ARVINMERITOR INC
Form 10-Q
February 03, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

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

For the Quarterly Period Ended January 2, 2011

Commission File No. 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)

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

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 whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Registration S-T during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files).
Yes [ ] No [ ]

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

Large accelerated filer	X	Accelerated filer
Non-accelerated filer		Smaller reporting company

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

Yes No X

94,234,334 shares of Common Stock, $1.00 par value, of ArvinMeritor, Inc. were outstanding on January 2, 2011.

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

ARVINMERITOR, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(in millions, except per share amounts)

	Three Months Ended December 31,	
	2010	2009
	(Unaudited)	
Sales	$ 971	$ 800
Cost of sales	(867)	(711)
GROSS MARGIN	104	89
Selling, general and administrative	(72)	(66)
Restructuring costs	(3)	—
OPERATING INCOME	29	23
Equity in earnings of affiliates	13	9
Interest expense, net	(27)	(23)
INCOME BEFORE INCOME TAXES	15	9
Provision for income taxes	(20)	(10)
LOSS FROM CONTINUING OPERATIONS	(5)	(1)
INCOME FROM DISCONTINUED OPERATIONS, net of tax	7	4
NET INCOME	2	3
Less: Net income attributable to noncontrolling interests	(4)	(3)
NET INCOME (LOSS) ATTRIBUTABLE TO ARVINMERITOR, INC.	$ (2)	$ —
NET INCOME (LOSS) ATTRIBUTABLE TO ARVINMERITOR, INC.		
Net loss from continuing operations	$ (9)	$ (4)
Income from discontinued operations	7	4
Net income (loss)	$ (2)	$ —
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE		
Continuing operations	$ (0.10)	$ (0.06)
Discontinued operations	0.07	0.06
Basic and diluted earnings (loss) per share	$ (0.03)	$ —
Basic and diluted average common shares outstanding	93.3	72.7

See notes to consolidated financial statements. Amounts for prior period have been recast for discontinued operations.

ARVINMERITOR, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

	December 31, 2010 (Unaudited)	September 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 276	$ 343
Receivables, trade and other, net	528	579
Inventories	428	382
Other current assets	75	76
Assets of discontinued operations	354	341
TOTAL CURRENT ASSETS	1,661	1,721
NET PROPERTY	384	389
GOODWILL	429	432
OTHER ASSETS	340	337
TOTAL ASSETS	$ 2,814	$ 2,879
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 646	$ 670
Other current liabilities	327	358
Liabilities of discontinued operations	331	362
TOTAL CURRENT LIABILITIES	1,304	1,390
LONG-TERM DEBT	1,031	1,029
RETIREMENT BENEFITS	1,164	1,162
OTHER LIABILITIES	305	321
EQUITY (DEFICIT):		
Common stock (December 31 and September 30, 2010, 94.2 and 94.1 shares issued and outstanding, respectively)	92	92
Additional paid-in capital	890	886
Accumulated deficit	(1,222)	(1,220)
Accumulated other comprehensive loss	(785)	(812)
Total equity (deficit) attributable to ArvinMeritor, Inc.	(1,025)	(1,054)
Noncontrolling interest	35	31
TOTAL EQUITY (DEFICIT)	(990)	(1,023)
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$ 2,814	$ 2,879

See notes to consolidated financial statements.

ARVINMERITOR, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)

	Three Months Ended December 31, 2010	2009
	(Unaudited)	
OPERATING ACTIVITIES		
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES (See Note 9)	$ (49)	$ 27
INVESTING ACTIVITIES		
Capital expenditures	(19)	(13)
Other investing activities	3	1
Net investing cash flows used for continuing operations	(16)	(12)
Net investing cash flows used for discontinued operations	(6)	(4)
CASH USED FOR INVESTING ACTIVITIES	(22)	(16)
FINANCING ACTIVITIES		
Borrowings on revolving credit facility, net	—	7
Borrowings on accounts receivable securitization program, net	—	2
Payments on lines of credit and other, net	—	(1)
Net change in debt	—	8
Proceeds from exercise of stock options	2	—
Net financing cash flows provided by continuing operations	2	8
Net financing cash flows used by discontinued operations	—	(10)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	2	(2)
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	2	1
CHANGE IN CASH AND CASH EQUIVALENTS	(67)	10
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	343	95
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 276	$ 105

See notes to consolidated financial statements. Amounts for prior period have been recast for discontinued operations.

ARVINMERITOR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF
EQUITY (DEFICIT) AND COMPREHENSIVE INCOME (LOSS)
(In millions, except per share amounts)

	Three Months Ended December 31,	
	2010	2009
	(Unaudited)	
ArvinMeritor, Inc. Shareowners:		
COMMON STOCK		
Beginning and ending balance	$ 92	$ 72
ADDITIONAL PAID-IN CAPITAL		
Beginning balance	$ 886	$ 699
Equity based compensation expense	2	2
Exercise of stock options	2	—
Ending balance	$ 890	$ 701
ACCUMULATED DEFICIT		
Beginning balance	$ (1,220)	$ (1,232)
Net income (loss) attributable to ArvinMeritor, Inc.	(2)	—
Ending balance	$ (1,222)	$ (1,232)
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Beginning balance	$ (812)	$ (734)
Foreign currency translation adjustments	27	17
Impact of sale of business	—	31
Unrealized gains	—	2
Ending balance	$ (785)	$ (684)
TOTAL DEFICIT ATTRIBUTABLE TO ARVINMERITOR, INC.	$ (1,025)	$ (1,143)
Noncontrolling Interests:		
Beginning balance	$ 31	$ 29
Net income attributable to noncontrolling interests	4	3
Dividends declared or paid	—	(1)
Ending balance	$ 35	$ 31
TOTAL DEFICIT	$ (990)	$ (1,112)
COMPREHENSIVE INCOME		
Net income	$ 2	$ 3
Foreign currency translation adjustments	27	17
Impact of sale of business	—	31
Unrealized gains	—	2
Total comprehensive income	29	53
Less: Net income attributable to non-controlling interests	4	3
Comprehensive income attributable to ArvinMeritor, Inc.	$ 25	$ 50

See notes to consolidated financial statements.

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

ArvinMeritor, Inc. (the "company" or "ArvinMeritor"), headquartered in Troy, Michigan, is a premier global supplier of a broad range of integrated systems, modules and components to original equipment manufacturers (“OEMs”) and the aftermarket for the commercial vehicle, transportation and industrial sectors. The company serves commercial truck, trailer, off-highway, military, bus and coach and other industrial OEMs and certain aftermarkets, and light vehicle OEMs. The consolidated financial statements are those of the company and its consolidated subsidiaries.

Certain businesses are reported in discontinued operations in the consolidated statement of operations, statement of cash flows and related notes for all periods presented. Additional information regarding discontinued operations is discussed in Note 4.

In the opinion of the company, the unaudited financial statements contain all adjustments, consisting solely of adjustments of a normal, recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These statements should be read in conjunction with the company’s audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K, for the fiscal year ended September 30, 2010. The results of operations for the three months ended December 31, 2010, are not necessarily indicative of the results for the full year.

The company’s fiscal year ends on the Sunday nearest September 30. The first quarter of fiscal years 2011 and 2010 ended on January 2, 2011 and January 3, 2010, respectively. All year and quarter references relate to the company’s fiscal year and fiscal quarters, unless otherwise stated. For ease of presentation, September 30 and December 31 are used consistently throughout this report to represent the fiscal year end and first quarter end, respectively.

