

ARVINMERITOR INC
Form S-3ASR
May 23, 2006

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**As filed with the Securities and Exchange Commission on May 23, 2006
Registration Statement No. 333-**

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Form S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

ArvinMeritor, Inc.
(Exact name of registrant as specified in its charter)
**2135 West Maple Road
Troy, Michigan 48084-7186**

Indiana
*(State or other jurisdiction of
incorporation or organization)*

(248) 435-1000
*(Address, including zip code, and telephone
number,
including area code, of registrant's principal
executive offices)*

38-3354643
*(I.R.S. Employer
Identification No.)*

Vernon G. Baker, II, Esq.
Senior Vice President and General Counsel
ArvinMeritor, Inc.
2135 West Maple Road
Troy, Michigan 48084-7186
(248) 435-1000
*(Name, address, including zip code, and telephone number,
including area code, of agent for service)*

Copies to:
Peter R. Kolyer, Esq.
Marc A. Alpert, Esq.
Chadbourne & Parke LLP
30 Rockefeller Plaza
New York, New York 10112
(212) 408-5100

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act), other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective

registration statement for the same offering. o _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _____

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, please check the following box. b

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
4.625% Convertible Senior Notes due 2026	\$300,000,000	100%	\$300,000,000	\$32,100.00
Guarantees of 4.625% Convertible Senior Notes due 2026	N/A	N/A	N/A	(2)
Common stock, par value \$1 per share (including the associated preferred share purchase rights)	14,300,010(3)	N/A	N/A	(4)

(1) Equals the aggregate initial principal amount of the notes being registered. Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(o) under the Securities Act.

(2) Pursuant to Rule 457(n) under the Securities Act, no registration fee is required with respect to the guarantees.

(3) Represents the number of shares of registrant's common stock issuable upon conversion of the notes at an initial conversion rate equivalent to 47.6667 shares of common stock per \$1,000 initial principal amount of notes (which represents an initial conversion price of approximately \$20.98 per share). Pursuant to Rule 416 under the Securities Act, the registrant is also registering such indeterminate number of shares of common stock, including the associated preferred share purchase rights, as may be issued from time to time upon conversion of the notes as a result of the conversion rate adjustment provisions relating to the notes.

(4) The registrant will receive no consideration for the issuance of shares of common stock upon conversion of the notes. Therefore, pursuant to Rule 457(i), no filing fee is required with respect to the shares of common stock registered hereby.

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Name of Additional Registrant*	Jurisdiction of Incorporation or Organization	Primary Standard Industrial Classification Code Number	I.R.S. Employer Identification Number
Arvin International Holdings, LLC	Delaware	3714	90-0218822
Arvin Technologies, Inc.	Michigan	3714	38-3349979
ArvinMeritor Assembly, LLC	Delaware	3714	38-3617889
ArvinMeritor Brake Holdings, Inc.	Delaware	3714	25-1251994
ArvinMeritor Filters Holding Co., LLC	Delaware	3714	38-2060287
ArvinMeritor Filters Operating Co., LLC	Delaware	3714	73-1305936
ArvinMeritor Holdings Mexico, Inc.	Delaware	3714	98-0439989
ArvinMeritor International Holdings, LLC	Delaware	3714	36-2185923
ArvinMeritor OE, LLC	Delaware	3714	38-3622443
Euclid Industries, LLC	Delaware	3714	38-3442143
Meritor Heavy Vehicle Braking Systems (U.S.A.), Inc.	Delaware	3714	38-3441039
Meritor Heavy Vehicle Systems, LLC	Delaware	3714	38-3371768
Meritor Heavy Vehicle Systems (Mexico), Inc.	Delaware	3714	38-3436042
Meritor Heavy Vehicle Systems (Singapore) Pte., Ltd.	Delaware	3714	25-1407192
Meritor Technology, Inc.	Delaware	3714	98-0272396

* Addresses and telephone numbers of principal executive offices are the same as those of ArvinMeritor, Inc.

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PROSPECTUS

ArvinMeritor, Inc.
\$300,000,000
4.625% Convertible Senior Notes Due 2026
Shares of Common Stock Issuable Upon Conversion of the Notes

In March 2006, we issued and sold \$300 million aggregate principal amount of our 4.625% convertible senior notes due 2026 in a private placement. This prospectus may be used by selling securityholders to resell the notes and the common stock issuable upon conversion of the notes. This prospectus may also be used by us to offer and sell shares of our common stock upon conversion of the notes.

We will pay 4.625% cash interest on the notes semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2006 and ending on March 1, 2016. We will not pay cash interest on the notes after March 1, 2016. Commencing on March 1, 2016, the principal amount of the notes will be subject to accretion at a rate that provides holders with an aggregate annual yield to maturity of 4.625% (computed on a semi-annual bond equivalent yield basis). The notes will mature on March 1, 2026.

The notes will be convertible in certain circumstances into cash up to the accreted principal amount of the note surrendered for conversion, and cash, shares of common stock, or a combination thereof, at our election, for the remainder of our conversion obligation, if any, in excess of such accreted principal amount, as described in this prospectus, based on an initial conversion rate, subject to adjustment, equivalent to 47.6667 shares per \$1,000 initial principal amount of notes (which represents an initial conversion price of approximately \$20.98 per share), only under the following circumstances:

Prior to March 1, 2024, during any calendar quarter after the calendar quarter ending June 30, 2006, if the closing sale price of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter;

Prior to March 1, 2024, during the five business day period after any five consecutive trading day period in which the average trading price per \$1,000 initial principal amount of notes was equal to or less than 97% of the average conversion value of the notes during such five consecutive trading day period;

Prior to March 1, 2024, upon the occurrence of specified corporate transactions;

Prior to March 1, 2024, if we call the notes for redemption; or

At any time on or after March 1, 2024.

Holder s may be entitled to an increase in the conversion rate for notes surrendered for conversion in connection with certain transactions or events that occur before March 1, 2016, or, under certain circumstances, we may elect to change our conversion obligation to provide for conversion of the notes into shares of an acquiring company s common stock, as described in this prospectus.

On or after March 1, 2016, we may at any time and from time to time at our option redeem the notes, in whole or in part, for cash, at a redemption price equal to 100% of the accreted principal amount of the notes to be redeemed, plus any accrued and unpaid interest to, but excluding, the redemption date. We will make at least 20 semi-annual interest payments (including the interest payment on September 1, 2006) on the notes before we can redeem them. On each of March 1, 2016, March 1, 2018, March 1, 2020, March 1, 2022 and March 1, 2024, holders may require us to purchase all or a portion of their notes at a purchase price in cash equal to 100% of the accreted principal amount of the notes to be purchased, plus any accrued and unpaid interest to, but excluding, the purchase date. Holder s may require us to repurchase all or a portion of their notes upon a fundamental change, as described in this prospectus, at a repurchase price in cash equal to 100% of the accreted principal amount of the notes to be repurchased, plus any

accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The notes are our senior unsecured obligations and rank equally in right of payment with all of our existing and future senior unsecured indebtedness, and junior to any of our existing and future secured indebtedness to the extent of the security therefor. In addition, the notes are not guaranteed by some of our subsidiaries, and accordingly the notes are effectively subordinated to the indebtedness and other liabilities of our subsidiaries that do not guarantee the notes.

Our common stock is quoted on the New York Stock Exchange under the symbol **ARM** . On May 22, 2006 the closing price of our common stock was \$15.80 per share.

Investing in the notes and the underlying shares of common stock involves significant risks. See Risk Factors beginning on page 6 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is May 23, 2006

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You should rely only on the information incorporated by reference or provided in this prospectus. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus is accurate as of any date other than the date on the cover page of this prospectus.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, EACH PERSON RECEIVING THIS PROSPECTUS IS HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED AND (B) SUCH DISCUSSION IS INCLUDED HEREIN BY US IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF TREASURY DEPARTMENT CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN.

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SUMMARY

This summary is not complete and does not contain all of the information that you should consider before deciding whether to invest in the notes or the underlying common stock. You should read carefully the entire prospectus, including the more detailed information and financial statements and related notes thereto appearing elsewhere or incorporated by reference in this prospectus, before making an investment decision.

OUR COMPANY

We are a leading global supplier of a broad range of integrated systems, modules and components serving 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 2005 were \$8.8 billion. We operated over 120 manufacturing facilities in 25 countries around the world in fiscal year 2005, including facilities operated by discontinued operations and joint ventures in which we have interests.

Sales from continuing operations outside North America accounted for approximately 49% of total sales from continuing operations in fiscal year 2005. Our continuing operations also participated in 10 significant non-consolidated joint ventures that generated revenues of approximately \$1.5 billion in fiscal year 2005.

We serve customers worldwide through the following businesses:

Continuing operations

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

Commercial Vehicle Systems (CVS). 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.

Both LVS and CVS market and sell products principally to OEMs. In North America, CVS also markets truck and trailer products directly to dealers, fleets and other end-users in the aftermarket sector. Our ten largest customers accounted for approximately 74% of our total sales from continuing operations in fiscal year 2005.

Discontinued operations and recent divestitures

In October 2004, we announced our intention to divest our coil coating operations, and we reported this business in discontinued operations for accounting purposes. We sold the coil coating operations in November 2004.

Also in October 2004, we announced our intention to divest our Light Vehicle Aftermarket (LVA) businesses, and we reported these businesses as discontinued operations for accounting purposes. In March 2006 we completed the sale of our LVA North American filters and exhaust businesses. We will continue to report our remaining LVA businesses as discontinued operations.

In December 2005, we sold our LVS ride control business located in Asti, Italy. This sale, along with the previous divestiture of our 75 percent shareholding in AP Amortiguadores, S. A. in the second quarter of fiscal year 2004, substantially completed our plan to exit our LVS ride control business. Accordingly, our LVS ride control business is reported as discontinued operations.

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We were incorporated in Indiana in March 2000 in connection with the merger of Arvin Industries, Inc. and Meritor Automotive, Inc. on July 7, 2000. Our executive offices are located at 2135 West Maple Road, Troy, Michigan 48084. Our telephone number is (248) 435-1000.

THE OFFERING

Issuer	ArvinMeritor, Inc.
Securities Offered	\$300,000,000 aggregate principal amount of 4.625% convertible senior notes due March 1, 2026 and shares of our common stock issuable upon conversion of the notes.
Maturity	The notes will mature on March 1, 2026, unless earlier redeemed, repurchased or converted.
Interest payment dates	Interest will be payable in cash semi-annually in arrears on March 1 and September 1 of each year, to holders of record at the close of business on the preceding February 15 and August 15, respectively. Interest will accrue on the notes from and including March 7, 2006 or from, and including, the last date in respect of which interest has been paid or provided for, as the case may be, to, but excluding, the next interest payment date or March 1, 2016, as the case may be. We will not pay cash interest on the notes after March 1, 2016.
Accretion	Commencing on March 1, 2016, the principal amount of the notes will be subject to accretion at a rate that provides holders with an aggregate annual yield to maturity of 4.625% (computed on a semi-annual bond equivalent yield basis).
Guarantees	Each of our subsidiaries guaranteeing our \$900 million revolving credit facility guarantees the notes on a senior unsecured basis. These guarantees will remain in effect until the earlier to occur of payment in full of the notes or termination or release of the guarantees under our revolving credit facility. The guarantees by our subsidiaries rank equally with existing and future unsecured senior debt of such subsidiaries. The guarantees by our subsidiaries are effectively subordinated to all of the existing and future secured debt of such subsidiaries, to the extent of the value of the assets securing such debt.
Ranking	The notes are our senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured indebtedness, and are junior to any of our existing and future secured indebtedness to the extent of the security therefor. In addition, the notes are not guaranteed by some of our subsidiaries, and accordingly the notes are effectively subordinated to the indebtedness and other liabilities of our subsidiaries that do not guarantee the notes. As of March 31, 2006, we had approximately \$725 million of outstanding indebtedness that would rank equally with the notes, including our 6.625% notes due 2007, our 6.75% notes due 2008, our 6.8% notes due 2009, our 7.125% notes due 2009, our 8.75% notes due 2012 and our 8.125% notes due 2015, all of which are guaranteed by the guarantors. We have a \$900 million revolving credit facility that matures in July 2008, our obligations under which are guaran-

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ted by the guarantors. We also have a \$250 million accounts receivable securitization arrangement. As of March 31, 2006, we had approximately \$39 million of indebtedness that would rank junior to the notes, which consisted of indebtedness under our 9.5% junior subordinated debentures. For additional information, please see Note 14 in the Notes to Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the quarter ended April 2, 2006.

Conversion rights

The notes will be convertible based on an initial conversion rate, subject to adjustment, equivalent to 47.6667 shares of our common stock per \$1,000 initial principal amount of notes (which represents an initial conversion price of approximately \$20.98 per share), only under the following circumstances:

prior to March 1, 2024, during any calendar quarter after the calendar quarter ending June 30, 2006, if the closing sale price of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter;

prior to March 1, 2024, during the five business day period after any five consecutive trading-day period in which the average trading price per \$1,000 initial principal amount of notes was equal to or less than 97% of the average conversion value of the notes during such five consecutive trading-day period;

prior to March 1, 2024, upon the occurrence of specified corporate transactions, as described in this prospectus;

prior to March 1, 2024, if we call the notes for redemption; or

any time on or after March 1, 2024.

Upon conversion, we will satisfy our conversion obligation with respect to the notes surrendered for conversion by paying or delivering, as the case may be, to the converting holder:

an amount in cash (the principal return) equal to the lesser of (a) the conversion value of the notes to be converted and (b) the accreted principal amount of the notes to be converted;

if the conversion value of the notes to be converted is greater than the accreted principal amount of such notes, at our election, (a) cash equal to the difference between the conversion value of the notes to be converted and the accreted principal amount of such notes (such difference, the net share amount for such conversion), (b) a number of whole shares of our common stock (the net shares) equal to the net share amount, *divided by* the average of the daily volume weighted average price (as such term is defined under Description of the notes Conversion rights Payment upon conversion) of our common stock for each of the ten

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consecutive trading days beginning on the third trading day immediately following the day the notes are tendered for conversion or (c) a combination thereof; and

an amount in cash in lieu of any fractional shares of common stock.

The conversion value of notes to be converted is equal to the product of (1) the conversion rate in effect on the conversion date, and (2) the average of the daily volume weighted average price of our common stock for each of the ten consecutive trading days beginning on the third trading day immediately following the day the notes are tendered for conversion. A holder may convert notes in part so long as such part is \$1,000 initial principal amount or an integral multiple of \$1,000.

If a make-whole fundamental change occurs before March 1, 2016, the conversion rate may be increased, or under certain circumstances, we may elect to change our conversion obligations to provide for conversion of the notes into the acquiring company's common stock, as described in Description of the notes Conversion rights Adjustment to the conversion rate upon make-whole fundamental changes .

