We will continue to consider acquisitions as a means of growing the company or adding needed technologies, but cannot predict whether our participation or lack of participation in industry consolidation will ultimately be beneficial to us.

See Item 1A. *Risk Factors* for information on certain risks associated with strategic initiatives.

Joint Ventures

As the automotive industry has become more globalized, joint ventures and other cooperative arrangements have become an important element of our business strategies. As of September 30, 2006, our continuing operations participated in 26 joint ventures with interests in the United States, Brazil, Canada, China, Colombia, the Czech Republic, France, Germany, India, Italy, Korea, Mexico, the Slovak Republic, Turkey, the United Kingdom and Venezuela.

In accordance with accounting principles generally accepted in the United States, our consolidated financial statements include the operating results of those majority-owned joint ventures in which we have control. Significant unconsolidated joint ventures include our 50%-owned North American joint venture with WABCO (ABS systems for heavy-duty commercial vehicles) and our 50% interest in Arvin Sango Inc. (emissions technologies) in the United States (see Note 13 of the Notes to Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data* below).

Since the beginning of fiscal year 2006, we completed the following significant initiatives with respect to our joint ventures:

As noted above, in the first quarter of fiscal year 2006, we sold our 39% interest in the Purolator India LVA joint venture.

In the fourth quarter of fiscal year 2006, LVS formed a joint venture with Pyeong Hwa automotive for the final assembly of fully integrated door modules for Kia Motors Corporation s new facility in Slovakia.

Research and Development

We have significant research, development, engineering and product design capabilities. We spent $177 million in fiscal year 2006, $171 million in fiscal year 2005 and $157 million in fiscal year 2004 on company-sponsored research, development and engineering. At September 30, 2006, we employed approximately 1,450 professional engineers and scientists.

Patents and Trademarks

We own or license many United States and foreign patents and patent applications in our manufacturing operations and other activities. While in the aggregate these patents and licenses are considered important to the operation of our businesses, management does not consider them of such importance that the loss or termination of any one of them would materially affect a business segment or ArvinMeritor as a whole.

Our registered trademarks ArvinMeritor®, Arvin® and Meritor® are important to our business. Other significant trademarks owned by us include Fumagalli (wheels), Zeuna Stärker® (emissions systems) and Golde® (sunroofs) with respect to LVS; and ROR (trailer axles) with respect to CVS. In connection with the 1997 spin-off of Meritor s common stock to the shareowners of Rockwell International Corporation (now Rockwell Automation, Inc., and referred to in this Annual Report on Form 10-K as Rockwell) and the transfer of Rockwell s automotive businesses to Meritor, Meritor entered into an agreement that allows us to continue to apply the "Rockwell" brand name to our products until September 30, 2007.

Substantially all of our intellectual property is subject to a first priority perfected security interest securing our obligations to the lenders under our credit facility. See Note 16 of the Notes to Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data* below.

Employees

At September 30, 2006, we had approximately 27,500 full-time employees. At that date, approximately 4,100 employees in the United States and Canada were covered by collective bargaining agreements and most of our facilities outside of the United States and Canada were unionized. We believe our relationship with unionized employees is satisfactory.

Our collective bargaining agreement with the Canadian Auto Workers (CAW) at our CVS brakes facility in Ontario, Canada, expired on June 3, 2006. On June 4, 2006, we announced that, after lengthy negotiations, a new tentative agreement with the CAW had not yet been reached and, as a result, we had suspended operations at the facility. On June 12, 2006, we reached a tentative agreement with the CAW, which was subsequently ratified on June 14, 2006, and resumed operations. As a result of this work stoppage, we experienced temporary manufacturing inefficiencies and incurred certain costs in order to return to normal production. See Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations- Overview* and Note 23 of the Notes to Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data* below for information on the estimated financial impact of this work stoppage. Other than the foregoing, no significant work stoppages have occurred in the past five years.

Environmental Matters

Federal, state and local requirements relating to the discharge of substances into the environment, the disposal of hazardous wastes and other activities affecting the environment have, and will continue to have, an impact on our manufacturing operations. We record liabilities for environmental issues in the accounting period in which our responsibility and remediation plan are established and the cost can be reasonably estimated. At environmental sites in which more than one potentially responsible party has been identified, we record a liability for our allocable share of costs related to our involvement with the site, as well as an allocable share of costs related to insolvent parties or unidentified shares. At environmental sites in which we are the only potentially responsible party, we record a liability for the total estimated costs of remediation before consideration of recovery from insurers or other third parties.