The company has evaluated subsequent events through the date that the consolidated financial statements were issued. Additional information on subsequent events is included in Note 20.

2. Shareowners’ Equity (Deficit) and Earnings per Share

Basic earnings per share is calculated using the weighted average number of shares outstanding during each period. The diluted earnings per share calculation includes the impact of dilutive common stock options, restricted stock, performance share awards and convertible securities, if applicable. Basic and diluted average common shares outstanding at December 31, 2010 and 2009 were 93.3 million and 72.7 million, respectively.

The potential effects of restricted stock and stock options were excluded from the diluted earnings per share calculation for the three months ended December 31, 2010 and 2009 because their inclusion in a net loss period would reduce the net loss per share. Therefore, at December 31, 2010 and 2009 options to purchase 1.2 million and 1.5 million shares of common stock, respectively, were excluded from the computation of diluted earnings per share. In addition, 0.2 million and 1.0 million shares of restricted stock were excluded from the computation of diluted earnings per share at December 31, 2010 and 2009. The company’s convertible senior unsecured notes are excluded from the computation of diluted earnings per share, as the stock price at the end of the quarter is less than the conversion price.

3. New Accounting Standards

Accounting standards implemented in fiscal year 2011

In June 2009, the Financial Accounting Standards Board (FASB) issued guidance on accounting for transfer of financial assets, which changes the requirements for recognizing the transfer of financial assets and requires additional disclosures about a transferor’s continuing involvement in transferred financial assets. The guidance also eliminates the concept of a qualifying special purpose entity when assessing transfers of financial instruments. As required, the company adopted this guidance effective October 1, 2010. The adoption of this guidance did not have any impact on the company’s consolidated financial statements.

In June 2009, the FASB issued guidance for the consolidation of variable interest entities (VIEs) to address the elimination of the concept of a qualifying special purpose entity. This guidance replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of the variable interest entity, and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Additionally, the new guidance requires any enterprise that holds a variable interest in a variable interest entity to provide enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. As required, the company adopted this guidance effective October 1, 2010. The adoption of this guidance did not have any impact on the company's consolidated financial statements.

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The company holds a variable interest in a joint venture accounted for under the equity method of accounting. The joint venture manufactures components for commercial vehicle applications primarily on behalf of the company. The variable interest relates to a supply arrangement between the company and the joint venture whereby the company supplies certain components to the joint venture at a cost-plus basis. The company is not the primary beneficiary of the joint venture, as the joint venture partner has shared or absolute control over key manufacturing operations, labor relationships, financing activities and certain other functions of the joint venture. Therefore, the company does not consolidate the joint venture. At December 31, 2010, the company's investment in the joint venture was $30 million, classified as Other Assets in the condensed consolidated balance sheet (see Note 12), representing the company's maximum exposure to loss.

4. Discontinued Operations

Results of discontinued operations are summarized as follows (in millions):

	Three Months Ended December 31,	
	2010	2009
Sales	$ 303	$ 359
Operating income, net	$ 17	$ 9
Net gain on sale of business	—	8
Restructuring costs	(1)	(2)
Other expenses, net	(3)	(8)
Income before income taxes	13	7
Provision for income taxes	(6)	(3)
Income from discontinued operations attributable to ArvinMeritor, Inc.	$ 7	$ 4

In conjunction with the company's long-term strategic objective to focus on supplying the commercial vehicle on- and off-highway markets for original equipment manufacturers, aftermarket and industrial customers, the company previously announced its intent to divest the Light Vehicle Systems (LVS) business groups in their entirety. The following summarizes the company's divestiture related activities associated with its LVS business groups. Results of the company's LVS businesses are reflected in discontinued operations through the date of disposition. Upon completion of these activities, the company will have substantially exited the light vehicle markets.

Remaining Chassis Businesses

The remaining chassis operations include two facilities in Europe. The facility in Leicester, England makes and distributes gas springs for industrial applications and the facility in Bonneval, France makes ride control parts (shock absorbers) for sales in Europe. The company continues to pursue strategic alternatives for these businesses, which had combined sales of $5 million in the first three months of fiscal year 2011.

Divestitures

Body Systems

On January 3, 2011, the company completed the sale of its Body Systems business to Inteva Products Holding Coöperatieve U.A., an assignee of 81 Acquisition LLC and an affiliate of Inteva Products, LLC (see Note 20).

Assets of the Body Systems disposal group are included in assets of discontinued operations in the consolidated balance sheet and primarily consist of accounts receivable, inventory and other current assets of $274 million, fixed assets of $49 million and other long term assets of $23 million. Liabilities of the Body Systems disposal group are included in liabilities of discontinued operations in the consolidated balance sheet and primarily consist of accounts payable, payroll and employee related accruals and other current liabilities of approximately $269 million, accrued pension and post retirement benefits of $31 million and other long-term liabilities of $24 million. There are also approximately $54 million of favorable accumulated foreign currency translation adjustments related to the Body Systems disposal group. These accumulated foreign currency translation adjustments are included in accumulated other comprehensive loss in the consolidated statement of shareowners' equity (deficit) and are expected to be included in the computation of net gain (loss) on sale upon recognition of the sale transaction during the second quarter of fiscal year 2011.

Meritor Suspension Systems Company (MSSC) – On June 24, 2009, the company entered into a binding letter of intent to sell its 57 percent interest in MSSC, a joint venture that manufactured and supplied automotive coil springs, torsion bars and stabilizer bars in North America, to the joint venture partner, a subsidiary of Mitsubishi Steel Mfg. Co., LTD (MSM). The sale transaction closed in October 2009. The purchase price was $13 million, which included a cash dividend of $12 million received by the company in June 2009. The remaining purchase price was received by the company at the time of closing.

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Wheels – In September 2009, the company completed the sale of its Wheels business to Iochpe-Maxion S.A., a Brazilian producer of wheels and frames for commercial vehicles, railway freight cars and castings, and affiliates.

Gabriel Ride Control Products North America – The company's Gabriel Ride Control Products North America (Gabriel Ride Control) business supplied motion control products, shock absorbers, struts, ministruts and corner modules, as well as other automotive parts to the passenger car, light truck and sport utility vehicle aftermarket industries. During fiscal year 2009, the company completed the sale of Gabriel Ride Control to Ride Control, LLC, a wholly owned subsidiary of OpenGate Capital, a private equity firm.

Gabriel de Venezuela – The company's former consolidated subsidiary, Gabriel de Venezuela, supplied shock absorbers, struts, exhaust systems and suspension modules to light vehicle industry customers, primarily in Venezuela and Colombia. On June 5, 2009, the company sold its 51 percent interest in Gabriel de Venezuela to its joint venture partner.

The following summarizes significant items included in income from discontinued operations in the consolidated statement of operations for the three-month periods ended December 31, 2010 and 2009:

Operating income from discontinued operations represents income from normal operating activities of businesses included in discontinued operations.

Net gain on sale of business: In connection with the sale of the company's interest in MSSC, the company recognized a pre-tax gain on sale of $16 million ($16 million after tax), net of estimated indemnity obligations during the first quarter of fiscal year 2010. The company provided certain indemnifications to the buyer for its share of potential obligations related to taxes, pension funding shortfall, environmental and other contingencies, and valuation of certain accounts receivable and inventories. The company's estimated exposure under these indemnities is approximately $14 million and is included in other liabilities in the condensed consolidated balance sheet at December 31, 2010. Also included in net gain on sale of businesses for the first quarter of fiscal year 2010 are $8 million of charges associated with the Gabriel Ride Control working capital adjustments.