In certain other circumstances the conversion rate will be subject to adjustment. See Description of the notes Conversion rights Adjustments to the conversion rate .

Sinking fund

None.

Redemption of notes at our option

On or after March 1, 2016, we may at any time and from time to time at our option redeem the notes, in whole or in part, at a redemption price in cash equal to 100% of the accreted principal amount of the notes to be redeemed, plus any accrued and unpaid interest to, but excluding, the redemption date. See Description of the notes Redemption of notes at our option .

Purchase of notes by us at the option of the holder

On each of March 1, 2016, March 1, 2018, March 1, 2020, March 1, 2022 and March 1, 2024, holders may require us to purchase all or a portion of their notes at a purchase price in cash equal to 100% of the accreted principal amount of the notes to be purchased, plus any accrued and unpaid interest to, but excluding, the purchase date. See Description of the notes Purchase of notes by us at the option of the holder .

Right of holder to require us to repurchase notes if a fundamental change occurs

If a fundamental change, as described in this prospectus, occurs, holders may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the accreted principal amount of the notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the repurchase date. See Description of the notes Holders may require us to repurchase their notes upon a fundamental change .

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Events of default	<p>If an event of default on the notes has occurred and is continuing, the accreted principal amount of the notes, plus any accrued and unpaid interest, may become immediately due and payable. These amounts automatically become due and payable upon certain events of default relating to the bankruptcy of us or our significant subsidiaries. See Description of the notes Events of default .</p>
Registration rights	<p>Pursuant to a registration rights agreement that we entered into with the initial purchasers of the notes, we filed with the SEC a shelf registration statement, of which this prospectus is a part, with respect to resales of the notes and the common stock issuable upon conversion of the notes, which registration statement became effective automatically upon filing. We have agreed to use our reasonable best efforts to keep the shelf registration statement effective until the earliest of the date that is two years after the last date of original issuance of any of the notes or when all registrable securities:</p> <p> have been sold pursuant to the shelf registration statement or pursuant to Rule 144 under the Securities Act; or</p> <p> may be resold without restriction pursuant to Rule 144(k) under the Securities Act or any successor rule thereto or otherwise.</p> <p>If we do not comply with these requirements or certain other covenants set forth in the registration rights agreement, we must, subject to certain exceptions, pay additional interest to holders of the notes. See Description of the notes Registration rights .</p>
Use of proceeds	<p>We will not receive any of the proceeds from the sale by any selling securityholder of the notes or the common stock issuable upon conversion of the notes offered by this prospectus.</p>
Listing and trading	<p>The notes originally issued in the private placement are eligible for trading on The PORTAL Market; notes resold pursuant to this prospectus will cease to be eligible for trading on The PORTAL Market. The notes are not currently listed nor do we intend to list the notes on any national securities exchange. Our common stock is listed on the New York Stock Exchange under the symbol ARM .</p>
Material U.S. federal tax considerations	<p>For a discussion of material United States federal tax considerations relating to the purchase, ownership and disposition of the notes and shares of common stock into which the notes may be convertible, see Material U.S. federal tax considerations .</p>
Risk factors	<p>In analyzing an investment in the notes and the underlying shares of common stock offered pursuant to this prospectus, you should carefully consider, along with other matters included or incorporated by reference in this prospectus, the information set forth under Risk factors .</p> <p>For a more complete description of the terms of the notes, see Description of the notes . For a more complete description of our common stock, see Description of capital stock .</p>

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Our business, financial condition and results of operations can be impacted by a number of risks, any one of which could cause our actual results to vary materially from recent results or from anticipated future results. Any of these individual risks could materially and adversely affect our business, financial condition and results of operations, which in turn could materially and adversely affect the price of the notes and our common stock. This effect could be compounded if multiple risks were to occur. Before deciding to invest in the notes, you should carefully consider the risks set forth below as well as the risks described in our Annual Report on Form 10-K for the year ended October 2, 2005, our Quarterly Reports on Form 10-Q for the quarters ended January 1, 2006 and April 2, 2006 and our other filings with the SEC.

We operate in an industry that is cyclical and that has periodically experienced significant year-to-year fluctuations in demand for vehicles; we also experience seasonal variations in demand for our products.

The industries in which LVS and CVS operate have been characterized historically by periodic fluctuations in overall demand for trucks, passenger cars and other vehicles for which we supply products, resulting in corresponding fluctuations in demand for our products. Production and sales of the vehicles for which we supply products generally depend on economic conditions and a variety of other factors, including customer spending and preferences, labor relations and regulatory requirements. The cyclical nature of the automotive industry is outside our control and cannot be predicted with certainty. Cycles in the major automotive industry markets of North America and Europe are not necessarily concurrent or related.

LVS and CVS may experience seasonal variations in the demand for products to the extent automotive vehicle production fluctuates. Historically, for both segments, demand has been somewhat lower in the quarters ended September 30 and December 31, when OEM plants may close during model changeovers and vacation and holiday periods.

Demand for CVS products can also be affected by pre-buy before the effective date of new regulatory requirements, such as changes in emissions standards. We believe that stronger heavy-duty truck demand in North America in fiscal year 2002 was partially due to the pre-buy before new U.S. emissions standards went into effect on October 1, 2002. Implementation of new, more stringent, emissions standards is scheduled for 2007 and 2010 in the U.S. and 2008 in Europe, and we believe that heavy-duty truck demand in these markets could increase prior to the effective dates of the new regulations, but is likely to fall in North America in 2007 after the new standards are implemented. The Company is taking actions to mitigate the effects of the expected 2007 market downturn, but there can be no assurance that it will not have an adverse impact on the Company's business, financial condition and results of operations.

We depend on large OEM customers.

Both LVS and CVS are dependent upon large OEM customers with substantial bargaining power with respect to price and other commercial terms. Loss of all or a substantial portion of sales to any of our large volume customers for whatever reason (including, but not limited to, loss of market share by these customers, loss of contracts, insolvency of such customers, reduced or delayed customer requirements, plant shutdowns, strikes or other work stoppages affecting production by such customers), or continued reduction of prices to these customers, could have a significant adverse effect on our financial results. There can be no assurance that we will not lose all or a portion of sales to our large volume customers, or that we will be able to offset continued reduction of prices to these customers with reductions in our costs.

During fiscal year 2005, DaimlerChrysler AG (which owns Chrysler, Mercedes-Benz AG and Freightliner Corporation), a significant customer of LVS and CVS, accounted for approximately 21% of our total sales from continuing operations. In addition, sales to General Motors Corporation accounted for approximately 10% and sales to Volkswagen accounted for approximately 10% of our total sales from

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continuing operations in fiscal year 2005. No other customer accounted for 10% or more of our total sales from continuing operations in fiscal year 2005. These sales include pass-through components that are acquired and incorporated into our systems or modules at the customer's request.

The level of our sales to large OEM customers depends on their production and sales volumes. Several of our significant customers have major union contracts that expire and are subject to renegotiation over the next few years. Any strikes or other actions that affect our customers' production during this process would also affect our sales. Further, to the extent that the financial condition, including bankruptcy, or market share of any of our largest customers deteriorates or their sales otherwise decline, our financial position and results of operations could be adversely affected.

We operate in a highly competitive industry.

Each of our businesses operates in a highly competitive environment. LVS and CVS compete worldwide with a number of North American and international providers of components and systems, some of which belong to, or are associated with, some of our customers. Some of our competitors are larger and have greater financial resources or have established relationships with significant customers. In addition, some OEMs manufacture products of the types we supply, which can displace our sales.

In addition, many companies in the automotive industry have undertaken substantial contractual obligations to current and former employees, primarily with respect to pensions and other post-retirement benefits. The bankruptcy or insolvency of a major competitor could result in that company's eliminating or reducing some or all of these obligations, which could give that competitor a cost advantage over us.

A disruption in supply or a significant increase in price of raw materials or parts could impact our production and increase our costs.

Prices of raw materials, primarily steel, for our business segments' manufacturing needs negatively impacted our operating income in each of the last three fiscal years. In addition, 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 we depend upon the ability of our suppliers to meet performance and quality specifications and delivery schedules in order to meet our commitments to our customers. The loss of a significant supplier or the inability of a supplier to meet performance and quality specifications or delivery schedules could have an adverse effect on us.

Beginning in the second half of fiscal year 2002, we, along with the automotive industry globally, experienced rising steel prices and spot shortages of certain steel products. Although availability of steel has improved and we have had some success in recovering a portion of higher steel prices from our customers, increased steel costs, net of recoveries, negatively impacted our financial results in each of the last three fiscal years. While we believe that steel prices are beginning to moderate, we cannot predict the availability or price of steel in the balance of fiscal year 2006 and beyond. If steel 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 sales and operating income could continue to be adversely affected.

Some companies in the automotive industry experienced weakening financial strength in fiscal year 2005 that resulted for some in filing for protection under bankruptcy laws. If the weakened financial condition of a significant supplier, or any related labor issues or work stoppages, were to cause a significant disruption in the supply of parts to our facilities, it could have an adverse effect on us.

Our international operations are subject to a number of risks.

We have a significant amount of facilities and operations outside the United States, including investments and joint ventures in developing countries. Approximately 49 percent of our total assets, excluding assets of discontinued operations, as of September 30, 2005, and 49 percent of fiscal 2005 sales

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from continuing operations were outside North America. These international operations are subject to a number of risks inherent in operating abroad, including, but not limited to:

risks with respect to currency exchange rate fluctuations;

local economic and political conditions;

disruptions of capital and trading markets;

possible terrorist attacks or acts of aggression that could affect vehicle production or the availability of raw materials or supplies;

restrictive governmental actions (such as restrictions on transfer of funds and trade protection measures, including export duties and quotas and customs duties and tariffs);

changes in legal or regulatory requirements;

import or export licensing requirements;

limitations on the repatriation of funds;

difficulty in obtaining distribution and support;

nationalization;

the laws and policies of the United States affecting trade, foreign investment and loans;

tax laws; and

labor disruptions.

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 our financial condition or results of operations.

Our liquidity, including our access to capital markets and financing, could be constrained by our credit ratings, our ability to comply with financial covenants in our debt instruments, and our suppliers extending normal trade credit terms on our purchases.

In the third quarter of fiscal year 2005, Standard & Poor's lowered our credit rating to BB from BB+, and Moody's Investors Service lowered our credit rating to Ba2 from Ba1. Standard & Poor's has our credit ratings on negative outlook. There are a number of factors, including our ability to complete our announced restructuring and divestiture activities on a timely basis, that could result in further lowering of our credit ratings. The rating agencies' opinions about our creditworthiness may also be affected by their views of conditions in the automotive industry generally, including their views concerning the financial condition of our major OEM customers. If the credit rating agencies perceive further weakening in the industry they could lower our ratings.

Further declines in our ratings could reduce our access to capital markets, further increase our borrowing costs and result in lower trading prices for our securities, including the notes and the common stock issuable upon conversion of the notes.

Our ability to borrow under our existing financing arrangements depends on our compliance with covenants in the related agreements, including covenants that require maintenance of certain financial ratios. To the extent that we are unable to maintain compliance with these requirements, due to one or more of the various risk factors discussed herein or otherwise, our ability to borrow, and our liquidity, would be adversely impacted.

Our liquidity could also be adversely impacted if our suppliers were to suspend normal trade credit terms and require payment in advance or payment on delivery of purchases. If this were to occur, we would be dependent on other sources of financing to bridge the additional period between payment of our suppliers and receipt of payments from our customers.

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Our strategic initiatives, including divestitures, restructurings and acquisitions, may be unsuccessful, may take longer than anticipated, or may result in unanticipated costs.

In October 2004, we announced our intention to divest our LVA businesses and our coil coating operations. We sold the coil coating operations in November 2004. In March 2006, we completed the sale of our LVA filters and exhaust businesses in North America. We continue to pursue divestiture of our remaining LVA businesses. Although we expect to complete the divestiture of our LVA businesses in fiscal year 2006, we cannot be sure that we will be able to complete all of the divestitures on that schedule.

In fiscal year 2005, we announced restructuring plans with respect to continuing operations to eliminate approximately 700-800 salaried positions and 1,550 hourly positions and to consolidate, downsize, close or sell 11 global facilities, primarily in the LVS segment. We took these actions in order to align capacity with industry conditions, utilize assets more efficiently, improve operations and lower costs. We estimated total costs of \$135 million (including cash costs of \$110 million) for this restructuring. We cannot assure you that the total costs and total cash costs associated with this restructuring will not exceed our estimates, or that we will be able to achieve the intended benefits of this restructuring.

Strategic initiatives also from time to time include acquisitions. Any future acquisitions that we undertake could involve risks with respect to successful integration of operations, increases in debt to finance the acquisition, and achieving projected savings from synergies.

We continue to review our existing businesses to determine whether any of them should be modified, restructured, sold or otherwise discontinued, and we regularly consider various strategic and business opportunities to grow our business. We cannot predict with certainty whether any future strategic transactions will be beneficial for us.

We are exposed to environmental, health and safety and product liabilities.

Our business is subject to liabilities related to the outcome of litigation with respect to environmental and health-and-safety matters. In addition, we are required to comply with federal, state, local and foreign laws and regulations governing the protection of the environment and occupational health and safety, and we could be held liable for damages arising out of human exposure to hazardous substances or other environmental or natural resource damages. There is also an inherent risk of exposure to warranty and product liability claims, as well as product recalls, in the automotive industry if our products fail to perform to specifications and are alleged to cause property damage, injury or death.

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 us. In particular, 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. Management estimates the total reasonably possible costs we could incur for the remediation of Superfund sites as of March 31, 2006, to be approximately \$24 million, of which \$9 million is recorded as a liability. During fiscal year 2005, we recorded environmental remediation costs of \$6 million resulting from a revised estimate to remediate a former Rockwell facility that was sold in 1990.

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. For these matters, management has estimated the total reasonably possible costs we could incur as of March 31, 2006, to be approximately \$63 million, of which \$16 million is recorded as a liability.

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 the foregoing estimates because of uncertainties, including the financial condition

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of other potentially responsible parties, the success of the remediation and other factors that make it difficult to predict actual costs accurately. 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.

We are exposed to asbestos litigation liability.

We are subject to liability related to the outcome of litigation with respect to asbestos liability.

Maremont Corporation, a subsidiary of ours, manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. We 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. Although we have established reserves to address Maremont's asbestos liability, 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 Maremont's liability for asbestos-related claims, and the effect on us, could differ materially from our current estimates and, therefore, could have a material impact on our financial position and results of operations.