We have been designated as a potentially responsible party at seven Superfund sites, excluding sites as to which our records disclose no involvement or as to which our potential liability has been finally determined. In addition to Superfund sites, various other lawsuits, claims and proceedings have been asserted against us, alleging violations of federal, state and local environmental protection requirements or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. We have established reserves for these liabilities. See Note 23 of the Notes to Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data* below for information as to our estimates of the total reasonably possible costs we could incur and the amounts recorded as a liability as of September 30, 2006, and as to changes in environmental accruals during fiscal year 2006.

The process of estimating environmental liabilities is complex and dependent on physical and scientific data at the site, uncertainties as to remedies and technologies to be used, and the outcome of discussions with regulatory agencies. The actual amount of costs or damages for which we may be held responsible could materially exceed our current estimates because of uncertainties, including the financial condition of other potentially responsible parties, the success of the remediation and other factors that make it difficult to predict actual costs accurately. However, based on management's assessment, after consulting with Vernon G. Baker, II, Esq., General Counsel of ArvinMeritor, and with outside advisors who specialize in environmental matters, and subject to the difficulties inherent in estimating these future costs, we believe that our expenditures for environmental capital investment and remediation necessary to comply with present regulations governing environmental protection and other expenditures for the resolution of environmental claims will not have a material adverse effect on our business, financial condition or results of operations. In addition, in future periods, new laws and regulations, changes in remediation plans, advances in technology and additional information about the ultimate clean-up remedy could significantly change our estimates. Management cannot assess the possible effect of compliance with future requirements.

International Operations

Approximately 48% of our total assets related to continuing operations as of September 30, 2006 and 50% of fiscal year 2006 sales from continuing operations were outside North America. See Note 24 of the Notes to Consolidated Financial Statements under Item 8. *Financial Statements and Supplementary Data* below for financial information by geographic area for the three fiscal years ended September 30, 2006. Our international operations are subject to a number of risks inherent in operating abroad (see Item 1A. *Risk Factors* below). There can be no assurance that these risks will not have a material adverse impact on our ability to increase or maintain our foreign sales or on our financial condition or results of operations.

Our operations are also exposed to global market risks, including foreign currency exchange rate risk related to our transactions denominated in currencies other than the U.S. dollar. We have implemented a foreign currency cash flow hedging program to help reduce the company s exposure to changes in exchange rates. We use foreign currency forward contracts to manage the company s exposures arising from foreign currency exchange risk. Gains and losses on the underlying foreign currency exposures are partially offset with gains and losses on the foreign exchange forward contracts. The contracts generally mature within 12 months. It is our policy not to enter into derivative financial instruments for speculative purposes and, therefore, we hold no derivative instruments for trading purposes. See Item 7A. *Quantitative and Qualitative Disclosures About Market Risk* and Note 17 of t 3px double rgb(0, 0, 0); width: 1%;">

1,736,994

1,485,229

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(1) The 2004 Plan, as amended, provided for awards of options up to a maximum 750,000 shares of Common Stock and expired in July 2014. Options were granted to employees, officers, directors and consultants of Milestone Scientific for the purchase of Common Stock of Milestone Scientific at a price not less than the fair market value of the Common Stock on the date of the grant. In general, options awarded under the 2004 Plan became exercisable over a three-year period from the grant date and expire five years after the date of grant. No options were exercised in 2016.

(2) The 2011 Plan, as amended, provides for awards of restricted Common Stock and options to purchase up to a maximum 4,000,000 shares of Common Stock and expires in June 2021. Options may be granted to employees, directors and consultants of Milestone Scientific for the purchase of shares of Common Stock at a price not less than the fair market value of Common Stock on the date of grant. In general, options become exercisable over a three-year period from the grant date and expire five years after the date of grant. For the year ended December 31, 2016, 327,778 shares were exercised.

EXECUTIVE OFFICERS

The following table sets forth the names, ages and principal positions of the executive officers of the Company and two key employees as of the Record Date.