Restructuring costs: Restructuring costs recognized in the first quarter of fiscal year 2011 and 2010 relate to charges associated with certain ongoing actions in the company's Body Systems business and other charges in the remaining chassis business.

Other: Other charges primarily relate to charges for changes in estimates and adjustments related to certain assets and liabilities retained from previously sold businesses and indemnities provided at the time of sale, and costs associated with the divestiture actions.

5. Goodwill

A summary of the changes in the carrying value of goodwill are presented below (in millions):

	Commercial Truck	Industrial	Aftermarket & Trailer	Total
Balance at September 30, 2010	$ 151	$ 109	$ 172	$ 432
Foreign currency translation	(2)	—	(1)	(3)
Balance at December 31, 2010	$ 149	$ 109	$ 171	$ 429

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

6. Restructuring Costs

At December 31 and September 30, 2010, $9 million and $11 million, respectively, of restructuring reserves primarily related to unpaid employee termination benefits remained in the consolidated balance sheet. The changes in restructuring reserves for the three months ended December 31, 2010 and 2009 are as follows (in millions):

	Employee Termination Benefits
Balance at September 30, 2010	$ 11
Activity during the period:	
Charges to continuing operations	3
Cash payments - continuing operations	(4)
Other	(1)
Balance at December 31, 2010	$ 9
Balance at September 30, 2009	$ 28
Activity during the period:	
Charges to discontinued operations, net of reversals(1)	2
Cash payments - continuing operations	(3)
Other(2)	(3)
Balance at December 31, 2009	$ 24

(1) Charges to discontinued operations are included in loss from discontinued operations in the consolidated statement of operations.

(2) Includes $2 million of payments in the three months ended December 31, 2009 associated with discontinued operations.

Performance Plus: During fiscal year 2007, the company launched a long-term profit improvement and cost reduction initiative called “Performance Plus.” As part of this program, the company identified significant restructuring actions which would eliminate up to 2,800 positions in North America and Europe and consolidate and combine certain global facilities. The company’s continuing operations recognized restructuring costs in its Commercial Truck business segment of $3 million in the first three months of fiscal year 2011 related to Performance Plus. Cumulative restructuring costs recorded for this program as of December 31, 2010 are $149 million, including $93 million reported in discontinued operations in the consolidated statement of operations. These costs primarily relate to employee severance and related costs of $105 million, asset impairment charges of $19 million and $25 million primarily associated with pension termination benefits. The company’s Commercial Truck segment has recognized cumulative restructuring costs associated with Performance Plus of $45 million. Cumulative restructuring costs of $11 million were recognized by corporate locations and the company’s Aftermarket & Trailer segment. The majority of the restructuring actions associated with Performance Plus were complete as of December 31, 2010, with remaining costs of approximately $6 million expected to be incurred in fiscal year 2011, primarily in the company’s Commercial Truck segment.

7. Income Taxes

For each interim reporting period, the company makes an estimate of the effective tax rate expected to be applicable for the full fiscal year pursuant to FASB Accounting Standards Codification (ASC) Topic 740-270, “Accounting for Income Taxes in Interim Periods.” The rate so determined is used in providing for income taxes on a year-to-date basis. Jurisdictions with a projected loss for the year or an actual year-to-date loss where no tax benefit can be recognized are excluded from the estimated annual effective tax rate. The impact of including these jurisdictions on the quarterly effective rate calculation could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings versus annual projections.

Income tax expense (benefit) is allocated between continuing operations, discontinued operations and other comprehensive income (OCI). Such allocation is applied by tax jurisdiction, and in periods in which there is a pre-tax loss from continuing operations and pre-tax income in another category, such as discontinued operations or OCI, income tax expense is allocated to the other sources of income, with a related benefit recorded in continuing operations.

For the first quarter of fiscal year 2011, the company had approximately $51 million of net pre-tax losses in tax jurisdictions in which a tax benefit is not recorded. Tax benefits arising from these jurisdictions resulted in increasing the valuation allowance, rather than reducing income tax expense.

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

8. Accounts Receivable Securitization and Factoring

Off-balance sheet arrangements

Swedish Securitization Facility: In March 2006, the company entered into a European arrangement to sell trade receivables through one of its European subsidiaries. Under this arrangement, which expires in March 2011, the company can sell up to, at any point in time, €125 million of eligible trade receivables. The receivables under this program are sold at face value and excluded from the consolidated balance sheet. The company continues to perform collection and administrative functions related to these receivables. The gross amount of proceeds received from the sale of receivables under this arrangement was $120 million and $73 million for the three months ended December 31, 2010 and 2009, respectively. The company had utilized €115 million ($153 million) and €62 million ($84 million) of this accounts receivable securitization facility as of December 31 and September 30, 2010, respectively. The company had notes receivable from the purchaser of the receivables of $4 million and $3 million under this program at December 31 and September 30, 2010, respectively. The company is in the process of renewing this arrangement.

French Factoring Facility: In November 2007, the company entered into an arrangement to sell trade receivables through one of its French subsidiaries. Under this arrangement, the company can sell up to, at any point in time, €125 million of eligible trade receivables. The receivables under this program are sold at face value and excluded from the consolidated balance sheet. The company had utilized €59 million ($78 million) and €36 million ($49 million) of this accounts receivable securitization facility as of December 31 and September 30, 2010, respectively.

Both of the above facilities are backed by 364-day liquidity commitments from Nordea Bank which were renewed through June 2011 for the French facility and July 2011 for the Swedish facility. The commitments are subject to standard terms and conditions for these types of arrangements (including, in the case of the French commitment, a sole discretion clause whereby the bank retains the right to not purchase receivables, which to the company’s knowledge has never been invoked).

U.S. Factoring Facility: In October 2010, the company entered into a two-year arrangement to sell trade receivables from AB Volvo and its subsidiaries. Under this arrangement, the company can sell up to, at any point in time, €32 million ($43 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized $22 million of this accounts receivable securitization facility as of December 31, 2010.

In addition, several of the company’s subsidiaries, primarily in Europe, factor eligible accounts receivable with financial institutions. Certain receivables are factored without recourse to the company and are excluded from accounts receivable in the consolidated balance sheet. The amount of factored receivables excluded from accounts receivable was $11 million and $5 million at December 31 and September 30, 2010, respectively.

Total costs associated with these off-balance sheet arrangements were $1 million in each of the three month periods ended December 31, 2010 and 2009 and are included in operating income in the consolidated statement of operations.

On-balance sheet arrangements

Since 2005 the company participated in a U.S. accounts receivable securitization program to enhance financial flexibility and lower interest costs. In September 2009 the company entered into a new, two year $125 million U.S. receivables financing arrangement which is provided on a committed basis by a syndicate of financial institutions led by GMAC Commercial Finance LLC. In October 2010, the company extended the expiration of the program to October 2013. Under this program, the company has the ability to sell substantially all of the trade receivables of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation (ARC), a wholly-owned, special purpose subsidiary. ARC funds these purchases with borrowings under a loan agreement with participating lenders. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the consolidated balance sheet. At December 31 and September 30, 2010, no amount was outstanding under this program. This program does not have specific financial covenants; however, it does have a cross-default provision to the company’s revolving credit facility agreement.