In addition to the Maremont litigation, we, along with many other companies, have 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. Liability for these claims was transferred to us at the time of the spin-off of the automotive business to Meritor from Rockwell in 1997. The uncertainties of asbestos claim litigation and resolution of the litigation with insurance companies make it difficult to predict accurately the ultimate resolution of asbestos claims. The possibility of adverse rulings or new legislation affecting asbestos claim litigation or the settlement process increases that uncertainty.

We have not established reserves for pending claims or for corresponding recoveries for Rockwell-legacy asbestos-related claims, and defense and indemnity costs related to these claims are expensed as incurred. Reserves have not been established because management cannot reasonably estimate the ultimate liabilities for these costs, primarily because we do not have a sufficient history of claims settlement and defense costs from which to develop reliable assumptions.

We are exposed to the rising cost of pension and other post-retirement benefits, and are currently involved in litigation the outcome of which could further increase these costs.

The automotive industry, like other industries, continues to be impacted by the rising cost of pension and other post-retirement benefits. In estimating our expected obligations under pension and post-retirement benefit plans, we make certain assumptions as to economic and demographic factors, such as discount rates, investment returns and health care cost trends. If actual experience as to these factors is worse than our assumptions, our obligations could increase. Further, proposed changes in accounting for these obligations, if adopted, could have an immediate adverse impact on the book value of our equity.

To partially address the impact of rising post-retirement benefit costs, we amended certain retiree medical plans in fiscal year 2004, to phase out current benefits by no later than fiscal year 2023, and to eliminate benefits for Medicare-eligible retirees beginning in January 2006.

Three separate class action lawsuits were filed in the United States District Court for the Eastern District of Michigan against us as a result of these amendments. The lawsuits allege that the changes breach the terms of various collective bargaining agreements entered into with the United Auto Workers and the United Steel Workers at facilities that have either been closed or sold, and allege a companion claim restating these claims and seeking to bring them under the Employee Retirement Income Security Act of 1974. On December 22, 2005, the court issued an order granting a motion by the United Auto Workers for a preliminary injunction. The order enjoins us from implementing the changes to retiree health benefits that had been scheduled to become effective on January 1, 2006, and orders us to reinstate

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and resume paying the full cost of health benefits for the United Auto Workers retirees at the levels existing prior to the changes approved in 2002 and 2004.

Due to the uncertainty related to the ongoing lawsuits and since the injunction has the impact of at least temporarily changing the benefits provided under the existing postretirement medical plans, we have accounted for the injunction as a partial rescission of the 2002 and 2004 plan amendments. We recalculated the accumulated postretirement benefit obligation, or APBO, as of December 22, 2005, which resulted in an increase in the APBO of \$168 million. The increase in APBO will offset the remaining unamortized negative prior service cost of the 2002 and 2004 plan amendments and will increase retiree medical expense over the average remaining service period associated with the original plan amendments of approximately 10 years. In addition, the increase in APBO will result in higher interest cost, a component of retiree medical expense, of approximately \$9 million. For accounting purposes, we began recording the impact of the injunction in March 2006, 90 days from the December 22, 2005 measurement date, which is consistent with the 90-day lag between our normal plan measurement date of June 30 and our fiscal year-end. The injunction did not have a significant impact on our results of operations for the six months ended March 31, 2006. We expect our retiree medical expense to increase by approximately \$13 million in fiscal year 2006 and retiree medical benefit payments to increase by approximately \$10 million in fiscal year 2006 compared to previous estimates included in our Annual Report on Form 10-K for the year ended September 30, 2005.

Although we continue to believe we have meritorious defenses to these actions and plan to defend these suits vigorously, the ultimate outcome of these three class action lawsuits may result in future plan amendments. We cannot estimate the impact of any future plan amendments.

Risks Related To The Notes And Our Common Stock

The notes are unsecured and are subordinated to all of our existing and future secured indebtedness, and will be effectively subordinated to the liabilities of our subsidiaries that are not guarantors of the notes.

The notes are our senior, unsecured obligations and rank equally in right of payment with our existing and future senior unsecured indebtedness, and junior to any of our existing and future secured indebtedness to the extent of the security therefor. Although the notes are guaranteed by certain of our subsidiaries, the notes are effectively subordinated to all indebtedness and other liabilities of our subsidiaries that are not guarantors of the notes. The indenture for the notes does not prohibit us or limit any of our subsidiaries from incurring any indebtedness or other liabilities. In the event of a bankruptcy, liquidation or dissolution of a subsidiary, following payment by the subsidiary of its liabilities, the subsidiary may not have sufficient assets to make payments to us.

The value of our common stock may be adversely affected by market volatility.

The trading price of our common stock may fluctuate significantly and may be influenced by many factors, including:

our operating and financial performance and prospects;

our ability to repay our debt;

the depth and liquidity of the market for our common stock;

investor perception of us and the industry and markets in which we operate;

the level of research coverage of our common stock;

changes in earnings estimates or buy/sell recommendations by analysts;

general financial, domestic, international, economic and other market conditions; and

judgments favorable or adverse to us.

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In addition, the price of our common stock also could be affected by possible sales of our common stock by investors who view the notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that we expect to develop involving our common stock. The hedging or arbitrage could, in turn, affect the trading prices of the notes. In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These fluctuations may adversely affect the price of our common stock, regardless of our operating performance. Furthermore, stockholders may initiate securities class action lawsuits if the market price of our stock drops significantly, which may cause us to incur substantial costs and could divert the time and attention of our management.

These factors, among others, could significantly depress the trading price of the notes and the price of any common stock issued upon conversion of the notes.

We have made only limited covenants in the indenture for the notes, and these limited covenants may not protect your investment.

The indenture for the notes does not:

require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flows or liquidity and, accordingly, does not protect holders of the notes in the event that we incur operating losses;

limit our subsidiaries' ability to incur secured indebtedness or indebtedness which would effectively rank senior to the notes;

limit our ability to incur any indebtedness, including secured debt and any debt that is equal in right of payment to the notes;

restrict our subsidiaries' ability to issue securities that would be senior to the common stock of our subsidiaries held by us;

restrict our ability to repurchase our securities;

except as described under "Description of the notes - Certain covenants", restrict our ability to pledge or, except as described under "Description of the Notes - Consolidation, Merger and Sale of Assets", restrict our ability to sell, our assets or those of our subsidiaries; or

restrict our ability to make investments or to pay dividends or make other payments in respect of our common stock or other securities ranking junior to the notes.

We may not have the ability to repurchase the notes for cash pursuant to their terms or to pay the amounts due upon conversion of the notes when required.

In certain circumstances, you may require us to repurchase all or a portion of your notes for cash. In addition, upon conversion of the notes, we will be obligated to satisfy all or a substantial portion of our conversion obligation in cash. If you were to require us to repurchase your notes, including following a fundamental change, or at your option on March 1, 2016, 2018, 2020, 2022 or 2024, or if you were to convert your notes, we cannot assure you that we will be able to pay the amount required in cash. Our ability to repurchase the notes or to pay cash upon conversion of the notes is subject to our liquidity position at the time, and may be limited by law, by the indenture, and by indebtedness and agreements that we may enter into in the future which may replace, supplement or amend our existing or future debt. If we did not have sufficient cash to meet our obligations, while we could seek to obtain third-party financing to pay for any amounts due in cash upon such events, we cannot be sure that such third-party financing will be available on commercially reasonable terms, if at all. Our failure to repurchase the notes or make the required payments upon conversion would constitute an event of default under the indenture relating to the notes, which might constitute an event of default under the terms of our other indebtedness at that time.

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You may not be able to convert your notes until March 1, 2024, and the value of the notes could be less than the value of the common stock underlying your notes.

Until March 1, 2024 the notes are convertible only if specified conditions are met. These conditions may not be met. If these conditions for conversion are not met, you will not be able to convert your notes until March 1, 2024 and you may not be able to receive the value of common stock underlying your notes. See Description of the notes Conversion rights Conditions for conversion . In addition, the trading price of the notes could be substantially less than the conversion value of the notes.

Fluctuations in the price of our common stock may prevent you from being able to convert the notes and may impact the price of the notes and make them more difficult to resell.

Your ability to convert the notes will be conditioned on the closing price of our common stock reaching a specified threshold or the occurrence of certain other events, such as a fundamental change. If the closing price threshold for conversion of the notes is satisfied during a calendar quarter, you may convert the notes only during the subsequent calendar quarter. If such closing price threshold is not satisfied and the other specified events that would permit you to convert your notes do not occur, you will not be able to convert your notes until March 1, 2024 and receive the cash and shares of our common stock, if any, issuable upon conversion.

Because the notes will be convertible into cash based on the value of our common stock and shares of our common stock, if any, volatility or depressed prices for our common stock could have a similar effect on the trading price of the notes and could limit the value that you receive upon conversion of the notes. Holders who receive common stock upon conversion of the notes will also be subject to the risk of volatility and depressed prices of our common stock.

The increase in the conversion rate applicable to the notes that are converted in connection with make-whole fundamental changes may not adequately compensate you for the lost option time value of your notes as a result of that make-whole fundamental change.

If certain make-whole fundamental changes occur before March 1, 2016, we will increase the conversion rate applicable to the notes that are converted in connection with such make-whole fundamental change. The amount of the increase depends on the date on which the make-whole fundamental change becomes effective and the price paid per share of our common stock in the transaction constituting the make-whole fundamental change or the price per share of our common stock immediately prior to such transaction (which we refer to as the applicable price), as the case may be. See Description of the notes Conversion rights Adjustment to the conversion rate upon make-whole fundamental changes . Although this adjustment to the conversion rate is designed to compensate you for the lost option value of your notes as a result of the make-whole fundamental change, the amount of the adjustment is only an approximation of such lost value and may not adequately compensate you for the loss. In addition, if (i) the relevant make-whole fundamental change occurs on or after March 1, 2016, (ii) the applicable price is less than \$15.54 per share or greater than \$65.00 per share (in each case, subject to adjustment), (iii) we elect, in the case of a public acquiror fundamental change , to change the conversion right in lieu of increasing the conversion rate, or (iv) the adjustment would lead to an increase in the conversion rate to more than 64.35 shares of our common stock (subject to adjustment), then no increase in the conversion rate will occur, or (in the case of clause (iv)) such increase will be limited.

In addition, our obligation to increase the conversion rate in conjunction with a make-whole fundamental change could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness of economic remedies.

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Your right to require us to repurchase your notes upon a fundamental change may not protect you upon the occurrence of certain events that might adversely affect our financial condition or business operations.

The term fundamental change is limited to certain specified transactions and does not include other events that might adversely affect our financial condition or business operations. The provisions of the indenture which require us to repurchase notes tendered to us by holders of the notes upon the occurrence of such a fundamental change as described above would not necessarily protect holders of the notes if highly leveraged or other transactions involving us occur that may affect holders adversely. We could, in the future, enter into certain transactions, including certain recapitalizations, that would not constitute a fundamental change with respect to the fundamental change repurchase feature of the notes but that would increase the amount of our (or our subsidiaries) outstanding indebtedness.

The conversion rate of the notes may not be adjusted for all dilutive events.

The conversion rate of the notes will be subject to adjustment for certain events, including, among others, the issuance of stock dividends on our common stock, the issuance of rights or warrants to acquire shares of our common stock or securities convertible into shares of our common stock, subdivisions and combinations of our common stock, dividends of our capital stock, certain cash dividends and certain tender or exchange offers. The conversion rate will not be adjusted for other events, such as an issuance of shares of common stock for cash, that may adversely affect the trading price of the notes or our common stock. We cannot assure you that an event that adversely affects the value of the notes, but does not result in an adjustment to the conversion rate, will not occur.

If you hold notes, you are not entitled to any rights with respect to our common stock, but you are subject to all changes made with respect to our common stock.

If you hold notes, you are not entitled to any rights with respect to our common stock, including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock, but you are subject to all changes affecting the common stock. You will only be entitled to rights on the common stock if and when we deliver shares of common stock to you in exchange for your notes and in limited cases under the anti-dilution adjustments of the notes. For example, in the event that an amendment is proposed to our restated articles of incorporation requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to delivery of the common stock, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock.

An active trading market for the notes may not develop, and you may not be able to sell your notes at attractive prices or at all.

The notes are a new issue of securities for which there was no public market, and no active trading market might ever develop. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the price, and volatility in the price, of shares of our common stock, our performance and other factors. In addition, we do not know whether an active trading market will develop for the notes. To the extent that an active trading market does not develop, the liquidity and trading prices for the notes may be harmed.

We have no plans to list the notes on a securities exchange. We were advised by the initial purchasers that they intended to make a market in the notes. However, the initial purchasers are not obligated to do so. Any market-making activity, if initiated, may be discontinued at any time, for any reason or for no reason, without notice. If the initial purchasers cease to act as market makers for the notes, we cannot assure you that another firm or person will make a market in the notes.

The liquidity of any market for the notes will depend upon the number of holders of the notes, our results of operations and financial condition, the market for similar securities, the interest of securities dealers in making a market in the notes and other factors. An active or liquid trading market for the notes may not develop.

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An adverse credit rating of the notes may cause their trading prices to fall.

If a credit rating agency rates the notes, it may assign a rating that is lower than investors' expectations. Credit rating agencies also may lower ratings on the notes in the future. If a credit rating agency assigns a lower-than-expected rating or reduces, or indicates that it may reduce, its rating in the future, the trading price of the notes could significantly decline. See **Risks Related to Our Business** Our ability to access the capital markets, and our cost of capital, depends in part on our credit ratings .

Future sales or issuances of common stock or the issuance of securities senior to our common stock may depress the trading price of our common stock and the notes.

Any future issuance of equity securities by us, including the issuance of shares upon conversion of the notes, could dilute the interests of our existing stockholders, including holders who have received shares upon conversion of their notes, and could substantially decrease the trading price of our common stock and the notes. We may issue equity securities in the future for a number of reasons, including to finance our operations and business strategy, to adjust our ratio of debt to equity, to satisfy our obligations upon the exercise of warrants or options, or upon conversion of preferred stock or debentures, if any, or for other reasons. As of April 30, 2006, there were outstanding options to acquire approximately 4.8 million shares of our common stock.

Upon conversion of the notes, you may receive less proceeds than expected because the value of our common stock may decline after you exercise your conversion rights.

The conversion value that you will receive on conversion of your notes will in part be determined by the volume weighted average price of our common stock for a 10 trading day period following conversion. Accordingly, if the price of our common stock decreases after you tender your notes for conversion, the conversion value you will receive may be adversely affected, and if the price at the end of such period is below the average, the value of any shares delivered may be less than the conversion value. See **Description of the notes** Conversion rights .

Provisions in our organizational documents and rights agreement and Indiana law may make it difficult for someone to acquire control of us.