Name	Age	Title
EXECUTIVE OFFICERS		
Leonard A. Osser	69	Chief Executive Officer and Director
Joseph D'Agostino	65	Chief Financial Officer and Chief Operating Officer
Gian Domenico Trombetta	55	President and Chief Executive Officer of Milestone’s Dental Division (Wand Dental Inc.)
KEY EMPLOYEES		
Eugene Casagrande, D.D.S.	71	Director of Professional Relations
Mark Hochman, D.D.S.	57	Director of Clinical Affairs

The principal occupation and business experience, for at least the last five years, for each executive officer and key employees, respectively, is set forth below (except for Messrs. Osser and Trombetta whose business experiences are discussed above). There are no family relationships among any of our directors or executive officers.

Joseph D’Agostino, Chief Financial Officer and Chief Operating Officer

Joseph D'Agostino has been Milestone Scientific's Chief Financial Officer since October 2008 and Chief Operating Officer since September 2011. Mr. D'Agostino joined Milestone Scientific in January 2008 as Acting CFO and has over 25 years of finance and accounting experience serving both publicly and privately held companies. A results-oriented and decisive leader, he has specific proven expertise in treasury and cash management, strategic planning, information technology, internal controls, Sarbanes-Oxley compliance, operations and financial and tax accounting. Mr. D'Agostino served as Senior Vice President and Treasurer of Summit Global Logistics, a publicly traded, full service international freight forwarder and customs broker with operations in the United States and China. Previous executive posts also included Executive Vice President and CFO of Haynes Security, Inc., a leading electronic and manned security solutions company serving government agencies and commercial enterprises Executive Vice President of Finance and Administration for Casio, Inc., the U.S. subsidiary of Casio Computer Co., Ltd., a leading manufacturer of consumer electronics with subsidiaries throughout the world and Manager of Accounting and Auditing for Main Hurdman's National Office in New York City (merged into KPMG). Mr. D'Agostino is a Certified Public Accountant and holds memberships in the American Institute of CPA's, New Jersey Society of CPA's, Financial Executive Institute, He is a graduate of William Paterson University where he earned a

Bachelor of Arts degree in Science.

Mark Hochman, D.D.S., Director of Clinical Affairs

Mark Hochman, D.D.S. has served as Milestone Scientific's Director of Clinical Affairs and Director of Research and Development since 1999. He has a Doctorate of Dental Surgery with advanced training in the specialties of Periodontics and Orthodontics from New York University of Dentistry and has been practicing dentistry since 1984. He is a former clinical associate professor at NYU School of Dental Surgery. Recognized as a world authority on Advanced Drug Delivery Instruments, Dr. Hochman has published numerous articles in this area, and shares in the responsibility for inventing much of the technology currently available from Milestone Scientific.

Dr. Eugene Casagrande, Director of International & Professional Relations

Since 1998, Eugene Casagrande, D.D.S. has served as Director of International and Professional Relations, charged with pursuing a broad range of clinical and industry-related strategic business opportunities for Milestone Scientific. Dr. Eugene R. Casagrande has practiced Cosmetic and Restorative Dentistry for over 30 years in Los Angeles. He is past president of the California State Board of Dentistry and the Los Angeles Dental Society and is a Fellow of the American and International Colleges of Dentists. Dr. Casagrande was a member of the faculty of the University of Southern California, School of Dentistry. He was also the Executive Director of the Los Angeles Oral Health Foundation and the Program Director of the Los Angeles Pediatric Oral Health Access Program. As the Director of International & Professional Relations for Milestone Scientific for over 19 years, he has published multiple articles and has lectured both nationally and internationally at over 100 dental schools and in over 50 countries on Computer-Controlled Local Anesthesia.

COMPENSATION OF DIRECTORS AND OFFICERS AND RELATED MATTERS

Executive Compensation

The following Summary Compensation Table sets forth all compensation earned, in all capacities, during the fiscal years ended December 31, 2016 and 2015 by Milestone Scientific's (i) CEO and (ii) two most highly compensated executive officers other than the CEO who was serving as an executive officer at the end of the 2016 fiscal year and whose salary as determined by Regulation S-K, Item 402, exceeded $100,000 (the individuals falling within categories (i) and (ii) are collectively referred to as the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

Name and Principal Position	**Year**	**Salary**	**Bonuses**		**Option Awards (2)**	**Other Compensation**		**Total**
Leonard A. Osser								
Chief Executive Officer	2016	$300,000	$400,000	(1)	$442,019	$238,030	(1)	$1,360,049
	2015	$300,000	$400,000	(1)	$101,245	$236,267	(1)	$1,037,512
Gian Domenico Trombetta								
Chief Executive Officer - Wand Dental Inc	2016	$279,999	$160,000	(4)	$221,743	$-		$661,742
	2015	$340,000	$80,000	(4)	$161,992	-		$581,992
Joseph D'Agostino								
Chief Financial Officer and Chief Operating Officer	2016	$171,600	$80,000	(4)	$222,344	$35,144	(3)	$509,088
	2015	$171,600	$114,500	(4)	$174,413	$44,996	(3)	$505,509