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

9. Operating Cash Flow

The reconciliation of net income to cash flows provided by (used for) operating activities is as follows (in millions):

	Three Months Ended December 31, 2010	2009
OPERATING ACTIVITIES		
Net income	$ 2	$ 3
Less: Income from discontinued operations, net of tax	7	4
Loss from continuing operations	(5)	(1)
Adjustments to loss from continuing operations to arrive at cash provided by (used for) operating activities:		
Depreciation and amortization	16	18
Restructuring costs, net of payments	(1)	(3)
Equity in earnings of affiliates, net of dividends	(9)	(8)
Other adjustments to loss from continuing operations	8	6
Pension and retiree medical expense	18	23
Pension and retiree medical contributions	(17)	(19)
Changes in off-balance sheet receivable securitization and factoring	127	55
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations	(159)	(62)
Operating cash flows provided by (used for) continuing operations	(22)	9
Operating cash flows provided by (used for) discontinued operations	(27)	18
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ (49)	$ 27

10. Inventories

Inventories are stated at the lower of cost (using FIFO or average methods) or market (determined on the basis of estimated realizable values) and are summarized as follows (in millions):

	December 31, 2010	September 30, 2010
Finished goods	$ 169	$ 156
Work in process	56	62
Raw materials, parts and supplies	203	164
Total	$ 428	$ 382

11. Other Current Assets

Other current assets are summarized as follows (in millions):

	December 31,	September 30,

	2010	2010
Current deferred income tax assets, net	$ 38	$ 46
Asbestos-related recoveries (see Note 18)	11	11
Deposits and collateral	8	3
Prepaid and other	18	16
Other current assets	$ 75	$ 76

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

12. Other Assets

Other assets are summarized as follows (in millions):

	December 31, 2010	September 30, 2010
Investments in non-consolidated joint ventures	$ 174	$ 164
Asbestos-related recoveries (see Note 18)	55	55
Non-current deferred income tax assets, net	20	23
Unamortized debt issuance costs	30	32
Capitalized software costs, net	22	21
Prepaid pension costs	15	8
Other	24	34
Other assets	$ 340	$ 337

In accordance with FASB ASC Topic 350-40, costs relating to internally developed or purchased software in the preliminary project stage and the post-implementation stage are expensed as incurred. Costs in the application development stage that meet the criteria for capitalization are capitalized and amortized using the straight-line basis over the estimated economic useful life of the software.

13. Other Current Liabilities

Other current liabilities are summarized as follows (in millions):

	December 31, 2010	September 30, 2010
Compensation and benefits	$ 132	$ 179
Income taxes	17	18
Taxes other than income taxes	32	32
Product warranties	26	28
Restructuring (see Note 6)	9	11
Asbestos-related liabilities (see Note 18)	18	18
Interest	25	5
Other	68	67
Other current liabilities	$ 327	$ 358

The company records estimated product warranty costs at the time of shipment of products to customers. Warranty reserves are primarily based on factors that include past claims experience, sales history, product manufacturing and engineering changes and industry developments. Liabilities for product recall campaigns are recorded at the time the company's obligation is known and can be reasonably estimated. Product warranties, including recall campaigns, not expected to be paid within one year are recorded as a non-current liability.

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A summary of the changes in product warranties is as follows (in millions):

	Three Months Ended December 31, 2010	2009 (1)
Total product warranties – beginning of period	$ 54	$ 109
Accruals for product warranties	2	3
Payments	(3)	(9)
Change in estimates and other	(2)	(2)
Product warranty activity related to discontinued operations	—	2
Total product warranties – end of period	51	103
Less: Non-current product warranties (see Note 14)	(25)	(50)
Product warranties – current	$ 26	$ 53

(1) At September 30 and December 31, 2009, product warranty liabilities include $39 million and $41 million, respectively, related to light vehicle businesses, which are included in liabilities of discontinued operations in the accompanying condensed consolidated balances sheet at September 30 and December 31, 2010.

14. Other Liabilities

Other liabilities are summarized as follows (in millions):

	December 31, 2010	September 30, 2010
Asbestos-related liabilities (see Note 18)	$ 66	$ 66
Non-current deferred income tax liabilities	92	94
Liabilities for uncertain tax positions	43	47
Product warranties (see Note 13)	25	26
Environmental	9	13
Indemnity obligations	32	32
Other	38	43
Other liabilities	$ 305	$ 321

15. Long-Term Debt

Long-Term Debt, net of discounts where applicable, is summarized as follows (in millions):

	December 31, 2010	September 30, 2010
8-3/4 percent notes due 2012	$ 84	$ 84
8-1/8 percent notes due 2015	250	250
10-5/8 percent notes due 2018	245	245
4.625 percent convertible notes due 2026(1)	300	300

4.0 percent convertible notes due 2027(1)		200		200
Lines of credit and other		9		9
Unamortized gain on interest rate swap termination		17		18
Unamortized discount on convertible notes		(74)		(77)
Long-term debt	$	1,031	$	1,029

(1) The 4.625 percent and 4.0 percent convertible notes contain a put and call feature, which allows for earlier redemption beginning in 2016 and 2019, respectively.

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Revolving Credit Facility

On February 5, 2010 the company signed an agreement to amend and extend its revolving credit facility, which became effective February 26, 2010. Pursuant to the revolving credit facility as amended, the company has a $539 million revolving credit facility (excluding approximately $28 million of commitments that are currently unavailable due to the bankruptcy of Lehman Brothers in 2008), $143 million of which matures in June 2011 for banks that elected not to extend their original commitments (non-extending banks) and the other $396 million matures in January 2014 for banks that elected to extend their commitments (extending banks). Availability under the revolving credit facility is subject to a collateral test, pursuant to which borrowings on the revolving credit facility cannot exceed 1.0x the collateral test value. The collateral test is performed on a quarterly basis and under the most recent collateral test, the full amount of the revolving credit facility was available for borrowing at December 31, 2010. Availability under the revolving credit facility is also subject to certain financial covenants based on (i) the ratio of the company’s priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. securitization program, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. The company is required to maintain a total priority debt-to-EBITDA ratio, as defined in the agreement, of (i) 2.50 to 1 as of the last day of each fiscal quarter commencing with the fiscal quarter ended September 30, 2010 through and including the fiscal quarter ended June 30, 2011; (ii) 2.25 to 1 as of the last day of each fiscal quarter commencing with the fiscal quarter ended September 30, 2011 through and including the fiscal quarter ended June 30, 2012 and (iii) 2.00 to 1 as of the last day of each fiscal quarter thereafter through maturity. At December 31, 2010, the company was in compliance with all covenants under its credit agreement with a ratio of approximately 0.13x for the priority debt-to-EBITDA covenant.

The revolving credit facility includes a $100 million limit on the issuance of letters of credit. At December 31, 2010, and September 30, 2010, approximately $13 million and $26 million of letters of credit were issued, respectively. The company had an additional $15 million and $2 million outstanding at December 31, 2010 and September 30, 2010, respectively, on letters of credit available through other facilities.

Borrowings under the revolving credit facility are collateralized by approximately $593 million of the company’s assets, primarily consisting of eligible domestic U.S. accounts receivable, inventory, plant, property and equipment, intellectual property and the company’s investment in all or a portion of certain of its wholly-owned subsidiaries.

Borrowings under the revolving credit facility are subject to interest based on quoted LIBOR rates plus a margin, and a commitment fee on undrawn amounts, both of which are based upon the company’s current credit rating for the senior secured facility. At December 31, 2010, the margin over the LIBOR rate was 275 basis points for the $143 million available under the facility from non-extending banks, and the commitment fee was 50 basis points. At December 31, 2010, the margin over LIBOR rate was 500 basis points for the $396 million available under the revolving credit facility from extending banks, and the commitment fee was 75 basis points.

Certain of the company’s subsidiaries, as defined in the credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the publicly-held notes outstanding under the company’s indentures (see Note 21).