We have established certain anti-takeover measures that may affect our common stock and the notes. Our restated articles of incorporation, our by-laws, our rights agreement with The Bank of New York (as successor to Equiserve Trust Company, N.A.) as rights agent, dated as of July 2, 2000, and the Indiana Business Corporation Law contain several provisions that would make more difficult an acquisition of control of us in a transaction not approved by our board of directors. These provisions include:

the division of our board of directors into three classes to be elected on a staggered basis, one class each year;

the ability of our board of directors to issue shares of our preferred stock in one or more series without further authorization of our shareholders;

a requirement that any action by written consent of shareholders be unanimous;

a requirement that shareholders provide advance notice of any shareholder nominations of directors or any proposal of new business to be considered at any meeting of shareholders;

a requirement that a supermajority vote be obtained to remove a director for cause or to amend or repeal certain provisions of our restated articles of incorporation or by-laws;

elimination of the right of shareholders to call a special meeting of shareholders; and

a fair price provision.

Our rights agreement gives our shareholders certain rights that would substantially increase the cost of acquiring us in a transaction not approved by our board of directors.

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The repurchase rights and the increased conversion rate triggered by a make-whole fundamental change could discourage a potential acquiror.

The repurchase rights in the notes triggered by a fundamental change, as described under the heading Description of the notes Holders may require us to repurchase their notes upon a fundamental change , and the increased conversion rate triggered by a make-whole fundamental change, as described under the heading Description of the notes Conversion rights Adjustment to the conversion rate upon makewhole fundamental changes , could discourage a potential acquiror.

You may be deemed to receive a constructive distribution taxable to you, regardless of whether you convert the notes into our common shares.

The conversion rate of the notes is subject to adjustment under certain circumstances. Certain adjustments to (or the failure to make such adjustments to) the conversion rate of the notes may result in a taxable constructive distribution to you, regardless of whether you ever convert the notes into cash or shares of our common stock, if any. For example, an increase in the conversion rate as a result of the payment of a cash dividend or cash distribution to our shareholders will result in a constructive distribution to you. This constructive distribution will be taxable as a dividend, return of capital, or capital gain in accordance with the rules under the Internal Revenue Code of 1986, as amended, or the Code, governing corporate distributions. See Material U.S. federal tax considerations U.S. holders Constructive Distributions and Non-U.S. holders Dividends and Constructive Dividends .

FORWARD-LOOKING STATEMENTS

This prospectus and the documents that we incorporate by reference may contain statements relating to our future results (including certain projections and business trends) that are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as believe , expect , anticipate , estimate , should , are likely to be , will and similar expressions. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to:

global economic and market cycles and conditions;

the demand for commercial, specialty and light vehicles for which we supply products;

risks inherent in operating abroad (including foreign currency exchange rates and potential disruption of production and supply due to terrorist attacks or acts of aggression);

the availability and cost of raw materials, including steel;

OEM program delays;

demand for and market acceptance of new and existing products;

successful development of new products;

reliance on major OEM customers;

labor relations of ours, our suppliers and our customers, including potential disruptions in supply of parts to our facilities or demand for our products due to work stoppages;

the financial condition of our suppliers and customers, including potential bankruptcies;

possible adverse effects of any future suspension of normal trade credit terms by our suppliers;

potential difficulties competing with companies that have avoided their existing contracts in bankruptcy and reorganization proceedings;

successful integration of acquired or merged businesses;

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the ability to achieve the expected annual savings and synergies from past and future business combinations and the ability to achieve the expected benefits of restructuring actions;

success and timing of potential divestitures;

potential impairment of long-lived assets, including goodwill;

competitive product and pricing pressures;

the amount of our debt;

our ability to continue to comply with covenants in our financing agreements;

our ability to access capital markets;

the credit ratings of our debt;

the outcome of existing and any future legal proceedings, including any litigation with respect to environmental or asbestos-related matters;

rising costs of pension and other post-retirement benefits and possible changes in pension and other accounting rules;

as well as other risks and uncertainties, including but not limited to those detailed herein and from time to time in our other filings with the SEC. These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale by any selling securityholder of the notes or common stock issuable upon conversion of the notes. All proceeds will be for the accounts of the selling securityholders, as described in the section below entitled *Selling Securityholders and Plan of Distribution*.

PRICE RANGE OF COMMON STOCK

Our common stock is quoted on the New York Stock Exchange under the symbol *ARM*. The following table lists the high and low per share sale prices of our common stock as reported on the New York Stock Exchange for the periods indicated.

	High	Low
Fiscal year ended October 3, 2004:		
First quarter	\$ 23.97	\$ 16.45
Second quarter	\$ 26.24	\$ 18.48
Third quarter	\$ 22.10	\$ 17.58
Fourth quarter	\$ 20.32	\$ 18.03
Fiscal year ended October 2, 2005:		
First quarter	\$ 22.83	\$ 16.25
Second quarter	\$ 22.62	\$ 15.15
Third quarter	\$ 19.92	\$ 11.74
Fourth quarter	\$ 20.22	\$ 15.70
Fiscal year ending October 1, 2006:		
First quarter	\$ 17.28	\$ 12.67

Second quarter	\$	17.68	\$ 13.21
Third quarter (through May 22, 2006)	\$	17.90	\$ 14.52

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On May 22, 2006 the last sale price of our common stock as reported on the New York Stock Exchange was \$15.80 per share.

DIVIDEND POLICY

We paid quarterly cash dividends of \$0.10 per share on our common stock in each quarter of the last three fiscal years and in each of the fiscal quarters ended January 1, 2006 and April 2, 2006. The declaration and payment of dividends on our common stock is subject to the discretion of our board of directors.

CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our consolidated ratio of earnings to fixed charges for each of the periods indicated.

	Fiscal Year Ended September 30,					Six Months Ended March 31, 2006
	2001	2002	2003	2004	2005	
Ratio of earnings to fixed charges	1.18	2.53	2.41	2.41	1.48	1.63

For purposes of this table: Earnings are defined as pre-tax income from continuing operations adjusted for undistributed earnings of less than majority owned subsidiaries and fixed charges excluding capitalized interest. Fixed charges are defined as interest on borrowings (whether expensed or capitalized), the portion of rental expense applicable to interest, and amortization of debt issuance costs.

DESCRIPTION OF THE NOTES

We issued the notes under an indenture, dated as of March 7, 2006, between us and BNY Midwest Trust Company, as trustee. The following summary of the terms of the notes, the indenture and the registration rights agreement does not purport to be complete and is subject, and qualified in its entirety by reference, to the detailed provisions of the notes, the indenture and the registration rights agreement. The indenture and the registration rights agreement are filed as exhibits to the registration statement of which this prospectus is a part. We will provide copies of the indenture and the registration rights agreement to you upon request, and they are also available for inspection at the office of the trustee. Those documents, and not this description, define your legal rights as a holder of the notes.

For purposes of this summary, the terms ArvinMeritor, we, us and our refer only to ArvinMeritor, Inc. and not any of its subsidiaries, unless we specify otherwise. Unless the context requires otherwise, the term interest includes additional interest and references to dollars mean U.S. dollars.

General

The notes:

are limited to \$300,000,000 aggregate principal amount;

pay cash interest at a rate of 4.625% per annum, from March 7, 2006 through March 1, 2016; interest will be payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2006, to holders of record at the close of business on the preceding February 15 and August 15, respectively, through March 1, 2016;

will not pay cash interest after March 1, 2016; after March 1, 2016, the principal amount of the notes will be subject to accretion at a rate that provides holders with an aggregate annual yield to maturity of 4.625% (computed on a semi-annual bond equivalent yield basis);

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will pay additional interest in cash if we fail to comply with obligations as described under **Registration Rights** ;

are issued in denominations of \$1,000 initial principal amount and integral multiples of \$1,000 initial principal amount in excess thereof without coupons;

are guaranteed by certain of our subsidiaries;

are senior unsecured obligations of ArvinMeritor; the notes rank equally in right of payment with our existing and future senior unsecured indebtedness, and junior to any of our existing and future secured indebtedness to the extent of the security therefor; as indebtedness of ArvinMeritor, the notes are effectively subordinated to all indebtedness and other liabilities of our subsidiaries that are not guarantors of the notes;

are convertible upon the occurrence of certain events, into the consideration described below under **Conversion rights** Payment upon conversion at an initial conversion rate equivalent to 47.6667 shares of our common stock per \$1,000 initial principal amount of notes (which represents an initial conversion price of approximately \$20.98 per share), subject to adjustments, as described under **Conversion rights** and with no change in the conversion rate for any accretion of the principal amount of the notes on or after March 1, 2016;

are redeemable, in whole or in part, by us at any time on or after March 1, 2016, at a redemption price in cash equal to 100% of the accreted principal amount of the notes we redeem, plus accrued and unpaid interest to, but excluding, the redemption date, as described under **Redemption of notes at our option** ;

are subject to purchase by us at the option of the holder on each of March 1, 2016, March 1, 2018, March 1, 2020, March 1, 2022 and March 1, 2024, at a purchase price in cash equal to 100% of the accreted principal amount of the notes to be purchased, plus accrued and unpaid interest to, but excluding, the purchase date, as described under **Purchase of notes by us at the option of the holder** ;

are subject to repurchase by us at the option of the holder upon a fundamental change, as described under **Repurchase of notes upon a fundamental change** . Holders may require us to repurchase their notes upon a fundamental change , at a repurchase price in cash equal to 100% of the accreted principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date;

are treated as issued to holders with original issue discount for U.S. federal income tax purposes. See **Material U.S. federal tax considerations** **U.S. holders** **Accrual of Interest** ; and

mature on March 1, 2026, unless previously redeemed, purchased or repurchased by us or converted.

All cash payments on the notes will be made in U.S. dollars.

We issued the notes as global securities in book-entry form. We will make payments in respect of notes in book-entry form by wire transfer of immediately available funds to the accounts specified by holders of the notes. For a note that has been subsequently issued in certificated form, we will mail a check to the holder's registered address.

You may convert notes at the office of the conversion agent, present notes for registration of transfer at the office of the registrar for the notes and present notes for payment at maturity at the office of the paying agent. We have appointed the trustee as the initial conversion agent, registrar and paying agent for the notes.

The notes are our senior unsecured obligations and rank equally with all of our existing and future senior unsecured indebtedness. The notes are effectively subordinated to all of our existing and future secured indebtedness to the extent of the security therefor. Although the notes are guaranteed by certain

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of our subsidiaries (the guarantors), the notes are effectively subordinated to the indebtedness and other liabilities of our other subsidiaries that are not guarantors.

As of March 31, 2006, we had approximately \$725 million of outstanding indebtedness that would rank equally with the notes, including our 6.625% notes due 2007, 6.75% notes due 2008, 6.8% notes due 2009, 7.125% notes due 2009, 8.75% notes due 2012 and 8.125% notes due 2015, all of which are guaranteed by the guarantors.

We have a four year, \$900 million revolving credit facility that matures in July 2008, our obligations under which are guaranteed by the guarantors. We also have a \$250 million accounts receivable securitization arrangement. As of March 31, 2006, we had approximately \$39 million of indebtedness that would rank junior to the notes, which consisted of indebtedness under our 9.5% junior subordinated debentures. For additional information, please see Note 14 in the Notes to Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the quarter ended April 2, 2006.

We do not provide a sinking fund for the notes. The indenture does not contain any financial covenants, including financial covenants that limit our ability to incur additional indebtedness, pay dividends or repurchase our securities. In addition, the indenture does not provide any protection to holders of notes in the event of a highly leveraged transaction or a change in control, except as, and only to the limited extent, described under Conversion rights Adjustment to the conversion rate upon make-whole fundamental changes, Holders may require us to repurchase their notes upon a fundamental change and Consolidation, merger and sale of assets. The indenture contains covenants prohibiting us, in certain limited events, from (i) creating, incurring, assuming or suffering to exist any secured debt (as defined in the indenture) without equally and ratably securing the outstanding notes or (ii) entering into certain sale and lease-back transactions.

If any payment date with respect to the notes falls on a day that is not a business day, we will make the payment on the next business day. The payment made on the next business day will be treated as though it had been made on the original payment date, and no interest will accrue on the payment for the additional period of time.

Interest Payments

We will pay cash interest on the notes at a rate of 4.625% per annum, from March 7, 2006 through March 1, 2016, payable semi-annually in arrears on each March 1 and September 1 of each year, beginning on September 1, 2006. Except as described below, we will pay interest that is due on an interest payment date to holders of record at the close of business on the preceding February 15 and August 15, respectively. Interest will accrue on the notes from and including March 7, 2006 or from and including the last date in respect of which interest has been paid or provided for, as the case may be, to, but excluding, the next interest payment date. We will not pay cash interest on the notes after March 1, 2016. We will pay interest on the notes on the basis of a 360-day year of twelve 30-day months.

If a holder surrenders a note for conversion after the close of business on the record date for the payment of an installment of interest and before the related interest payment date, then, despite the conversion, we will, on the interest payment date, pay the interest due with respect to the note to the person who was the record holder of the note at the close of business on the record date. Such notes, upon surrender to us for conversion, must be accompanied by funds equal to the amount of interest payable on the notes so converted; *provided* that no such interest payment need be made to us (i) if we have specified a redemption date that is after a record date but on or prior to the next interest payment date, (ii) if we have specified a repurchase date following a fundamental change that is after a record date but on or prior to the next interest payment date, or (iii) to the extent of any overdue interest, if any overdue interest exists at the time of conversion with respect to such note.

For a description of when and to whom we must pay additional interest, if any, see Registration rights.

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Commencing on March 1, 2016, the principal amount of the notes will be subject to accretion at a rate that provides holders with an aggregate annual yield to maturity of 4.625% (computed on a semiannual bond equivalent yield basis). When we refer in this description of the notes to the accreted principal amount of notes, we mean the initial principal amount of \$1,000 at any time on or prior to March 1, 2016 and the principal amount as adjusted upwards for accretion at any time after March 1, 2016.

The following table sets forth the accreted principal amounts of the notes during the period from March 1, 2016 through the maturity date:

Accretion Date	Accreted Principal Amount
March 1, 2016	\$ 1,000.00
September 1, 2016	\$ 1,023.13
March 1, 2017	\$ 1,046.78
September 1, 2017	\$ 1,070.99
March 1, 2018	\$ 1,095.76
September 1, 2018	\$ 1,121.10
March 1, 2019	\$ 1,147.02
September 1, 2019	\$ 1,173.55
March 1, 2020	\$ 1,200.69
September 1, 2020	\$ 1,228.45
March 1, 2021	\$ 1,256.86
September 1, 2021	\$ 1,285.93
March 1, 2022	\$ 1,315.66
September 1, 2022	\$ 1,346.09
March 1, 2023	\$ 1,377.22
September 1, 2023	\$ 1,409.06
March 1, 2024	\$ 1,441.65
September 1, 2024	\$ 1,474.99
March 1, 2025	\$ 1,509.09
September 1, 2025	\$ 1,543.99
March 1, 2026	\$ 1,579.70

The accreted principal amount of a note between the dates listed above will include an amount reflecting the additional principal accretion that has accrued as of such date since the immediately preceding date in the table.