(1) Recognition of $400,000 of bonuses for the years ended December 31, 2016 and 2015, respectively, of which $150,000 in 2016 and $200,000 in 2015, were deferred and will be paid in Common Stock upon the termination of Mr. Osser's employment with Milestone Scientific in accordance with the terms of his employment agreement. In accordance with Mr. Osser's employment agreement, one half of his annual bonus is paid in cash and one half in Common Stock. Other compensation represents payments made for health insurance coverage, pension plan, and car allowance.

(2) The amounts in this column reflect the fair value of the options on the date of grant. For details used in the assumption calculating the fair value of the option reward, see Note B to the Financial Statements for the year ended December 31, 2016 and 2015, which is located on pages F-9 through F-14 of the Annual Report. Compensation cost is generally recognized over the vesting period of the award. See the table below entitled Outstanding Equity Awards at December 31, 2016.

(3) Other compensation represents payments made for health insurance coverage and car allowance.

(4) One half of the bonus for 2016 was deferred and will be paid in Common Stock upon the termination of employment from Milestone Scientific. The 2015 bonuses were deferred in full and will be paid Common Stock upon the termination of employment from Milestone Scientific.

Employment Contracts

As of September 1, 2009, Milestone Scientific entered into a five-year employment agreement with Leonard Osser as its Chief Executive Officer (CEO). The term of the 2009 agreement is automatically extended for successive one-year periods unless prior to August 1 of any year, either party notifies the other that he or it chooses not to extend the term. Under the 2009 agreement, the CEO receives base compensation of $300,000 per year. In addition, the CEO, may earn annual bonuses up to an aggregate of $400,000, payable one half in cash and one half in Common Stock, contingent upon achieving targets set for each year by the Compensation Committee. In addition, if in any year of the term of the agreement the CEO earns a bonus, he shall also be granted five-year stock options to purchase twice the number of bonus shares earned. Each such option is to be exercisable at a price per share equal to the fair market value of a share on the date of grant (110%) of the fair market value if the CEO is a 10% or greater stockholder on the date of grant). The options shall vest and become exercisable to the extent of one-third of the shares covered at the end of each of the first three years following the date of grant, but shall only be exercisable while the CEO is employed by Milestone Scientific or within 30 days after the termination of his employment.

In accordance with the employment agreement, 855,810 shares of Common Stock are to be paid out at the end of the contract in settlement of $980,9060 at December 31, 2016 and 776,862 shares of Common Stock are to be paid out at the end of the contract in settlement of $830,985 at December 31, 2015 of accrued deferred compensation and, accordingly, such shares have been classified in stockholders' equity with the Common Stock classified as to be issued.

This 2009 agreement suspended the previous 2008 employment with 40-months remaining in its term. In March 2014, the 2009 agreement was amended to extend its remaining term to 120-months.

On December 1, 2016, Wand Dental Inc. and Gian Domenico Trombetta entered into an Amended and Restated Employment Agreement, pursuant to which Mr. Trombetta receives base compensation of $280,000 per year and is eligible to receive annual bonuses in the sole discretion of the Compensation Committee. Pursuant to the agreement, Mr. Trombetta will continue to serve as the Chief Executive Officer of Wand Dental Inc. for a period of one-year beginning on September 1, 2016 through August 31, 2017 which term automatically renews for a one-year period, from September 1st through August 31st of each successive year, unless prior to June 1st of the then current term either party notifies the other that he or it chooses not to extend the term of employment in accordance with the terms of the agreement.

Objective of Executive Compensation Program

The primary objective of the executive compensation program is to attract and retain qualified, energetic managers who are enthusiastic about the mission and culture of the Company. A further objective of the compensation program is to provide incentives and to reward each manager for their contribution. In addition, Milestone Scientific strives to promote an ownership mentality among key leadership and the Board.

The Compensation Committee reviews and approves, or in some cases recommends for the approval of the full Board, the annual compensation procedures for the Named Executive Officers.