16. Financial Instruments

The company’s financial instruments include cash and cash equivalents, short-term debt, long-term debt and foreign exchange forward contracts. The company uses derivatives for hedging and non-trading purposes in order to manage its interest rate and foreign exchange rate exposures.

Foreign Exchange Contracts

As a result of the company’s substantial international operations, it is exposed to foreign currency risks that arise from normal business operations, including in connection with transactions that are denominated in foreign currencies. In addition, the company translates sales and financial results denominated in foreign currencies into U.S. dollars for purposes of its consolidated financial statements. As a result, appreciation of the U.S. dollar against these foreign currencies generally will have a negative impact on reported revenues and operating income while depreciation of the U.S. dollar against these foreign currencies will generally have a positive effect on reported revenues and operating income.

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The company has a foreign currency cash flow hedging program to reduce the company's exposure to changes in exchange rates on foreign currency purchases and sales. The company uses 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 currency forward contracts. Under this foreign currency cash flow hedging program, the company has designated the foreign exchange contracts (the "contracts") as cash flow hedges of underlying forecasted foreign currency purchases and sales. The effective portion of changes in the fair value of the contracts is recorded in Accumulated Other Comprehensive Loss (AOCL) in the consolidated balance sheet and is recognized in operating income when the underlying forecasted transaction impacts earnings. The terms of the foreign exchange contracts generally require the company to place cash on deposit as collateral if the fair value of these contracts represents a liability for the company at any time. The fair values of the foreign exchange derivative instruments and any related collateral cash deposits are presented on a net basis as the derivative contracts are subject to master netting arrangements. The company's foreign exchange contracts generally mature within twelve months.

At December 31, 2010, the company had outstanding contracts with notional amounts of $66 million under its foreign currency cash flow hedging program. These notional values consisted primarily of contracts for the European euro and Canadian dollar, and are stated in U.S. dollar equivalents at spot exchange rates at the respective dates. At December 31, 2010, there was a $1 million of income recorded in AOCL. At September 30, 2010, the company had no foreign exchange contracts outstanding under its foreign currency cash flow hedging program.

The company classifies the cash flows associated with the contracts in cash flows from operating activities in the consolidated statement of cash flows. This is consistent with the classification of the cash flows associated with the underlying hedged item.

The company generally has not hedged against its foreign currency exposure related to translations to U.S. dollars of financial results denominated in foreign currencies. In the fourth quarter of fiscal year 2010, due to the volatility of the Brazilian real as compared to the U.S. dollar, the company entered into foreign currency option contracts to reduce volatility in the translation of Brazilian real earnings to U.S. dollars. Gains and losses on these option contracts are recorded in other income (expense), net, in the consolidated statement of operations, generally reducing the exposure to translation volatility during a full-year period. The impact of these option contracts was not significant to the results of operations or financial position at December 31, 2010.

Fair Value

Fair values of financial instruments are summarized as follows (in millions):

	December 31, 2010		September 30, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 276	$ 276	$ 343	$ 343
Foreign exchange forward contracts – asset	1	1	—	—
Long-term debt	1,031	1,237	1,029	1,132

Cash and cash equivalents — All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. The carrying value approximates fair value because of the short maturity of these instruments.

Foreign exchange forward contracts — The company uses foreign exchange forward purchase and sale contracts with terms of one year or less to hedge its exposure to changes in foreign currency exchange rates. The fair value of foreign exchange forward contracts is based on a model which incorporates observable inputs including quoted spot rates, forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics.

Long-term debt — Fair values are based on interest rates that would be currently available to the company for issuance of similar types of debt instruments with similar terms and remaining maturities.

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17. Retirement Benefit Liabilities

Retirement benefit liabilities consisted of the following (in millions):

	December 31, 2010	September 30, 2010
Retiree medical liability	$ 596	$ 594
Pension liability	596	595
Other	25	26
Subtotal	1,217	1,215
Less: current portion (included in compensation and benefits)	(53)	(53)
Retirement benefit liabilities	$ 1,164	$ 1,162

The components of net periodic pension and retiree medical expense included in continuing operations for the three months ended December 31 are as follows:

	2010		2009	
	Pension	Retiree Medical	Pension	Retiree Medical
Service cost	$ 3	$ —	$ 4	$ —
Interest cost	24	7	23	8
Assumed return on plan assets	(30)	—	(28)	—
Amortization of prior service costs	—	(3)	—	(2)
Recognized actuarial loss	9	8	9	9
Total expense	$ 6	$ 12	$ 8	$ 15

18. Contingencies

Environmental

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 the operations of the company. The process of estimating environmental liabilities is complex and dependent upon evolving physical and scientific data at the sites, uncertainties as to remedies and technologies to be used and the outcome of discussions with regulatory agencies. The company records liabilities for environmental issues in the accounting period in which they are considered to be probable and the cost can be reasonably estimated. At environmental sites in which more than one potentially responsible party has been identified, the company records a liability for its allocable share of costs related to its involvement with the site, as well as an allocable share of costs related to insolvent parties or unidentified shares. At environmental sites in which ArvinMeritor is the only potentially responsible party, the company records a liability for the total probable and estimable costs of remediation before consideration of recovery from insurers or other third parties.

The company has been designated as a potentially responsible party at eight Superfund sites, excluding sites as to which the company's records disclose no involvement or as to which the company's liability has been finally determined. Management estimates the total reasonably possible costs the company could incur for the remediation of Superfund sites at December 31, 2010 to be approximately $20 million, of which $3 million is recorded as a liability.

In addition to the Superfund sites, various other lawsuits, claims and proceedings have been asserted against the company, alleging violations of federal, state and local environmental protection requirements, or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. For these matters, management has estimated the total reasonably possible costs the company could incur at December 31, 2010 to be approximately $41 million, of which $16 million is recorded as a liability.

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Included in the company's environmental liabilities are costs for on-going operation, maintenance and monitoring at environmental sites in which remediation has been put into place. This liability is discounted using a discount rate of 5-percent and is approximately $6 million at December 31, 2010. The undiscounted estimate of these costs is approximately $10 million.

Following are the components of the Superfund and non-Superfund environmental reserves (in millions):

	Superfund Sites	Non-Superfund Sites	Total
Balance at September 30, 2010	$ 3	$ 18	$ 21
Payments and other	—	(2)	(2)
Balance at December 31, 2010	$ 3	$ 16	$ 19

Environmental reserves are included in Other Current Liabilities (see Note 13) and Other Liabilities (see Note 14) in the consolidated balance sheet.

The actual amount of costs or damages for which the company may be held responsible could materially exceed the foregoing estimates because of uncertainties, including the financial condition of other potentially responsible parties, the success of the remediation, discovery of new contamination and other factors that make it difficult to predict actual costs accurately. However, based on management's assessment, after consulting with outside advisors that specialize in environmental matters, and subject to the difficulties inherent in estimating these future costs, the company believes that its 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 the company's 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 remedies could significantly change the company's estimates. Management cannot assess the possible effect of compliance with future requirements.

Asset Retirement Obligations

The company has identified conditional asset retirement obligations for which a reasonable estimate of fair value could not be made because the potential settlement dates cannot be determined at this time. Due to the long term, productive nature of the company's manufacturing operations, absent plans or expectations of plans to initiate asset retirement activities, the company was not able to reasonably estimate the settlement date for the related obligations. Therefore, the company has not recognized conditional asset retirement obligations for which there are no plans or expectations of plans to retire the asset.