Guarantees

Each of our subsidiaries guaranteeing our \$900 million revolving credit facility guarantees the notes. These guarantees will remain in effect until the earlier to occur of payment in full of the notes or termination or release of the guarantees under our revolving credit facility. The guarantees by our subsidiaries rank equally with existing and future unsecured senior debt of such subsidiaries. The guarantees by our subsidiaries are effectively subordinated to all of the existing and future secured debt of such subsidiaries, to the extent of the value of the assets securing such debt.

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Subject to the conditions and during the periods described below, holders may convert any of their notes, in whole or in part, prior to the close of business on the business day immediately preceding the final maturity date of the notes, into cash and shares of our common stock, if any, as described below under **Payment upon conversion**, at an initial conversion rate equivalent to 47.6667 shares of common stock per \$1,000 initial principal amount of notes (and with no change in the conversion rate for any accretion of principal amount of the notes on or after March 1, 2016), subject to adjustment as described below, which represents an initial conversion price of approximately \$20.98 per share.

The applicable conversion price at any given time is equal to the accreted principal amount of a note divided by the applicable conversion rate. Because we will not adjust the conversion rate to account for any accretion in the principal amount of the notes, the applicable conversion price will increase upon any accretion to the principal amount of the notes. A holder may convert notes in part so long as such part is \$1,000 initial principal amount or an integral multiple of \$1,000. A holder that converts notes in connection with certain transactions or events that occur before March 1, 2016 will be entitled to an increase in the conversion rate as described under **Adjustment to the conversion rate upon make-whole fundamental changes**. We will not issue fractional shares of common stock upon conversion of the notes and instead will pay a cash adjustment for fractional shares based on the ten trading day volume weighted average price per share of our common stock described below. Except as described below, we will not make any payment or other adjustment on conversion with respect to any accrued interest on the notes, and we will not adjust the conversion rate to account for accrued and unpaid interest or to account for any accretion in the principal amount of the notes.

In certain circumstances, holders must pay interest upon conversion between a record date and interest payment date. See **Interest payments**.

In the event of:

a taxable distribution to holders of common stock which results in an adjustment to the conversion rate; or

an increase in the conversion rate at our discretion, the holders of the notes may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal income tax as a dividend. This generally would occur, for example, if we adjust the conversion rate to compensate holders for cash dividends on our common stock and could also occur if we make other distributions of cash or property to our stockholders. See **Material U.S. federal tax considerations U.S. holders Possible Effect of the Adjustment to Conversion Rate or Conversion of the Notes into Shares of a Public Acquiror Upon a Fundamental Change**.

Conversion procedures

To convert interests in a global note, the holder must deliver to DTC the appropriate instruction form for conversion pursuant to DTC's then applicable conversion program procedures. To convert a certificated note, the holder must:

complete and manually sign the conversion notice on the back of the note (or a facsimile thereof);

deliver the completed conversion notice and the note to be converted to the specified office of the conversion agent;

pay all funds required, if any, relating to interest on the note to be converted, as described in the second paragraph under **Interest payments**; and

pay all taxes or duties, if any, as described in the third paragraph below.

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The conversion date will be the date on which all of the foregoing requirements have been satisfied. The notes will be deemed to have been converted immediately before the close of business on the conversion date. Delivery of shares of common stock, if any, will be accomplished by delivery to the conversion agent of certificates for the required number of shares, other than in the case of holders of notes in book entry form with DTC, which shares shall be delivered in accordance with DTC's customary practices. A holder receiving shares of common stock upon conversion will not be entitled to any rights as a holder of our common stock, including, among other things, the right to vote and receive dividends and notices of stockholder meetings, until the close of business on the date on which we deliver such shares of common stock, if any, to that holder.

If a holder exercises its right to require us to purchase its notes as described under Purchase of notes by us at the option of the holder or Holders may require us to repurchase their notes upon a fundamental change, such holder may convert its notes as provided above only if it withdraws its applicable purchase notice and converts its notes before the close of business on the business day immediately preceding the applicable purchase date or fundamental change repurchase date, as the case may be.

Holders of notes are not required to pay any transfer taxes or duties relating to the issuance or delivery of our common stock, if any, upon exercise of conversion rights, but they are required to pay any transfer tax or duty that may be payable relating to any transfer involved in the issuance or delivery of such common stock in a name other than the name of the holder of the note. Certificates representing shares of our common stock, if any, will be issued or delivered only after all applicable taxes and duties, if any, payable by the holder have been paid.

Payment upon conversion

Subject to certain exceptions described below under Conditions for conversion Conversion upon the occurrence of certain corporate transactions and Conditions for conversion Conversion upon the occurrence of a fundamental change, once notes are tendered for conversion, holders tendering the notes will be entitled to receive, per \$1,000 initial principal amount of the notes (whether or not the principal amount thereof has accreted), cash and, if applicable, shares of our common stock, the aggregate value of which (the conversion value) will be equal to the product of (1) the conversion rate in effect on the conversion date, and (2) the average of the daily volume weighted average price of our common stock for each of the ten consecutive trading days (appropriately adjusted to take into account the occurrence during such period of stock splits and similar events) beginning on the third trading day immediately following the day the notes are tendered for conversion (the ten day average price).

The volume weighted average price per share of our common stock on any trading day will be the volume weighted average price on The New York Stock Exchange or, if our common stock is not listed on The New York Stock Exchange, on the Nasdaq or on the principal exchange or over-the-counter market on which our common stock is then listed or traded, from 9:30 a.m. to 4:00 p.m. (New York City time) on that trading day as displayed on Bloomberg Page ARM <Equity> AQR (or any successor thereto), or if such volume weighted average price is not available, then the volume weighted average price will be the market value per share of our common stock on such day as determined by a nationally recognized independent investment banking firm retained for this purpose by us.

Subject to certain exceptions described under Conditions for conversion Conversion upon the occurrence of certain corporate transactions and Conditions for conversion Conversion upon the occurrence of a fundamental change, we will deliver the conversion value of the notes surrendered for conversion to converting holders as follows: an amount in cash (the principal return) equal to the lesser of (a) the conversion value of the notes to be converted and (b) the accreted principal amount of the notes to be converted;

if the conversion value of the notes to be converted is greater than the accreted principal amount of such notes, at our election, (a) cash equal to the difference between the conversion value of the

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notes to be converted and the accreted principal amount of such notes (such difference, the net share amount for such conversion), (b) a number of whole shares of our common stock (the net shares) equal to the net share amount, *divided by* the ten day average price or (c) a combination thereof; and

an amount in cash in lieu of any fractional shares of common stock.

If we choose to satisfy any portion of the net share amount for any conversion in cash, we will notify you through the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of the net share amount or as a fixed dollar amount (any such fixed dollar amount, the specified cash amount)) at any time on or before the date that is two trading days following receipt of your notice of conversion.

If the conversion value of the notes to be converted is greater than the accreted principal amount of such notes and:

(1) we elect to deliver solely shares of our common stock to satisfy the net share amount for any conversion, the number of net shares to be delivered will be determined by dividing such portion of the net share amount for such conversion by the ten day average price of our common stock;

(2) we elect to pay solely cash to satisfy the net share amount for any conversion, in addition to the principal return, we will pay cash to converting holders in an amount equal to the net share amount for such conversion; and

(3) we elect to satisfy some but not all of the net share amount for any conversion in cash, (a) we will pay to converting holders cash in an amount equal to the lesser of (x) the net share amount for such conversion and (y) the specified cash amount, and (b) we will deliver to converting holders a number of shares of our common stock equal to the greater of (i) zero and (ii) (A) the net share amount for such conversion, *minus* the specified cash amount, *divided by* (B) the ten day average price of our common stock.

Any cash payment for fractional shares also will be based on the ten day average price of our common stock.

The conversion value, principal return, net share amount (if applicable), the number of shares of our common stock, if any, due upon conversion and the aggregate amount of cash payable in connection with any conversion will be determined by us at the end of the ten consecutive trading day period beginning on the third trading day immediately following the day the notes are tendered for conversion (the determination date). We will pay any cash due upon conversion (including the principal return, any cash in respect of the net share amount and cash in lieu of fractional shares) and deliver the shares of our common stock, if any, due upon conversion as promptly as practicable after the determination date, but in no event later than three business days thereafter.

Because the amount of cash, and the number of shares of our common stock, if any, that we deliver upon conversion will be calculated based on the average volume weighted average price of our common stock over a ten trading-day period beginning on the third trading day immediately following the date the notes are tendered for conversion, holders of notes bear the market risk that our common stock will decline in value between the conversion date and the day we deliver cash and shares of our common stock, if any, upon conversion.

Trading day for any security means (x) if the applicable security is listed or admitted for trading on The New York Stock Exchange or another national or regional securities exchange, a day on which The New York Stock Exchange or such other national or regional securities exchange is open for business, or (y) if the applicable security is quoted on Nasdaq at a time when the Nasdaq is not a U.S. national securities exchange, a day on which trades may be made thereon, or (z) if the applicable security is not so listed, admitted for trading or quoted, any day other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

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Delivery of the principal return, cash in respect of the net share amount, if any, the shares of our common stock, if any, due upon conversion and cash in lieu of fractional shares, if any, upon conversion of the notes will be deemed to satisfy our obligation to pay the accreted principal amount of such notes. As a result, accrued but unpaid interest, if any, and accretion of principal, if any, to the conversion date is deemed to be paid in full rather than cancelled, extinguished or forfeited. For a discussion of your tax treatment upon receipt of any cash or shares of our common stock upon conversion, see *Material U.S. federal tax considerations* .

Conditions for conversion

The notes will become convertible only in certain circumstances, which we describe below. If the notes become convertible, we will provide written notice to each holder and to the conversion agent for the benefit of the holders, and we will publicly announce, that the notes have become convertible, stating:

the event causing the notes to become convertible;

the time period during which the notes will be convertible as a result of that event;

whether an adjustment to the conversion rate, as described under *Adjustment to the conversion rate upon make-whole fundamental changes* will take effect in connection with that event or whether we have elected to change the conversion right, as described under *Adjustment to the conversion rate upon make-whole fundamental changes* *Conversion after a public acquiror fundamental change* ; and

the procedures holders must follow to convert their notes, including the name and address of the conversion agent.

We will make this public announcement as soon as practicable.

Holders may surrender their notes for conversion prior to the close of business on the business day immediately preceding the maturity date or earlier redemption, purchase or repurchase only in the following circumstances:

Conversion based on price of common stock

Prior to March 1, 2024 or earlier redemption, purchase, or repurchase, holders may surrender their notes for conversion during any calendar quarter (and only during that calendar quarter) after the calendar quarter ending June 30, 2006, if the closing sale price of our common stock for each of 20 or more trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter. We will make appropriate adjustments, in good faith, to account for any adjustment to the conversion rate that becomes effective, or any event requiring an adjustment to the conversion rate where the ex date of the event occurs, during that 30 consecutive trading day period.

The closing sale price of our common stock on any date means, as determined by us, the closing sale price per share (or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on that date as reported in composite transactions for the principal U.S. national or regional securities exchange on which our common stock is listed for trading or quoted or, if our common stock is not listed for trading or quoted on a U.S. national or regional securities exchange and the Nasdaq Market is not a U.S. national securities exchange, as reported by the Nasdaq Market. If our common stock is not listed for trading on a U.S. national or regional securities exchange and not reported by the Nasdaq Market (at a time when the Nasdaq Market is not a U.S. national securities exchange) on the relevant date, the closing sale price will be the last quoted bid price for our common stock in the over-the-counter market on the relevant date as reported by the National Quotation Bureau or similar organization. If our common stock is not so quoted, the closing sale price will be the average of the mid-point of the last bid and ask prices for our

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common stock on the relevant date from each of at least three nationally recognized independent investment banking firms selected by us for this purpose.

Because we will not adjust the conversion rate to account for any accretion in the principal amount of the notes, the applicable conversion price will increase upon any accretion to the principal amount of the notes.

Conversion upon satisfaction of the trading price condition

Prior to March 1, 2024 or earlier redemption, purchase or repurchase, holders may surrender their notes for conversion during the five business day period after any five consecutive trading day period, or the note measurement period, in which the average trading price per \$1,000 initial principal amount of notes over the note measurement period, as determined following a request by a holder of notes in accordance with the procedures described below, was equal to or less than 97% of the average conversion value of the notes during the note measurement period. We refer to this condition as the trading price condition .

For purposes of the trading price condition, the conversion value per \$1,000 initial principal amount of notes on a trading day is the product of the closing sale price per share of our common stock and the conversion rate of the notes in effect on that trading day.

Except as described below, the trading price of the notes on any day means the average secondary market bid quotations obtained by the bid solicitation agent for \$5,000,000 initial principal amount of notes at approximately 4:00 p.m., New York City time, on such day from three independent nationally recognized securities dealers we select. However, if the bid solicitation agent can reasonably obtain only two such bids, then the average of the two bids will be used instead, and if the bid solicitation agent can reasonably obtain only one such bid, then that one bid will be used. Even still, if on a given day:

the bid solicitation agent cannot reasonably obtain at least one bid for \$5,000,000 initial principal amount of notes from one of the independent nationally recognized securities dealers; or

in our reasonable, good faith judgment, the bid quotation or quotations that the bid solicitation agent has obtained are not indicative of the secondary market value of the notes, then the trading price per \$1,000 initial principal amount of notes will be deemed to be equal to 97% of the product of the closing sale price of our common stock on that day and the conversion rate then in effect.

The bid solicitation agent will have no obligation to determine the trading price of the notes unless we have requested it to do so, and we will have no obligation to make such request unless a holder provides us with reasonable evidence that the trading price per \$1,000 initial principal amount of notes would be equal to or less than 97% of the conversion value of the notes. At such time, we will instruct the bid solicitation agent to determine the trading price of the notes for each of the next five trading days and on each following trading day until the trading price condition is no longer satisfied.

Conversion based on redemption

Prior to March 1, 2024, if we call a note for redemption, the holder of that note may surrender it for conversion at any time before the close of business on the business day immediately preceding the redemption date.