The compensation program is designed to reward teamwork, as well as each manager’s individual contribution. In measuring the Named Executive Officers’ contribution, the Compensation Committee considers numerous factors including growth, strategic business relationships and financial performance. Regarding most compensation matters, including executive and director compensation, management provides recommendations to the Compensation Committee; however, the Compensation Committee does not delegate any of its functions to others in setting compensation. Milestone Scientific does not currently engage any consultant to advice on executive and/or director compensation matters.

Stock price performance has not been a factor in determining annual compensation because the price of Common Stock is subject to a variety of factors outside of Milestone Scientific's control. Milestone Scientific does not have an exact formula for allocating between cash and non-cash compensation.

Annual CEO compensation consists of a base salary component and periodic stock option grants. It is the Compensation Committee's intention to set totals for the CEO for cash compensation sufficiently high enough to attract and retain a strong motivated leadership team, but not so high that it creates a negative perception with other stakeholders. The CEO receives stock option grants under the stock option plan. The number of stock options granted to the executive officer is made on a discretionary rather than a formula basis by the Compensation Committee. The CEO's current and prior compensation is considered in setting future compensation. In addition, Milestone Scientific reviews the compensation practices of 28 other companies. To some extent, the compensation plan is based on the market and the companies that compete for executive management. The elements of the plan (e.g., base salary, bonus and stock options) are similar to the elements used by many companies. The exact base pay, stock option grant, and bonus amounts are chosen in an attempt to balance the competing objectives of fairness to all stakeholders and attracting and retaining executive managers.

Outstanding Equity Awards at December 31, 2016

The following table includes certain information with respect to all unexercised stock options and unvested shares of Common Stock outstanding owned by the Named Executive Officers at December 31, 2016.

	Options Awards				**Stock Awards**	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock that have not vested (#) (2)	Market Value of Number of Shares or Units of Stock that have not vested (#) (3)
Leonard Osser	73,333	-	$ 1.49	11/20/2019	855,809	$1,198,133
	248,448	-	$ 1.65	12/31/2018		
	83,333	-	$ 0.75	1/9/2017	-	-
	144,033	41,152	$ 2.38	11/20/2019	-	-
	31,836	25,470	3.49	6/20/2019		
	27,663	55,325	1.89	2/4/2021		
	57,143	114,286	$ 1.93	11/10/2021	-	-
Total	665,789	236,233				
Gian Domenico Trombetta	44,260	88,520	1.89	2/4/2021	66,390	92,946
	44,260	88,520				
Joseph D'Agostino	116,520	33,334	$ 2.09	11/11/2019	166,201	$232,681
	38,315	10,947	$ 2.03	11/20/2019	-	-
	66,666	-	$ 1.50	12/31/2018	-	-
	78,126	-	$ 1.28	12/31/2017	-	-
	44,380	44,380	$ 1,72	2/4/2021	-	-
Total	344,154	88,661				

(1) Represents stock option grants at fair market value on the date of grant.
(2) Issuance of the shares of Common Stock has been deferred until the termination of employment with Milestone Scientific in accordance with the terms of their respective employment arrangement.
(3) Based on the closing price per share of $1.40 as reported on the NYSE MKT on December 31, 2016.

Compensation of Directors

The following table provides compensation information for the year ended December 31, 2016 for each of the independent directors. Directors are reimbursed for the costs relating to attending Board and committee meetings.

Director Compensation

NAME	**Fees Earned or Paid in Cash ($)**	**Total ($)**
Leslie Bernhard	$36,000	$36,000
Leonard Schiller	$36,000	$36,000
Edward J. Zelnick, M.D.	$33,000	$33,000

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and person who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten-percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on review of the copies of such forms furnish to us, or written representations that no Forms 5 were required, we believe that all Section 16(a) filing requirements applicable to our officers and director were complied with during the fiscal year ended December 31, 2016.

Certain Relationships and Related Transactions and Director Independence.

In 2016, Milestone Scientific entered a three-year consulting agreement with K. Tucker Anderson to provide business and strategic services to Milestone Scientific. The fee for these services are $100,000 per year which is paid in shares of Common Stock on a quarterly basis, valued at the closing price per share of Common Stock on the last trading day of each quarter.

Tom Cheng, is a controlling shareholder of a major supplier of handpieces to Milestone Scientific. Milestone Scientific purchased $3,025,249 and $2,698,522 from this supplier for the years ended December 31, 2016 and 2015, respectively.