Asbestos

Maremont Corporation ("Maremont"), a subsidiary of ArvinMeritor, manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. Arvin Industries, Inc., a predecessor of the company, acquired Maremont in 1986. Maremont and many other companies are defendants in suits brought by individuals claiming personal injuries as a result of exposure to asbestos-containing products. Maremont had approximately 26,000 pending asbestos-related claims at December 31, 2010 and September 30, 2010. Although Maremont has been named in these cases, in the cases where actual injury has been alleged, very few claimants have established that a Maremont product caused their injuries. Plaintiffs' lawyers often sue dozens or even hundreds of defendants in individual lawsuits on behalf of hundreds or thousands of claimants, seeking damages against all named defendants irrespective of the disease or injury and irrespective of any causal connection with a particular product. For these reasons, Maremont does not consider the number of claims filed or the damages alleged to be a meaningful factor in determining its asbestos-related liability.

Maremont's asbestos-related reserves and corresponding asbestos-related recoveries are summarized as follows (in millions):

	December 31, 2010	September 30, 2010

Pending and future claims	$ 67	$ 67
Asbestos-related insurance recoveries	57	57

A portion of the asbestos-related recoveries and reserves are included in Other Current Assets and Liabilities, with the majority of the amounts recorded in Other Assets and Liabilities (see Notes 11, 12, 13 and 14).

Prior to February 2001, Maremont participated in the Center for Claims Resolution ("CCR") and shared with other CCR members in the payment of defense and indemnity costs for asbestos-related claims. The CCR handled the resolution and processing of asbestos claims on behalf of its members until February 2001, when it was reorganized and discontinued negotiating shared settlements. Since the CCR was reorganized in 2001, Maremont has handled asbestos-related claims through its own defense counsel and has taken a more aggressive defensive approach that involves examining the merits of each asbestos-related claim. Although the company expects legal defense costs to continue at higher levels than when it participated in the CCR, the company believes its litigation strategy has reduced the average indemnity cost per claim.

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Pending and Future Claims: Maremont engages Bates White LLC (Bates White), a consulting firm with extensive experience estimating costs associated with asbestos litigation, to assist with determining the estimated cost of resolving pending and future asbestos-related claims that have been, and could reasonably be expected to be, filed against Maremont. Bates White prepares these cost estimates on a semi-annual basis in March and September each year. Although it is not possible to estimate the full range of costs because of various uncertainties, Bates White advised Maremont that it would be possible to determine an estimate of a reasonable forecast of the cost of the probable settlement and defense costs of resolving pending and future asbestos-related claims, based on historical data and certain assumptions with respect to events that may occur in the future.

Bates White provided an estimate of the reasonably possible range of Maremont's obligation for asbestos personal injury claims over the next ten years of $63 million to $72 million. After consultation with Bates White, Maremont determined that as of September 30, 2010 the probable liability for pending and future claims over the next ten years is $63 million. The ultimate cost of resolving pending and future claims is estimated based on the history of claims and expenses for plaintiffs represented by law firms in jurisdictions with an established history with Maremont.

Assumptions: The following assumptions were made by Maremont after consultation with Bates White and are included in their study:

- Pending and future claims were estimated for a ten year period ending in fiscal year 2020. The ten-year assumption is considered appropriate as Maremont has reached certain longer-term agreements with key plaintiff law firms and filings of mesothelioma claims have been relatively stable over the last few years resulting in an improvement in the reliability of future projections over a longer time period;

- Maremont believes that the litigation environment will change significantly beyond ten years and that the reliability of estimates of future probable expenditures in connection with asbestos-related personal injury claims will decline for each year further in the future. As a result, estimating a probable liability beyond ten years is difficult and uncertain;

- The ultimate cost of resolving pending and future claims filed in Madison County, Illinois, a jurisdiction where a substantial amount of Maremont's claims are filed, will decline to reflect average outcomes throughout the United States;

- Defense and processing costs for pending and future claims filed outside of Madison County, Illinois will be at the level consistent with Maremont's prior experience; and

- The ultimate indemnity cost of resolving nonmalignant claims with plaintiffs' law firms in jurisdictions without anestablished history with Maremont cannot be reasonably estimated. Recent changes in tort law and insufficient settlement history make estimating a liability for these nonmalignant claims difficult and uncertain.

Recoveries: Maremont has insurance that reimburses a substantial portion of the costs incurred defending against asbestos-related claims. The coverage also reimburses Maremont for any indemnity paid on those claims. The coverage is provided by several insurance carriers based on insurance agreements in place. Incorporating historical information with respect to buy-outs and settlements of coverage, and excluding any policies in dispute, the insurance receivable related to asbestos-related liabilities is $57 million as of December 31 and September 30, 2010. The difference between the estimated liability and insurance receivable is primarily related to proceeds received from settled insurance policies. Certain insurance policies have been settled in cash prior to the ultimate settlement of the related asbestos liabilities. Amounts received from insurance settlements generally reduce recorded insurance receivables. Receivables for policies in dispute are not recorded.

The amounts recorded for the asbestos-related reserves and recoveries from insurance companies are based upon assumptions and estimates derived from currently known facts. All such estimates of liabilities and recoveries for asbestos-related claims are subject to considerable uncertainty because such liabilities and recoveries are influenced by variables that are difficult to predict. The future litigation environment for Maremont could change significantly from its past experience, due, for example, to changes in the mix of claims filed against Maremont in terms of plaintiffs' law firm, jurisdiction and disease; legislative or regulatory developments; Maremont's approach to defending claims; or payments to plaintiffs from other defendants. Estimated recoveries are influenced by coverage issues among insurers and the continuing solvency of various insurance companies. If the assumptions with respect to the nature of pending and future claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of liability for Maremont's asbestos-related claims, and the effect on the company, could differ materially from current estimates and, therefore, could have a material impact on the company's financial condition and results of operations.

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Rockwell International (Rockwell) — ArvinMeritor, along with many other companies, has also been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos used in certain components of Rockwell products many years ago. Liability for these claims was transferred to the company at the time of the spin-off of the automotive business to Meritor from Rockwell in 1997. Currently there are thousands of claimants in lawsuits that name the company, together with many other companies, as defendants. However, the company does not consider the number of claims filed or the damages alleged to be a meaningful factor in determining asbestos-related liabilities. A significant portion of the claims do not identify any of Rockwell's products or specify which of the claimants, if any, were exposed to asbestos attributable to Rockwell's products, and past experience has shown that the vast majority of the claimants will likely never identify any of Rockwell's products. For those claimants who do show that they worked with Rockwell's products, management nevertheless believes it has meritorious defenses, in substantial part due to the integrity of the products involved and the lack of any impairing medical condition on the part of many claimants. The company defends these cases vigorously. Historically, ArvinMeritor has been dismissed from the vast majority of similar claims filed in the past with no payment to claimants.

The company engages Bates White to assist with determining whether it would be possible to estimate the cost of resolving pending and future Rockwell legacy asbestos-related claims that have been, and could reasonably be expected to be, filed against the company. Although it is not possible to estimate the full range of costs because of various uncertainties, Bates White advised the company that it would be able to determine an estimate of probable defense and indemnity costs which could be incurred to resolve pending and future Rockwell legacy asbestos-related claims. After consultation with Bates White, the company determined that as of December 31, 2010 and September 30, 2010 the probable liability for pending and future claims over the next four years is $17 million. The accrual estimates are based on historical data and certain assumptions with respect to events that may occur in the future. The uncertainties of asbestos claim litigation and resolution of the litigation with the insurance companies make it difficult to predict accurately the ultimate resolution of asbestos claims beyond four years. That uncertainty is increased by the possibility of adverse rulings or new legislation affecting asbestos claim litigation or the settlement process.