Conversion upon the occurrence of certain corporate transactions

If, prior to March 1, 2024, we elect to:

distribute to all holders of our common stock rights, warrants or options entitling them, for a period expiring within 60 days of the record date for such distribution, to purchase or subscribe for shares

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of our common stock at a price less than the current market price of our common stock on the declaration date for such distribution; or

distribute to all holders of our common stock, assets, debt securities or certain rights to purchase our securities, which distribution has a per share value exceeding 10% of the closing sale price of our common stock on the day preceding the declaration date for such distribution;

we must notify the holders of notes at least 20 days prior to the ex-dividend date for such distribution. Once we have given such notice, holders may surrender their notes for conversion at any time until the earlier of the close of business on the business day prior to the ex-dividend date (or, in the case of a spin-off (as such term is defined below under Adjustments to the conversion rate), the sixteenth trading day immediately following, and including, the ex-dividend date for such spin-off) or any announcement by us that such distribution will not take place, even if the notes are not otherwise convertible at such time. No holder may exercise this right to convert if the holder otherwise will participate in the distribution without conversion. The ex-dividend date is the first date on which a sale of the common stock does not automatically transfer the right to receive the relevant distribution from the seller of the common stock to its buyer.

In addition, if we are party to a consolidation, merger or binding share exchange pursuant to which our common stock would be converted into cash, securities or other property, a holder may surrender its notes for conversion at any time from and after the date that is 15 business days prior to the anticipated effective date of the transaction until 15 business days after the actual effective date of such transaction, unless the transaction occurs prior to March 1, 2016 and also constitutes a make-whole fundamental change (as such term is defined in the second immediately succeeding paragraph), in which case the notes will be convertible as described in such paragraph. We must give notice to all record holders and to the trustee at least 15 business days prior to the anticipated effective date of any such transaction. If we are a party to a consolidation, merger or binding share exchange pursuant to which our common stock is converted into cash, securities or other property (regardless of whether the transaction constitutes a change in control), then after the effective date of the transaction, the conversion value and the net share amount, as defined above, will be calculated with respect to the kind and amount of cash, securities or other property that a holder would have received in such transaction if such holder had owned a number of shares of our common stock equal to the conversion rate and the net shares, if any, will be paid in the kind and amount of such cash, securities or other property. If the transaction also constitutes a fundamental change, as defined below under Holders may require us to repurchase their notes upon a fundamental change , the holder can require us to repurchase all or a portion of its notes as described thereunder.

Conversion upon the occurrence of a fundamental change

We must give notice to all record holders and to the trustee at least 15 business days prior to the anticipated effective date of any fundamental change (in the case of the third bullet in the definition of change of control , on or prior to March 1, 2016, without regard to the exception set forth in the first sub-bullet under such third bullet relating to entitlement to exercise 50% or more of the total voting power of the surviving or continuing corporation s voting stock) occurring prior to the maturity date. Prior to March 1, 2024, you may surrender your notes for conversion at any time during the period from the effective date of any such transaction or event to the close of business on the business day immediately preceding the fundamental change repurchase date corresponding to such fundamental change (or, in the case of a make-whole fundamental change that does not constitute a fundamental change solely by virtue of the first sub-bullet under the third bullet of the definition of change in control relating to beneficial ownership of the surviving or continuing corporation s voting stock, 40 calendar days after the date on which such make-whole fundamental change is effective).

If you convert your notes in connection with any fundamental change described under the second bullet or the third bullet point (in the case of the third bullet, without regard to the exception set forth in the first sub-bullet under such third bullet relating to entitlement to exercise 50% or more of the total

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voting power of the surviving or continuing corporation's voting stock) of the definition of "change in control" under the indenture. If such make-whole fundamental change also constitutes a public acquiror fundamental change, then we may, in certain circumstances, elect to change the conversion right in the manner described under "Adjustment to the conversion rate upon make-whole fundamental changes" in lieu of increasing the conversion rate as described in the preceding sentence. Following the effective date of a make-whole fundamental change, the conversion value and the net share amount will be calculated with respect to the kind and amount of cash, securities or other property that a holder would have received in such make-whole fundamental change if such holder had owned a number of shares of our common stock equal to the conversion rate and the net share amount will be paid in the kind and amount of such cash, securities or other property.

Conversion on or after March 1, 2024

Holders may surrender their notes for conversion at any time on or after March 1, 2024.

Adjustments to the conversion rate

Subject to the terms of the indenture, we will adjust the conversion rate for:

(1) dividends or distributions on our common stock payable in shares of our common stock;

(2) subdivisions, combinations or certain reclassifications of our common stock;

(3) distributions to all holders of our common stock of rights, warrants or options entitling them, for a period expiring within 60 days of the record date for such distribution, to purchase or subscribe for shares of our common stock at a price per share that is less than the current market price of our common stock on the declaration date for such distribution;

(4) dividends or other distributions to all holders of our common stock of shares of our capital stock (other than our common stock), evidences of indebtedness or other assets (other than cash dividends or distributions) or the dividend or distribution to all holders of our common stock of certain rights or warrants (other than those covered in clause (3) above or, as described below, certain rights or warrants distributed pursuant to a stockholder rights plan) to purchase or subscribe for our securities;

In the event that we distribute capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, then the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of our common stock, in each case based on the average closing sales price of those securities for the ten trading days commencing on and including the fifth trading day after the date on which ex-dividend trading commences for such distribution on The New York Stock Exchange, Nasdaq National Market or such other principal national or regional exchange, market or quotation system on which the securities are then listed or quoted;

(5) distributions consisting exclusively of cash to all holders of our common stock (excluding any dividend or distribution in connection with our liquidation, dissolution or winding up or any quarterly cash dividend on our common stock to the extent that the aggregate cash dividend per share of our common stock in any quarter does not exceed \$0.10) (\$0.10 being the dividend threshold amount); the dividend threshold amount is subject to

adjustment in a manner inversely proportional to adjustments to the conversion rate, *provided* that no adjustment will be made to the dividend threshold amount for any adjustment made to the conversion rate under this clause (5);

&ns within 60 days.

- (7) Includes 7,400 shares awarded to Mr. Heh pursuant to the Company's equity compensation plans which have not yet vested, but as to which he may provide voting recommendations. Includes 30,132 shares which may be acquired by exercising stock options within 60 days.
- (8) Includes 44,025 shares awarded to all directors and executive officers as a group pursuant to the Company's equity compensation plans which have not yet vested, but as to which they may provide voting recommendations. Includes 216,578 shares which may be acquired by exercising stock options within 60 days.

MISCELLANEOUS

The Company will pay the cost of this proxy solicitation. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of the Company's common stock. Directors, officers and regular employees of the Company may also solicit proxies personally or by telephone and will not receive additional compensation for these activities.

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SHAREHOLDER PROPOSALS

If a shareholder desires to have a proposal included in the Company's proxy statement and form of proxy for the 2008 annual meeting of shareholders, the proposal must conform to the requirements of Exchange Act Rule 14a-8 and other applicable proxy rules and interpretations of the Securities and Exchange Commission concerning the submission and content of proposals and must be received by the Company, at 2923 Smith Road, Fairlawn, Ohio 44333, prior to the close of business on December 19, 2007.

In order for a shareholder's proposal outside of Rule 14a-8 under the Exchange Act to be considered timely within the meaning of Exchange Act Rule 14a-4(c), the proposal must be received by the Company at the same address not later than March 4, 2008.

Shareholder nominations for director are discussed above under the caption **CORPORATE GOVERNANCE AND NOMINATING COMMITTEE**.

A COPY OF THE FORM 10-KSB (WITHOUT EXHIBITS) FOR THE YEAR ENDED DECEMBER 31, 2006, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, WILL BE FURNISHED WITHOUT CHARGE TO SHAREHOLDERS OF RECORD UPON WRITTEN REQUEST TO THE CORPORATE SECRETARY, CENTRAL FEDERAL CORPORATION, 2923 SMITH ROAD, FAIRLAWN, OHIO 44333.

BY ORDER OF THE BOARD OF DIRECTORS

Eloise L. Mackus
Corporate Secretary

Fairlawn, Ohio
April 17, 2007

YOU ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, YOU ARE REQUESTED TO SIGN, DATE AND PROMPTLY RETURN THE ACCOMPANYING PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

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APPENDIX A

**THIRD AMENDED AND RESTATED CENTRAL FEDERAL CORPORATION
2003 EQUITY COMPENSATION PLAN**

1. DEFINITIONS

- (a) **Affiliate** means any **parent corporation** or **subsidiary corporation** of the Holding Company, as such terms are defined in Sections 424(e) and 424(f) of the Code.
- (b) **Award** means, individually or collectively, a grant under the Plan of Non-Statutory Stock Options, Incentive Stock Options, Stock Appreciation Rights and Restricted Stock Awards.
- (c) **Bank** means CFBank and includes any of its wholly owned subsidiaries.
- (d) **Board of Directors** means the board of directors of the Holding Company.
- (e) **Change in Control** means with respect to the Bank or the Holding Company, an event of a nature that:
- (i) would be required to be reported in response to Item 5.01 of the current report on Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the **Exchange Act**); or
 - (ii) results in a Change in Control of the Holding Company or the Bank within the meaning of the Home Owner's Loan Act of 1933, as amended, the Federal Deposit Insurance Act and the Rules and Regulations promulgated by the Office of Thrift Supervision (the **OTS**) (or its predecessor agency), as in effect on the date hereof (provided, that in applying the definition of change in control as set forth under the rules and regulations of the OTS, the Board shall substitute its judgment for that of the OTS); or
 - (iii) without limitation, such a Change in Control shall be deemed to have occurred at such time as:
 - (A) any **person** (as the term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the **beneficial owner** (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of voting securities of the Bank or the Holding Company representing 20% or more of the Bank's or the Holding Company's outstanding voting securities or right to acquire such securities except for any voting securities of the Bank purchased by the Holding Company and any voting securities purchased by any employee benefit plan of the Holding Company or its Subsidiaries; or
 - (B) individuals who constitute the Board on the date hereof (the **Incumbent Board**) cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by the Holding Company's stockholders was approved by a Nominating Committee solely composed of members who are Incumbent Board members, shall be, for purposes of this clause (B), considered as though he were a member of the Incumbent Board; or

- (C) a plan of reorganization, merger, consolidation, sale of all or substantially all the assets of the Bank or the Holding Company or similar transaction occurs or is effectuated in which the Bank or Holding Company is not the resulting entity; or
- (D) a proxy statement has been distributed soliciting proxies from stockholders of the Holding Company, by someone other than the current management of the Holding Company, seeking stockholder approval of a plan of reorganization, merger or consolidation of the Holding Company or Bank with one or more corporations as a result of which the outstanding shares of the class of securities then subject to such plan or

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transaction are exchanged for or converted into cash or property or securities not issued by the Bank or the Holding Company shall be distributed; or

- (E) a tender offer is made for 20% or more of the voting securities of the Bank or Holding Company then outstanding.
- (f) **Code** means the Internal Revenue Code of 1986, as amended.
- (g) **Committee** means the committee designated, pursuant to Section 4 of the Plan, to administer the Plan.
- (h) **Common Stock** means the common stock of the Holding Company, par value \$.01 per share.
- (i) **Disability** means any mental or physical condition with respect to which the Participant qualifies for and receives benefits under a long-term disability plan of the Holding Company or an Affiliate, or in the absence of such a long-term disability plan or coverage under such a plan, **Disability** shall mean a physical or mental condition which, in the sole discretion of the Committee, is reasonably expected to be of indefinite duration and to substantially prevent the Participant from fulfilling his duties or responsibilities to the Holding Company or an Affiliate. In the case of Incentive Stock Options, **Disability** has the meaning set forth in Code Section 22(e)(3).
- (j) **Effective Date** of this Third Amended and Restated Central Federal Corporation 2003 Equity Compensation Plan means May 17, 2007. The original Effective Date of the Central Federal Corporation 2003 Equity Compensation Plan, as amended herein, was April 23, 2003.
- (k) **Employee** means any person employed by the Holding Company or an Affiliate. Directors who are also employed by the Holding Company or an Affiliate shall be considered Employees under the Plan.
- (l) **Exchange Act** means the Securities Exchange Act of 1934, as amended.
- (m) **Exercise Price** means the price at which an individual may purchase a share of Common Stock pursuant to an Option.
- (n) **Fair Market Value** means the market price of Common Stock, determined by the Committee as follows:
- (i) If the Common Stock was traded on the date in question on the Nasdaq[®] Stock Market, then the Fair Market Value shall be equal to the closing price reported for such date;
 - (ii) If the Common Stock was traded on a stock exchange for the date in question, then the Fair Market Value shall be equal to the closing price reported by the applicable composite transactions report for such date; and
 - (iii) If neither of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported in *The Wall Street Journal*. The Committee's determination of Fair Market Value shall be conclusive and binding on all persons.

(o)

Holding Company means Central Federal Corporation (formerly Grand Central Financial Corp.) and any entity which succeeds to the business of Central Federal Corporation.

- (p) **Incentive Stock Option** means a stock option granted under the Plan that is intended to meet the requirements of Section 422 of the Code.
- (q) **Non-Statutory Stock Option** means a stock option granted to an individual under the Plan that is not intended to be and is not identified as an Incentive Stock Option, or a stock option granted under the Plan that is intended to be and is identified as an Incentive Stock Option, but that does not meet the requirements of Section 422 of the Code.
- (r) **Option** means an Incentive Stock Option or a Non-Statutory Stock Option.

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- (s) **Outside Director** means a member of the board(s) of directors of the Holding Company or an Affiliate who is not also an Employee of the Holding Company or an Affiliate.
- (t) **Participant** means any Employee or Outside Director who was granted an Option or Restricted Stock Award under the Plan.
- (u) **Plan** means this Third Amended and Restated Central Federal Corporation 2003 Equity Compensation Plan.
- (v) **Restricted Stock Award** means an Award of restricted stock granted to an individual pursuant to Section 7 of the Plan.
- (w) **Retirement** means retirement from employment with the Holding Company or an Affiliate in accordance with the then current retirement policies of the Holding Company or Affiliate, as applicable. **Retirement** with respect to an Outside Director means the termination of service from the board(s) of directors of the Holding Company and any Affiliate following written notice to such board(s) of directors of the Outside Director's intention to retire.
- (x) **Stock Appreciation Right** or **SAR** means a right to a payment provided in accordance with Section 7 of the Plan.
- (y) **Termination for Cause** shall mean, in the case of an Outside Director, removal from the board(s) of directors of the Holding Company and its Affiliates in accordance with the applicable by-laws of the Holding Company and its Affiliates or, in the case of an Employee, as defined under any employment agreement with the Holding Company or an Affiliate; *provided, however*, that if no employment agreement exists with respect to the Employee, Termination for Cause shall mean termination of employment because of a material loss to the Holding Company or an Affiliate, as determined by and in the sole discretion of the Board of Directors or its designee(s).