AUDIT COMMITTEE REPORT

The Audit Committee's purpose is to assist the Board in its oversight of (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) our independent auditors' qualifications and independence, and (iv) the performance of our internal audit function and independent auditors to decide whether to appoint, retain or terminate our independent auditors, and to pre-approve all audit, audit-related and other services, if any, to be provided by the independent auditors; and to prepare this Report.

Management is responsible for the preparation, presentation and integrity of our financial statements, accounting and financial reporting principles and the establishment and effectiveness of internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for performing an independent audit of the financial statements in accordance with generally accepted auditing standards. The independent auditors have free access to the Audit Committee to discuss any matters they deem appropriate.

The Audit Committee reviewed our audited financial statements for the year ended December 31, 2016, and met with management to discuss such audited financial statements. The Audit Committee has discussed with our independent accountants, Friedman LLP, the matters required to be discussed by the Statement on Auditing Standards No. 16, as adopted by the Public Company Accounting Oversight Board. The Audit Committee has received the written disclosures and the letter from Friedman LLP required by the Independence Standards Board Standard No. 1, as may be modified or supplemented. The Audit Committee has discussed with Friedman LLP its independence from Milestone Scientific and its management. Friedman LLP had full and free access to the Audit Committee. Based on its review and discussions, the Audit Committee recommended to the Board that the audited financial statements be included in the Annual Report.

Submitted by the Audit Committee

Leslie Bernhard

Leonard Schiller

Edward J. Zelnick, M.D.

PROPOSAL 2

ADVISORY APPROVAL OF THE APPOINTMENT OF INDEPENDENT AUDITORS

(Item 2 on the Proxy Card)

Friedman LLP has been our independent auditor since July 2016. Their audit report appears in the Annual Report. A representative of Friedman LLP will be at the Annual Meeting and will have an opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions.

Selection of the independent accountants is not required to be submitted to a vote of our stockholders for ratification. In addition, the Sarbanes-Oxley Act of 2002 requires the Audit Committee to be directly responsible for the appointment, compensation and oversight of the audit work of the independent auditors. The Audit Committee expects to appoint Friedman LLP to serve as independent auditors to conduct an audit of Milestone Scientific's accounts for the 2017 fiscal year. However, the Board is submitting this matter to Milestone Scientific's stockholders as a matter of good corporate practice. If the stockholders fail to vote on an advisory basis in favor of the selection, the Audit Committee will take that into consideration when deciding whether to retain Friedman LLP, and may retain that firm or another without re-submitting the matter to the stockholders. Even if stockholders vote on an advisory basis in favor of the appointment, the Audit Committee may, in its discretion, direct the appointment of different independent auditors at any time during the year if it determines that such a change would be in the best interests of Milestone Scientific and the stockholders.

Recommendation of the Board

The Board recommends that the stockholders vote "FOR" advisory approval of the appointment of the independent auditor.

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Principal Accountant Fees and Services

Effective July 18, 2016, our Audit Committee engaged Friedman LLP ("Friedman") to replace Baker Tilly Virchow Krause, LLP ("Baker Tilly") as our new principal accounting firm. The aggregate fees billed by our principal accounting firms for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Audit fees and Audit related fees	$291,500 (1)	$277,000
Tax fees	30,000	0
Total fees	$321,500	$277,000

* Includes fees for professional services rendered for the audit of our annual financial statements and the review of financial statements included in our Quarterly Reports on Form 10-Q, and services that are reasonably related to the performance of the audit or normally provided in connection with statutory and regulatory filings.

(1) The audit fees in 2016 includes $180,000 of fees billed by Friedman and $93,500 of fees billed by Baker Tilly.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee charter provides that the Audit Committee will pre-approve audit services and non-audit services to be provided by the independent auditors before the accountant is engaged to render these services. The Audit Committee may consult with management in the decision-making process, but may not delegate this authority to management. The Audit Committee may delegate its authority to preapprove services to one or more committee members, provided that the designees present the pre-approvals to the full committee at the next committee meeting. All audit and non-audit services performed by the independent accountants have been pre-approved by the Audit Committee to assure that such services do not impair the auditors' independence from us.

OTHER BUSINESS

As of the date of this Proxy Statement, we know of no other business that will be presented for consideration at the Annual Meeting other than the items referred to above. If any other matter is properly brought before the Annual Meeting for action by stockholders, the persons designated as proxies will vote all shares in accordance with the recommendation of the Board or, in the absence of such a recommendation, in accordance with their best judgment.