Rockwell maintained insurance coverage that management believes covers indemnity and defense costs, over and above self-insurance retentions, for most of these claims. The company has initiated claims against these carriers to enforce the insurance policies, which are currently being disputed. The company expects to recover some portion of defense and indemnity costs it has incurred to date, over and above self-insured retentions, and some portion of the costs for defending asbestos claims going forward. Based on consultation with advisors and underlying analysis performed by management, the company has recorded an insurance receivable related to Rockwell legacy asbestos-related liabilities of $9 million at December 31, 2010 and September 30, 2010. If the assumptions with respect to the nature of pending claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of liability for Rockwell asbestos-related claims, and the effect on the company, could differ materially from current estimates and, therefore, could have a material impact on the company's financial condition and results of operations.

Indemnifications

The company has provided indemnifications in conjunction with certain transactions, primarily divestitures. These indemnities address a variety of matters, which may include environmental, tax, asbestos and employment-related matters, and the periods of indemnification vary in duration. The company's maximum obligations under these indemnifications, other than those discussed in Note 4 and below, cannot be reasonably estimated. Except for the indemnifications discussed in Note 4 and below, the company is not aware of any claims or other information that would give rise to material payments under such indemnifications.

In December 2005, the company guaranteed a third party's obligation to reimburse another party for payment of health and prescription drug benefits to a group of retired employees. The retirees were former employees of a wholly-owned subsidiary of the company prior to it being acquired by the company. The wholly-owned subsidiary, which was part of the company's light vehicle aftermarket business, was sold by the company in fiscal year 2006. Prior to May 2009, except as set forth hereinafter, the third party met its obligations to reimburse the other party. In May 2009, the third party filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code requiring the company to recognize its obligations under the guarantee. The company recorded a $28 million liability in the third quarter of fiscal year 2009, of which approximately $6 million were related to claims not reimbursed by the third party prior to its filing for bankruptcy protection, and the remaining $22 million were related to the company's best estimate of its future obligation under the guarantee. At December 31 and September 30, 2010, the remaining estimated liability for this matter was approximately $21 million.

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Other

On March 31, 2008, S&E Quick Lube, a filter distributor, filed suit in U.S. District Court for the District of Connecticut alleging that twelve filter manufacturers, including a prior subsidiary of the company, engaged in a conspiracy to fix prices, rig bids and allocate U.S. customers for aftermarket automotive filters. This suit is a purported class action on behalf of direct purchasers of filters from the defendants. Several parallel purported class actions, including on behalf of indirect purchasers of filters, have been filed by other plaintiffs in a variety of jurisdictions in the United States and Canada. The cases have been consolidated into a multi-district litigation proceeding in Federal court for the Northern District of Illinois. On April 16, 2009, the Attorney General of the State of Florida filed a complaint with the U.S. District Court for the Northern District of Illinois based on these same allegations. On May 25, 2010, the Office of the Attorney General for the State of Washington informed the company that it also was investigating the allegations raised in these suits. On August 9, 2010, the County of Suffolk, New York, filed a complaint in the Eastern District of New York based on the same allegations. The case has been transferred to the multi-district litigation proceeding in Illinois. The company intends to vigorously defend the claims raised in all of these actions. The company is unable to estimate a range of exposure, if any, at this time.

In addition, various lawsuits, claims and proceedings, other than those specifically disclosed in the consolidated financial statements, have been or may be instituted or asserted against the company, relating to the conduct of the company's business, including those pertaining to product liability, warranty or recall claims, intellectual property, safety and health, contract and employment matters. Although the outcome of other litigation cannot be predicted with certainty, and some lawsuits, claims or proceedings may be disposed of unfavorably to the company, management believes the disposition of matters that are pending will not have a material adverse effect on the company's business, financial condition or results of operations.

19. Business Segment Information

The company defines its operating segments as components of its business where separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The company's chief operating decision maker (CODM) is the Chief Executive Officer.

In the fourth quarter of fiscal year 2010, as a result of the divestiture activity described in Note 4, the company included its former LVS reporting segment in discontinued operations. All prior period amounts have been recast to reflect the classification of the company's former LVS reporting segment as discontinued operations. The company has three reportable segments at December 31, 2010, as follows:

- The Commercial Truck segment supplies drivetrain systems and components, including axles, drivelines and braking and suspension systems, primarily for medium- and heavy-duty trucks in North America, South America and Europe;
- The Industrial segment supplies drivetrain systems including axles, brakes, drivelines and suspensions for off-highway, military, construction, bus and coach, fire and emergency and other industrial applications. This segment also includes the company's OE businesses in Asia Pacific, including all on- and off-highway activities; and
- The Aftermarket & Trailer segment supplies axles, brakes, drivelines, suspension parts and other replacement and remanufactured parts, including transmissions, to commercial vehicle aftermarket customers. This segment also supplies a wide variety of undercarriage products and systems for trailer applications.

Segment EBITDA is defined as income (loss) from continuing operations before interest expense, income taxes, depreciation and amortization, non-controlling interests in consolidated joint ventures, loss on sale of receivables, restructuring costs and asset impairment charges. The company uses Segment EBITDA as the primary basis for the CODM to evaluate the performance of each of its reportable segments. In fiscal year 2010, the company modified the definition of Segment EBITDA to include the entire EBITDA from the company's consolidated joint ventures before making adjustment for non-controlling interests, and to exclude restructuring costs and asset impairment charges. Including the entire EBITDA of our consolidated joint ventures, consistent with the related revenues, better reflects the performance of our Industrial segment and is consistent with how the CODM currently measures segment performance. All prior period amounts have been recast to reflect these changes.

The accounting policies of the segments are the same as those applied in the Consolidated Financial Statements, except for the use of Segment EBITDA. The company may allocate certain common costs, primarily corporate functions, between the segments differently than the company would for stand alone financial information prepared in accordance with the U.S. generally accepted accounting principles. These allocated costs include expenses for shared services such as information technology, finance, communications, legal and human resources. The company does not allocate interest expense and certain legacy and other corporate costs not directly associated with the Segments' EBITDA.

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Segment information is summarized as follows (in millions):

	Commercial Truck	Industrial	Aftermarket & Trailer	Eliminations	Total
Three months ended December 31, 2010:					
External Sales	$ 531	$ 217	$ 223	$ —	$ 971
Intersegment Sales	44	13	2	(59)	—
Total Sales	$ 575	$ 230	$ 225	$ (59)	$ 971
Three months ended December 31, 2009:					
External Sales	$ 373	$ 207	$ 220	$ —	$ 800
Intersegment Sales	60	19	2	(81)	—
Total Sales	$ 433	$ 226	$ 222	$ (81)	$ 800

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009
Segment EBITDA:		
Commercial Truck	$ 33	$ 13
Industrial	17	24
Aftermarket & Trailer	13	17
Segment EBITDA	63	54
Unallocated legacy and corporate costs (1)	(1)	(3)
Loss on sale of receivables	(1)	(1)
Depreciation and amortization	(16)	(18)
Noncontrolling interests	(4)	(3)
Interest expense, net	(27)	(23)
Restructuring costs	(3)	—
Provision for income taxes	(20)	(10)
Loss from continuing operations attributable to ArvinMeritor, Inc.	$ (9)	$ (4)

(1) Unallocated legacy and corporate costs represent items that are not directly related to the business segments. These costs primarily include pension and retiree medical costs associated with recently sold businesses and other legacy costs for environmental and product liability.