2. PURPOSE

The purpose of this Plan is to:

- (a) provide the Holding Company with the ability to continue using Common Stock as a means to attract and retain Employees and Outside Directors;
- (b) provide Participants with additional incentives to continue to work for the success of the Holding Company and its Affiliates; and
- (c) align the financial interests of Participants with the interests of the Holding Company's shareholders.

3. ELIGIBILITY

- (a) Incentive Stock Options may be granted to any individual who, at the time the Incentive Stock Option is granted, is an Employee.
- (b) Non-Qualified Stock Options may be granted to Employees and Outside Directors.

- (c) Stock Appreciation Rights may be granted to Employees and Outside Directors.
- (d) Restricted Stock Awards may be granted to Employees and Outside Directors.

4. ADMINISTRATION

- (a) The Committee shall administer the Plan. The Committee shall consist of the entire Board of Directors of the Company.
- (b) The Committee shall:
 - (i) select the individuals who are to receive grants of Awards under the Plan;

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- (ii) determine the type, number, vesting requirements and other features and conditions of such Awards made under the Plan;
- (iii) interpret the Plan and Award Agreements (as defined below); and
- (iv) make all other decisions related to the operation of the Plan.

In granting Awards under the Plan, the Committee shall consider recommendations of the Chief Executive Officer. The Committee shall adopt any rules or guidelines that it deems appropriate to implement and administer the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

- (c) Each Award granted under the Plan shall be evidenced by a written agreement (**Award Agreement**). Each Award Agreement shall constitute a binding contract between the Holding Company or an Affiliate and the Award holder, and every Award holder, upon acceptance of an Award Agreement, shall be bound by the terms and restrictions of the Plan and the Award Agreement. The terms of each Award Agreement shall be set in accordance with the Plan, but each Award Agreement may also include any additional provisions and restrictions determined by the Committee. In particular, and at a minimum, the Committee shall set forth in each Award Agreement:
 - (i) the type of Award granted;
 - (ii) the Exercise Price of any Option or base price of any SAR;
 - (iii) the number of shares subject to the Award;
 - (iv) the expiration date of the Award;
 - (v) the manner, time and rate (cumulative or otherwise) of exercise or vesting of the Award; and
 - (vi) the restrictions, if any, placed on the Award, or upon shares which may be issued upon the exercise or vesting of the Award.

The Chairman of the Committee and such Outside Directors and Employees as shall be designated by the Committee are hereby authorized to execute Award Agreements on behalf of the Holding Company or an Affiliate and to cause them to be delivered to the recipients of Awards granted under the Plan.

- (d) The Committee may delegate all authority for the determination of forms of payment to be made or received by the Plan and for the execution of any Award Agreement. The Committee may rely on the descriptions, representations, reports and estimates provided to it by the management of the Holding Company or an Affiliate for determinations to be made pursuant to the Plan.

5. STOCK SUBJECT TO THE PLAN

- (a) Subject to adjustment as provided in Section 13 of the Plan, the number of shares reserved for issuance under the Plan is 500,000. The share reserve includes shares of Common Stock previously issued under the Plan prior to the Plan's restatement. The following limits also apply with respect to Awards granted under the Plan:

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- (i) The maximum number of shares of Common Stock that may be delivered pursuant to Incentive Stock Options granted under the Plan is 500,000 shares less the number of shares of Common Stock issued pursuant to Non-Statutory Stock Options and Restricted Stock Awards.
- (ii) The maximum number of shares of Common Stock that may be delivered pursuant to Non-Statutory Stock Options granted under the Plan is 500,000 shares less the number of shares of Common Stock issued pursuant to Incentive Stock Options and Restricted Stock Awards.
- (iii) The maximum number of Shares of Common Stock that may be delivered pursuant to Restricted Stock Awards granted under the Plan is 150,000 Shares.

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- (b) The shares of Common Stock issued under the Plan may be either authorized but unissued shares or authorized shares previously issued and acquired or reacquired by the Holding Company. Shares underlying outstanding Awards will be unavailable for any other use, including future grants under the Plan, except that, to the extent the Awards terminate, expire or are forfeited without vesting or having been exercised, new Awards may be granted with respect to these shares subject to the limitations set forth in this Section 5.
- (c) To the extent that an Award is settled in cash or a form other than shares of Common Stock, the shares that would have been delivered had there been no such cash or other settlement shall not be counted against the shares available for issuance under this Plan. Shares of Common Stock that are exchanged by a Participant or withheld by the Holding Company as full or partial payment in connection with any Award under this Plan, as well as any shares exchanged by a Participant or withheld by the Holding Company to satisfy the tax withholding obligations related to any Award under this Plan, shall be available for subsequent Awards under this Plan.

6. OPTIONS

The Committee may, subject to the limitations of this Plan and the availability of shares of Common Stock reserved but not previously awarded under the Plan, grant Options to Employees and outside directors, subject to terms and conditions as it may determine, to the extent that such terms and conditions are consistent with the following provisions:

- (a) **Exercise Price.** The Exercise Price shall not be less than one hundred percent (100%) of the Fair Market Value of the Common Stock on the date of grant.
- (b) **Terms of Options.** In no event may an individual exercise an Option, in whole or in part, more than ten (10) years from the date of grant.
- (c) **Non-Transferability.** Unless otherwise determined by the Committee in accordance with this Section 6(c), an individual may not transfer, assign, hypothecate, or dispose of an Option in any manner, other than by will or the laws of intestate succession. The Committee may, however, in its sole discretion, permit transfer or assignment of a Non-Statutory Stock Option, if it determines that the transfer or assignment is for valid estate planning purposes and is permitted under the Code and Rule 16b-3 of the Exchange Act. For purposes of this Section 6(c), a transfer for valid estate planning purposes includes, but is not limited to, transfers:
 - (i) to a revocable *inter vivos* trust, as to which an individual is both settlor and trustee; or
 - (ii) for no consideration to:
 - (A) any member of the individual's Immediate Family;
 - (B) a trust solely for the benefit of members of the individual's Immediate Family;
 - (C) any partnership whose only partners are members of the individual's Immediate Family; or
 - (D) any limited liability corporation or other corporate entity whose only members or equity owners are members of the individual's Immediate Family.

For purposes of this Section 6(c), **Immediate Family** includes, but is not necessarily limited to, an individual's parents, grandparents, spouse, children, grandchildren, siblings (including half brothers and sisters), and individuals who are family members by adoption. Nothing contained in this Section 6(c) shall be construed to require the Committee to approve the transfer or assignment of any Non-Statutory Stock Option, in whole or in part. Receipt of the Committee's approval to transfer or assign a Non-Statutory Stock Option, in whole or in part, does not mean that the Committee must approve a transfer or assignment of any other Non-Statutory Stock Option, or portion thereof. The transferee or assignee of any Non-Statutory Stock Option shall be subject to all terms and conditions applicable to the Option immediately prior to transfer or assignment, and shall remain subject to any other conditions proscribed by the Committee with respect to the Option.

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- (d) ***Special Rules for Incentive Stock Options.*** Notwithstanding foregoing provisions, the following rules apply to the grant of Incentive Stock Options:
- (i) If an Employee owns or is treated as owning, for purposes of Section 422 of the Code, Common Stock representing more than ten percent (10%) of the total combined voting securities of the Holding Company at the time the Committee grants the Incentive Stock Option (a **10% Owner**), the Exercise Price shall not be less than one hundred and ten percent (110%) of the Fair Market Value of the Common Stock on the date of grant.
 - (ii) An Incentive Stock Option granted to a 10% Owner shall not be exercisable more than five (5) years from the date of grant.
 - (iii) To the extent the aggregate Fair Market Value of shares of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by an Employee during any calendar year, under the Plan or any other stock option plan of the Holding Company, exceeds \$100,000, or such higher value as may be permitted under Section 422 of the Code, Options in excess of the limit shall be treated as Non-Statutory Stock Options. Fair Market Value shall be determined as of the date of grant for each Incentive Stock Option.
 - (iv) Each Award Agreement for an Incentive Stock Option shall require the individual to notify the Committee within ten (10) days of any disposition of shares of Common Stock under the circumstances described in Section 421(b) of the Code (relating to certain disqualifying dispositions).
 - (v) Incentive Stock Options exercised more than three (3) months following the date an Employee terminates employment (for reasons other than death or Disability) will be treated as Non-Statutory Stock Options. In the event employment is terminated due to death or Disability, Incentive Stock Options will remain exercisable for one (1) year from the date the Employee terminates employment.
- (e) ***Acceleration Upon a Change in Control.*** Upon a Change in Control, all Options held by an individual as of the date of the Change in Control shall immediately become exercisable and shall remain exercisable until the expiration of the Option term.
- (f) ***Termination of Employment or Service.*** The following rules apply upon the termination of a Participant's employment or other service:
- (i) ***In General.*** Unless the Committee determines otherwise, upon termination of employment or service for any reason other than Retirement, Disability or death, or Termination for Cause, a Participant may exercise only those Options that were immediately exercisable by the Participant at the date of termination, and only for a period of three (3) months from the date of termination, or, if sooner, until the expiration of the Option term.
 - (ii) ***Retirement.*** Unless the Committee determines otherwise, upon a Participant's Retirement, the Participant may exercise only those Options that were immediately exercisable by the Participant at the date of Retirement, and only for a period of one (1) year from the date of Retirement, or, if sooner, until the expiration of the Option term. Incentive Stock Options exercised more than three (3) months following a Participant's Retirement date will be treated as Non-Statutory Stock Options

for tax purposes.

- (iii) *Disability or Death.* Unless the Committee determines otherwise, upon termination of a Participant's employment or service due to Disability or death, all Options shall become immediately exercisable and shall remain exercisable for a period of one (1) year from the date of termination, or, if sooner, until the expiration of the Option term.
- (iv) *Termination for Cause.* Unless the Committee determines otherwise, upon Termination for Cause, all rights to a Participant's Options shall expire immediately upon the effective date of Termination for Cause.

APPENDIX A-6

Table of Contents**7. STOCK APPRECIATION RIGHTS**

An SAR shall provide a Participant with the right to receive a payment, in cash and/or Common Stock, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the SAR is exercised over the Fair Market Value of a share of Common Stock on the date the SAR was granted (the **base price**) as set forth in the applicable Award Agreement, provided, however, that, in the case of an SAR granted retroactively, in tandem with or as a substitution for another Award, the base price may be no lower than the Fair Market Value of a share of Common Stock on the date such other Award was granted. The maximum term of an SAR shall be ten (10) years. Notwithstanding the foregoing, effective on and after January 1, 2005, the exercise of an SAR shall entitle the Participant to receive payment with respect to such SAR only in the form of Common Stock. Further, effective January 1, 2005, the base price of an SAR may never be less than the Fair Market Value of a share of Common Stock on the date that the SAR is awarded even if the SAR is awarded in tandem with or as substitution for another Award.

- (a) ***Termination of Employment or Service.*** The following rules apply upon the termination of a Participant's employment or other service:
- (i) ***In General.*** Unless the Committee determines otherwise, upon termination of employment or service for any reason other than Retirement, Disability or death, or Termination for Cause, a Participant may exercise only those SARs that were immediately exercisable by the Participant at the date of termination, and only for a period of three (3) months from the date of termination, or, if sooner, until the expiration of the SAR term.
 - (ii) ***Retirement.*** Unless the Committee determines otherwise, upon a Participant's Retirement, the Participant may exercise only those SARs that were immediately exercisable by the Participant at the date of Retirement, and only for a period of one (1) year from the date of Retirement, or, if sooner, until the expiration of the SAR term.
 - (iii) ***Disability or Death.*** Unless the Committee determines otherwise, upon termination of a Participant's employment or service due to Disability or death, all SARs shall become immediately exercisable and shall remain exercisable for a period of one (1) year from the date of termination, or, if sooner, until the expiration of the SAR term.
 - (iv) ***Termination for Cause.*** Unless the Committee determines otherwise, upon Termination for Cause, all rights to a Participant's SARs shall expire immediately upon the effective date of Termination for Cause.
- (b) ***Acceleration Upon a Change in Control.*** Upon a Change in Control, all SARs held by an individual as of the date of the Change in Control shall immediately become exercisable and shall remain exercisable until the expiration of the SAR term.
- (c) ***Determination of Number of Shares Issuable Upon Exercise of an SAR.*** The number of shares of Common Stock issuable upon the exercise of an SAR shall be determined by dividing:
- (i) the number of shares of Common Stock for which the SAR is exercised multiplied by the amount of appreciation per share of Common Stock (for this purpose the **appreciation per share of Common Stock** shall be equal to the amount by which the Fair Market Value of a share of Common Stock on the date that the SAR is exercised exceeds:

- (A) in the case of an SAR granted in tandem with an Option, the exercise price with respect to such Option; or
- (B) in the case of an SAR granted alone without reference to an Option, the base price of the SAR);

by

- (ii) the Fair Market Value of a share of Common Stock on the date that the SAR is exercised.

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8. RESTRICTED STOCK AWARDS

The Committee may make grants of Restricted Stock Awards, which shall consist of the grant of some number of shares of Common Stock to an individual upon such terms and conditions as it may determine to the extent such terms and conditions are consistent with the following provisions:

- (a) ***Grants of Stock.*** Restricted Stock Awards may only be granted in whole shares of Common Stock.
- (b) ***Non-Transferability.*** Except to the extent permitted by the Code, the rules promulgated under Section 16(b) of the Exchange Act or any successor statutes or rules:
 - (i) The recipient of a Restricted Stock Award grant shall not sell, transfer, assign, pledge, or otherwise encumber shares subject to the grant until full vesting of such shares has occurred. For purposes of this section, the separation of beneficial ownership and legal title through the use of any swap transaction is deemed to be a prohibited encumbrance.
 - (ii) Unless determined otherwise by the Committee and except in the event of the Participant's death or pursuant to a domestic relations order, a Restricted Stock Award grant is not transferable and may be earned in his or her lifetime only by the individual to whom it is granted. Upon the death of a Participant, a Restricted Stock Award grant is transferable by will or the laws of descent and distribution. The designation of a beneficiary shall not constitute a transfer.
 - (iii) If the recipient of a Restricted Stock Award is subject to the provisions of Section 16 of the Exchange Act, shares of Common Stock subject to the grant may not, without the written consent of the Committee (which consent may be given in the Award Agreement), be sold or otherwise disposed of within six (6) months following the date of grant.
- (c) ***Acceleration of Vesting Upon a Change in Control.*** Upon a Change in Control, all Restricted Stock Awards held by a Participant as of the date of the Change in Control shall immediately become vested and any further restrictions shall lapse.
- (d) ***Termination of Employment or Service.*** The following rules will govern the treatment of a Restricted Stock Award upon the termination of a Participant's termination of employment or other service:
 - (i) ***In General.*** Unless the Committee determines otherwise, upon the termination of a Participant's employment or service for any reason other than Retirement, Disability or death, or Termination for Cause, any Restricted Stock Award in which the Participant has not become vested as of the date of such termination shall be forfeited and any rights the Participant had to such Restricted Stock Award shall become null and void.
 - (ii) ***Retirement.*** Unless the Committee determines otherwise, upon a Participant's Retirement, any Restricted Stock Award in which the Participant has not become vested as of the date of Retirement shall be forfeited and any rights the individual had to such unvested Restricted Stock Award shall become null and void.
 - (iii) ***Disability or Death.*** Unless otherwise determined by the Committee, in the event of a termination of a Participant's service due to Disability or death, all unvested Restricted Stock Awards held by such Participant shall immediately vest as of the date of such termination.