ADDITIONAL INFORMATION

Householding

The SEC's rules permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement and annual report addressed to those stockholders. This process, which is commonly referred to as "householding," potentially provides extra convenience for stockholders and cost savings for companies. Some brokers household proxy materials and annual reports, delivering a single proxy statement and annual report to multiple stockholders sharing an address, although each stockholder will receive a separate proxy card. Once you have received notice from your broker that they will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If at any time you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, please notify your broker. If you would like to receive a separate copy of this year's Proxy Statement or Annual Report, please address your request for delivery of the Proxy Statement and/or Annual Report to Joseph D'Agostino, Chief Financial Officer, Milestone Scientific Inc., 220 South Orange Avenue in Livingston, New Jersey 07039.

Requirements, Including Deadlines, for Submission of Proxy Proposals, Nomination of Directors and Other Business of Stockholders

Stockholders interested in presenting a proposal or nominating a person for election as a director for consideration at the annual meeting of stockholders in 2018 (the “2018 Meeting”) must follow the procedures found in Rule 14a-8 under the Exchange Act. To be eligible for inclusion in the Company’s proxy materials for the 2018 Meeting, the stockholder must give the Company written notice of the proposal and/or director nominee which must be received by our Corporate Secretary no later than December 14, 2017. A stockholder who wishes to make a proposal at the next annual meeting of stockholders without including the proposal in our proxy statement must notify us not less than thirty (30) days and not more than sixty (60) days prior to the scheduled annual meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that if less than forty (40) days’ notice or prior public disclosure of the date of the scheduled annual meeting is given or made, notice by the stockholder, to be timely, must be so delivered or received not later than the close of business on the tenth (10th) day following the earlier of the day on which such notice of the date of the scheduled annual meeting was mailed or the day on which such public disclosure was made. If a stockholder fails to give notice by this date, then the persons named as proxies in the proxies solicited by us for the next annual meeting of stockholders will have discretionary authority to vote on the proposal. Stockholder proposals should be addressed to the Corporate Secretary, Milestone Scientific Inc., 220 South Orange Avenue in Livingston, New Jersey 07039.

EVERY STOCKHOLDER, WHETHER OR NOT HE OR SHE EXPECTS TO ATTEND THE ANNUAL MEETING IN PERSON, IS URGED TO EXECUTE THE PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED BUSINESS REPLY ENVELOPE.

Electronic Availability of Proxy Statement and Annual Report

As permitted by SEC rules, we are making this Proxy Statement and our Annual Report available to stockholders electronically via the Internet on the Company’s website at www.proxyvote.com. On or about April 13, 2017, will begin mailing to our stockholders a notice containing instructions on how to access this proxy statement and our annual report and how to vote online. If you received this notice, you will not receive a printed copy of the proxy materials unless you requested it by following the instructions for requesting such materials contained on the notice or set forth in the following paragraph.

If you received a paper copy of this Proxy Statement by mail and you wish to receive a notice of availability of next year’s proxy statement either in paper form or electronically via e-mail, you can elect to receive a paper notice of availability by mail or an e-mail message that will provide a link to these documents on our website. By opting to receive the notice of availability and accessing your proxy materials online, you will save the Company the cost of producing and mailing documents to you reduce the amount of mail you receive and help preserve environmental resources. Registered stockholders may elect to receive electronic proxy and annual report access or a paper notice of availability for future annual meetings by registering online at www.proxyvote.com. If you received electronic or paper notice of availability of these proxy materials and wish to receive paper delivery of a full set of future proxy materials, you may do so at the same location. Beneficial or "street name" stockholders who wish to elect one of these options may also do so at www.proxyvote.com. Please enter your 12 digit control number located on the proxy card or notice.

We will provide without charge to each person being solicited by this Proxy Statement, on the written request of any such person, a copy of the Annual Report including the financial statements and financial statement schedules included therein. All such requests should be directed to Joseph D'Agostino, Chief Financial Officer, Milestone Scientific Inc., 220 South Orange Avenue, Livingston, New Jersey 07039.

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Important Notice Regarding Internet Availability of Proxy Materials for the Annual Meeting of Stockholders

to be held on May 23, 2017:

The Proxy Statement and Annual Report are available at www.proxyvote.com.

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By order of the Board of Directors

Leslie Bernhard

Chairman of the Board
Livingston, New Jersey

April 13, 2017