20. Subsequent Events

On January 3, 2011, the company completed the sale of its Body Systems business to Inteva Products Holding Coöperatieve U.A., an assignee of 81 Acquisition LLC and an affiliate of Inteva Products, LLC. Pursuant to the Agreement (as defined below) signed in August 2010, total consideration was approximately $35 million, subject to certain potential adjustments for items such as working capital fluctuations. The actual purchase price at the closing was $27 million (excluding estimated closing expenses for outside advisory fees of $12 million), consisting of $12 million in cash at closing (adjusted for estimated balances in working capital and other items at the time of the closing) and a five year, 8 percent promissory note for $15 million. In addition to the purchase price, the company will receive the cash held at the time of the sale by the Body Systems entities operating in China and Brazil of approximately $32 million, net of applicable taxes and other withholding, at such time as it becomes available for distribution, as provided in the Agreement.

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The sale of the Body Systems business was consummated pursuant to a Purchase and Sale Agreement dated as of August 3, 2010 between ArvinMeritor, Meritor France and 81 Acquisition LLC, as amended by the First Amendment to Purchase and Sale Agreement dated as of December 6, 2010 and the Second Amendment to Purchase and Sale Agreement dated as of January 3, 2011 (as so amended, the "Agreement"). The Agreement contains customary representations, warranties and covenants of the seller and the purchaser as further set forth in the Agreement. The Agreement also includes provisions governing the retention by the seller and assumption by the purchaser of responsibilities with regard to pension, environmental, warranty and other liabilities; transition of employees and responsibility for employee compensation and benefits; tax matters and post-closing taxes; use of trademarks and logos; and post-closing indemnities between the seller and the purchaser for losses arising from specified events.

21. Supplemental Guarantor Condensed Consolidating Financial Statements

Certain of the company's wholly-owned subsidiaries, as defined in the credit agreement (the Guarantors) irrevocably and unconditionally guarantee amounts outstanding under the senior secured revolving credit facility. Similar subsidiary guarantees were provided for the benefit of the holders of the publicly-held notes outstanding under the company's indentures (see Note 15).

In lieu of providing separate financial statements for the Guarantors, the company has included the accompanying condensed consolidating financial statements. These condensed consolidating financial statements are presented on the equity method. Under this method, the investments in subsidiaries are recorded at cost and adjusted for the parent's share of the subsidiary's cumulative results of operations, capital contributions and distributions and other equity changes. The Guarantor subsidiaries are combined in the condensed consolidating financial statements.

ARVINMERITOR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(In millions)

	Three Months Ended December 31, 2010				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$ —	$ 303	$ 668	$ —	$ 971
Subsidiaries	—	31	17	(48)	—
Total sales	—	334	685	(48)	971
Cost of sales	(14)	(308)	(593)	48	(867)
GROSS MARGIN	(14)	26	92	—	104
Selling, general and administrative	(29)	(23)	(20)	—	(72)
Restructuring costs	—	—	(3)		(3)
OPERATING INCOME (LOSS)	(43)	3	69	—	29
Equity in earnings of affiliates	—	7	6	—	13
Other income (expense), net	(1)	—	1	—	—
Interest income (expense), net	(30)	9	(6)	—	(27)
INCOME (LOSS) BEFORE INCOME TAXES	(74)	19	70	—	15
Provision for income taxes	—	(5)	(15)	—	(20)
Equity income from continuing operations of subsidiaries	65	49	—	(114)	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	(9)	63	55	(114)	(5)
INCOME FROM DISCONTINUED OPERATIONS, net of tax	7	$ 17	$ 13	$ (30)	$ 7
Net income (loss)	(2)	80	68	(144)	2
Less: Net income attributable to noncontrolling interests	—	—	(4)	—	(4)
NET INCOME (LOSS) ATTRIBUTABLE TO ARVINMERITOR, INC.	$ (2)	$ 80	$ 64	$ (144)	$ (2)

ARVINMERITOR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(In millions)

	Three Months Ended December 31, 2009				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$ —	$ 333	$ 467	$ —	$ 800
Subsidiaries	—	26	15	(41)	—
Total sales	—	359	482	(41)	800
Cost of sales	(14)	(303)	(435)	41	(711)
GROSS MARGIN	(14)	56	47	—	89
Selling, general and administrative	(28)	(23)	(15)	—	(66)
OPERATING INCOME (LOSS)	(42)	33	32	—	23
Equity in earnings of affiliates	—	4	5	—	9
Other income (expense), net	—	(1)	1	—	—
Interest income (expense), net	(32)	15	(6)	—	(23)
INCOME (LOSS) BEFORE INCOME TAXES	(74)	51	32	—	9
Provision for income taxes	—	(3)	(7)	—	(10)
Equity income from continuing operations of subsidiaries	70	26	—	(96)	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	(4)	74	25	(96)	(1)
INCOME FROM DISCONTINUED OPERATIONS, net of tax	4	7	26	(33)	4
Net income	—	81	51	(129)	3
Less: Net income attributable to noncontrolling interests	—	—	(3)	—	(3)
NET INCOME ATTRIBUTABLE TO ARVINMERITOR, INC.	$ —	$ 81	$ 48	$ (129)	$ —

ARVINMERITOR, INC.
CONDENSED CONSOLIDATING BALANCE SHEET
(In millions)

	December 31, 2010				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	$ 98	$ 3	$ 175	$ —	$ 276
Receivables, net	—	20	508	—	528
Inventories	—	164	264	—	428
Other current assets	10	18	47	—	75
Assets of discontinued operations	—	15	339	—	354
TOTAL CURRENT ASSETS	108	220	1333	—	1,661
NET PROPERTY	10	120	254	—	384
GOODWILL	—	275	154	—	429
OTHER ASSETS	45	162	133	—	340
INVESTMENTS IN SUBSIDIARIES	1,119	243	—	(1,362)	—
TOTAL ASSETS	$ 1,282	$ 1,020	$ 1,874	$ (1,362)	$ 2,814
CURRENT LIABILITIES					
Accounts payable	$ 31	$ 169	$ 446	$ —	$ 646
Other current liabilities	115	87	125	—	327
Liabilities of discontinued operations	—	9	322	—	331
TOTAL CURRENT LIABILITIES	146	265	893	—	1,304
LONG-TERM DEBT	1,022	—	9	—	1,031
RETIREMENT BENEFITS	982	—	182	—	1,164
INTERCOMPANY PAYABLE (RECEIVABLE)	73	(514)	441	—	—
OTHER LIABILITIES	84	126	95	—	305
EQUITY (DEFICIT) ATTRIBUTABLE TO ARVINMERITOR, INC.	(1,025)	1,143	219	(1,362)	(1,025)
NONCONTROLLING INTERESTS	—	—	35	—	35
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$ 1,282	$ 1,020	$ 1,874	$ (1,362)	$ 2,814

ARVINMERITOR, INC.
CONDENSED CONSOLIDATING BALANCE SHEET
(In millions)

	September 30, 2010				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	$ 47	$ 6	$ 290	$ —	$ 343
Receivables, net	4	14	561	—	579
Inventories	—	148	234	—	382
Other current assets	17	20	39	—	76
Assets of discontinued operations	—	12	329	—	341
TOTAL CURRENT ASSETS	68	200	1,453	—	1,721
NET PROPERTY	10	122	257	—	389
GOODWILL	—	275	157	—	432
OTHER ASSETS	49	158	130	—	337
INVESTMENTS IN SUBSIDIARIES	1,011	154	—	(1,165)	—