- (iv) *Termination for Cause.* Unless otherwise determined by the Committee, in the event of a Participant's Termination for Cause, all Restricted Stock Awards in which the Participant had not become vested as of the effective date of such termination shall be forfeited and any rights the Participant had to such unvested Restricted Stock Awards shall become null and void.

- (e) *Issuance of Certificates.* Unless otherwise held in trust and registered in the name of the Plan trustee, reasonably promptly after the date of grant with respect to shares of Common Stock pursuant to a Restricted Stock Award, the Holding Company shall cause to be issued a stock certificate, registered in the name of the Participant to whom the Restricted Stock Award was granted, evidencing such shares; *provided, however,* that the Holding Company shall not cause a stock certificate to be issued unless it has

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received a stock power duly endorsed in blank with respect to such shares. Each such stock certificate shall bear the following legend:

The transferability of this certificate and the shares of stock represented hereby are subject to the restrictions, terms and conditions (including forfeiture provisions and restrictions against transfer) contained in the Third Amended and Restated Central Federal Corporation 2003 Equity Compensation Plan entered into between the registered owner of such shares and Central Federal Corporation or its Affiliates. A copy of the Plan and Award Agreement is on file in the office of the Corporate Secretary of Central Federal Corporation, 2923 Smith Road, Fairlawn, Ohio 44333.

This legend shall not be removed until the individual becomes vested in such shares pursuant to the terms of the Plan and Award Agreement. Each certificate issued pursuant to this Section 8(e) shall be held by the Holding Company or its Affiliates, unless the Committee determines otherwise.

- (f) ***Treatment of Dividends.*** Participants are entitled to all dividends and other distributions declared and paid on Common Stock with respect to all shares of Common Stock subject to a Restricted Stock Award, from and after the date such shares are awarded or from and after such later date as may be specified by the Committee in the Award Agreement. The Participant shall not be required to return any such dividends or other distributions to the Holding Company in the event of forfeiture of the Restricted Stock Award. In the event the Committee establishes a trust for the Plan, the Committee may elect to distribute dividends and other distributions at the time the Restricted Stock Award vests or pay the dividends (or other distributions) directly to the Participants.
- (g) ***Voting of Restricted Stock Awards.*** Participants who are granted Restricted Stock Awards are entitled to vote or to direct the Plan trustee to vote, as the case may be, all unvested shares of Common Stock subject to the Restricted Stock Award.

9. DEFERRED PAYMENTS

The Committee, in its discretion, may permit an individual to elect to defer the receipt of all or any part of any cash or stock payment under the Plan, or the Committee may determine to defer receipt by some or all individuals, of all or a portion of any payment. The Committee shall determine the terms and conditions of any permitted deferral, including the period of deferral, the manner of deferral and the method used to measure appreciation on deferred amounts until paid. Notwithstanding the foregoing, the provisions of this Section 9 shall not apply on and after January 1, 2005 to Options or SARs and, after such date, a Participant shall not be permitted to defer the receipt of all or any part of any cash or stock payment under an Award other than an Option or SAR made pursuant to the Plan unless such deferral is made pursuant to such rules, procedures or programs as the Committee may establish for purposes of this Plan and which are intended to comply with the requirements of Code Section 409A.

10. METHOD OF EXERCISING OPTIONS

Subject to any applicable Award Agreement, an individual may exercise any Option, in whole or in part, at such time or times as the Committee specifies in the Award Agreement. The individual may make payment of the Exercise Price in such form or forms as the Committee specifies in the Award Agreement, including, without limitation, payment by delivery of cash, Common Stock or a cashless exercise with a qualified broker. Any Common Stock used in full or partial payment of the Exercise Price shall be valued at the Fair Market Value of the Common Stock on the date of exercise. Delivery by the Holding Company of the shares as to which an Option has been exercised shall be made to the person exercising the Option or the designee of such person. If so provided by the Committee upon grant of the Option, the shares received upon exercise may be subject to certain restrictions upon subsequent transfer or sale by the

Participant. In the event the Exercise Price is to be paid in full or in part by surrender of Common Stock, in lieu of actual surrender of shares of Common Stock the Holding Company may waive such surrender and instead deliver to or on behalf of the Participant a number of shares equal to the total number of shares as to which the Option is then being exercised less the number of shares which would otherwise have been surrendered by the Participant to the Holding Company.

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11. RIGHTS OF INDIVIDUALS

No individual shall have any rights as a shareholder with respect to any shares of Common Stock covered by a grant under this Plan until the date of issuance of a stock certificate for such Common Stock. Nothing contained in this Plan or in any Award Agreement confers on any person the right to continue in the employ or service of the Holding Company or an Affiliate or interferes in any way with the right of the Holding Company or an Affiliate to terminate an individual's services.

12. DESIGNATION OF BENEFICIARY

With the Committee's consent, an individual may designate a person or persons to receive, upon the individual's death, any Award to which the individual would then be entitled. This designation shall be made upon forms supplied by, or otherwise acceptable to, and delivered to the Holding Company. A designation of beneficiary may be revoked in writing. If an individual fails to effectively designate a beneficiary, the individual's estate shall be deemed to be the beneficiary for purposes of the Plan.

13. DILUTION AND OTHER ADJUSTMENTS

In the event of any change in the outstanding shares of Common Stock, by reason of any stock dividend or split, recapitalization, merger, consolidation, spin-off, reorganization, combination or exchange of shares, or other similar corporate change, or any other increase or decrease in such shares, without receipt or payment of consideration by the Holding Company, or in the event an extraordinary capital distribution is made, the Committee may make adjustments to previously granted Awards, to prevent dilution, diminution, or enlargement of the rights of individuals, including any or all of the following:

- (a) adjustments in the aggregate number or kind of shares of Common Stock or other securities that may underlie future Awards under the Plan;
- (b) adjustments in the aggregate number or kind of shares of Common Stock or other securities that underlie Awards already made under the Plan; and
- (c) adjustments in the Exercise Price of outstanding Options or base price of outstanding SARs.

The Committee, however, shall not make adjustments that materially change the value of benefits available to an individual under a previously granted Award. All Awards under this Plan shall be binding upon any successors or assigns of the Holding Company.

14. TAXES

Under this Plan, whenever cash or shares of Common Stock are to be delivered, the Committee is entitled to require as a condition of delivery that:

- (a) the individual remit an amount sufficient to satisfy all related federal, state, and local withholding tax requirements;
- (b) the withholding of such sums may come from compensation otherwise due to the individual or from shares of Common Stock due to the individual under this Plan; or

- (c) any combination of (a) and (b), above; *provided, however*, that no amount shall be withheld from any cash payment or shares of Common Stock related to an Option transferred by the individual in accordance with this Plan.

15. NOTIFICATION UNDER SECTION 83(b)

The Committee may, on the date of grant or at a later date, prohibit an individual from making the election described below. If the Committee has not prohibited an individual from making this election, and the individual shall, in connection with the exercise of any Award, make the election permitted under Section 83(b) of the Code, the individual shall notify the Committee of the election within ten (10) days of filing notice of the election with the

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Internal Revenue Service. This requirement is in addition to any filing and notification required under the regulations issued under the authority of Section 83(b) of the Code.

16. AMENDMENT OF THE PLAN AND AWARD GRANTS

- (a) Except as provided in paragraph (c) of this Section 16, the Board of Directors may at any time, and from time to time, modify or amend the Plan in any respect, prospectively or retroactively; *provided, however*, that provisions governing grants of Incentive Stock Options shall be submitted for shareholder approval to the extent required by law, regulation, or otherwise. Failure to ratify or approve amendments or modifications by shareholders shall be effective only as to the specific amendment or modification requiring shareholder ratification or approval. Other provisions of this Plan shall remain in full force and effect. No termination, modification, or amendment of this Plan may adversely affect the rights of an individual under an outstanding Award without the written permission of the affected individual.
- (b) Except as provided in paragraph (c) of this Section 16, the Committee may amend any Award Agreement, prospectively or retroactively; *provided, however*, that no amendment shall adversely affect the rights of an individual under an outstanding Award Agreement without the written consent of the affected individual.
- (c) In no event shall the Board of Directors amend the Plan or shall the Committee amend an Award Agreement in any manner that effectively:
 - (i) allows any Option to be granted with an Exercise Price below the Fair Market Value of the Common Stock on the date of grant; or
 - (ii) allows the Exercise Price of any Option previously granted under the Plan to be reduced after the date of grant.
- (d) It is intended that this Plan and any Awards made pursuant to this Plan shall comply with the provisions of Section 409A of the Code, to the extent applicable. If Code Section 409A becomes applicable to this Plan or any Award, this Plan and such Award shall be administered in a manner consistent with such intent and any provision that would cause this Plan or any Award to fail to satisfy Code Section 409A shall have no force or effect until amended to comply with Code Section 409A (which amendments may be made retroactive to the extent permitted by Code Section 409A and may be made by the Board of Directors without the consent of the Participants). References in this Plan to Code Section 409A shall include any proposed, temporary or final regulations, or any other guidance, promulgated with respect to Code Section 409A by the United States Department of the Treasury or the Internal Revenue Service.

17. TERMINATION OF THE PLAN

The right to grant Awards under the Plan will terminate upon the earlier of:

- (a) April 23, 2013, which is ten (10) years after the original Effective Date of the Plan; or
- (b) the issuance of a number of shares of Common Stock pursuant to the exercise of Options and Stock Appreciation Rights and the vesting of Restricted Stock Awards equal to the maximum number of shares reserved under the Plan, as set forth in Section 5. The Board of Directors may suspend or terminate the Plan at any time; *provided, however*, that no such action will adversely affect an individual's vested rights under a previously granted Award, without the consent of the affected individual.

18. APPLICABLE LAW

The Plan will be administered in accordance with the laws of the state of Delaware, except to the extent that Federal law is deemed to apply.

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THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

THIS PROXY IS REVOCABLE AND WILL BE VOTED AS DIRECTED, BUT IF NO INSTRUCTIONS ARE SPECIFIED, THIS PROXY WILL BE VOTED FOR EACH OF THE PROPOSALS LISTED. IF ANY OTHER BUSINESS IS PRESENTED AT THE ANNUAL MEETING, INCLUDING WHETHER OR NOT TO ADJOURN THE MEETING, THIS PROXY WILL BE VOTED BY THE PROXIES IN THEIR BEST JUDGEMENT. AT THE PRESENT TIME, THE BOARD OF DIRECTORS KNOWS OF NO OTHER BUSINESS TO BE PRESENTED AT THE ANNUAL MEETING.

The undersigned acknowledges receipt from the Company prior to the execution of this proxy of a Notice of Annual Meeting of Shareholders and of a Proxy Statement dated April 17, 2007 and of the Annual Report to Shareholders.

Please sign exactly as you name appears on this card. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. If shares are held jointly, each holder may sign but only one signature is required.

Dated: _____

SIGNATURE OF SHAREHOLDER

SIGNATURE OF SHAREHOLDER

PLEASE COMPLETE, DATE, SIGN AND PROMPTLY MAIL THIS PROXY IN THE ENCLOSED
POSTAGE-PAID ENVELOPE

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(Central Federal Corporation Letterhead)

Dear Stock Award Recipient:

On behalf of the Board of Directors, I am forwarding you the Attached Vote Authorization Form for the purpose of conveying your voting instruction to First Banker's Trust (the Trustee) on the proposals to be presented at the Annual Meeting of Shareholders of Central Federal Corporation (the Company) on May 17, 2007. Also enclosed is Notice and Proxy Statement for the Company's Annual Meeting of Shareholders and a copy of the Company's Annual Report to Shareholders.

As a participant in the Central Federal Corporation 1999 Stock-Based Incentive Plan (the Incentive Plan) you are entitled to vote all unvested shares of restricted stock awarded to you under the Incentive Plan as of April 6, 2007. The Incentive Plan Trustee will vote those shares of the Company stock in accordance with instructions it receives from you and the other Stock Award recipients. Shares of restricted stock for which instructions are not received by May 10, 2007, will not be voted by the Incentive Plan Trustee, as directed by the Company.

At this time, in order to direct the voting of Company common stock awarded to you under the Incentive Plan, you must complete and sign the enclosed Vote Authorization Form and return it in the accompanying postage-paid envelope no later than May 10, 2007.

Sincerely,

Mark S. Allio

Chairman, President & Chief Executive Officer

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Name _____
Shares _____

INCENTIVE PLAN

VOTE AUTHORIZATION FORM

I understand that First Banker's Trust (the Trustee), is the holder of record and custodian of all shares of Central Federal Corporation (the Company) common stock held in trust for the Central Federal Corporation 1999 Stock-Based Incentive Plan (Incentive Plan). Further, I understand that my voting instructions are solicited on behalf of the Company's Board of Directors for the Annual Meeting of Shareholders to be held on May 17, 2007.

Accordingly, I vote my shares as follows:

(1) The election as directors of all nominees listed (except as marked to the contrary below).

Thomas P. Ash
David C. Vernon
Jerry F. Whitmer

FOR VOTE WITHHELD FOR ALL EXCEPT

INSTRUCTION: TO WITHHOLD YOUR VOTE FOR ANY INDIVIDUAL NOMINEE, MARK FOR ALL EXCEPT AND WRITE THAT NOMINEE'S NAME ON THE LINE PROVIDED BELOW.

(2) Approval of the Third Amended and Restated Central Federal Corporation 2003 Equity Compensation Plan.

FOR AGAINST ABSTAIN

(3) The ratification of the appointment of Crowe Chizek and Company LLC as independent auditors of the Company for the year ending December 31, 2007.

FOR AGAINST ABSTAIN

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE LISTED PROPOSALS.

The Incentive Plan Trustee is hereby authorized to vote all unvested shares of Company common stock awarded to me under the Incentive Plan in its trust capacity as indicated above.

Date Signature

Please date, sign and mail this form in the enclosed postage-paid envelope no later than May 10, 2007.