ARVINMERITOR INC
Form 10-Q
May 08, 2009

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

FORM 10-Q

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

For the quarterly period ended March 29, 2009

OR

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

For the transition period from ________________ to ________________

Commission file number: **1-15983**

ARVINMERITOR, INC.

(Exact name of registrant as specified in its charter)

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

(248) 435-1000

(Registrant's telephone number, including area code)

[None]

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes |_| No |_|

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

Large accelerated filer |X| Accelerated filer |_|

Non-accelerated filer |_| (Do not check if a smaller reporting company) Smaller reporting company |_|

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

Yes |_| No |X|

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 29, 2009
Common Stock, $1.00 par value per share	73,982,889 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

ARVINMERITOR, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share amounts)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Six Months Ended March 31, 2009	Six Months Ended March 31, 2008
	(Unaudited)			
Sales	$ 1,110	$ 1,781	$ 2,480	$ 3,444
Cost of sales	(1,022)	(1,614)	(2,319)	(3,147)
GROSS MARGIN	88	167	161	297
Selling, general and administrative	(69)	(105)	(175)	(197)
Restructuring costs	(56)	(5)	(82)	(15)
Asset impairment charges	—	—	(279)	—
Other expense	(1)	(1)	(1)	(1)
OPERATING INCOME (LOSS)	(38)	56	(376)	84
Equity in earnings (losses) of affiliates	(3)	6	1	17
Interest expense, net	(23)	(20)	(45)	(47)
INCOME (LOSS) BEFORE INCOME TAXES	(64)	42	(420)	54
Benefit (provision) for income taxes	12	(14)	(633)	(24)
Minority interests	—	(4)	10	(7)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(52)	24	(1,043)	23
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	5	(4)	5	(15)
NET INCOME (LOSS)	$ (47)	$ 20	$ (1,038)	$ 8
BASIC EARNINGS (LOSS) PER SHARE				
Continuing operations	$ (0.72)	$ 0.33	$ (14.41)	$ 0.32
Discontinued operations	0.07	(0.05)	0.07	(0.21)
Basic earnings (loss) per share	$ (0.65)	$ 0.28	$ (14.34)	$ 0.11
DILUTED EARNINGS (LOSS) PER SHARE				
Continuing operations	$ (0.72)	$ 0.33	$ (14.41)	$ 0.32
Discontinued operations	0.07	(0.05)	0.07	(0.21)
Diluted earnings (loss) per share	$ (0.65)	$ 0.28	$ (14.34)	$ 0.11
Basic average common shares outstanding	72.6	72.2	72.4	72.0

Diluted average common shares outstanding	72.6	72.5	72.4	72.5
Cash dividends per common share	$ —	$ 0.10	$ 0.10	$ 0.20

See notes to consolidated financial statements.

ARVINMERITOR, INC.

CONSOLIDATED BALANCE SHEET

(in millions)

	March 31, 2009 (Unaudited)	September 30, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 165	$ 497
Receivables, trade and other, net	783	1,114
Inventories	506	623
Other current assets	115	218
TOTAL CURRENT ASSETS	1,569	2,452
NET PROPERTY	530	775
GOODWILL	423	522
OTHER ASSETS	352	925
TOTAL ASSETS	$ 2,874	$ 4,674
LIABILITIES AND SHAREOWNERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Short-term debt	$ 141	$ 240
Accounts payable	715	1,287
Other current liabilities	435	610
TOTAL CURRENT LIABILITIES	1,291	2,137
LONG-TERM DEBT	1,376	1,063
RETIREMENT BENEFITS	654	690
OTHER LIABILITIES	272	247
MINORITY INTERESTS	50	75
SHAREOWNERS' EQUITY (DEFICIT):		
Common stock (March 31, 2009 and September 30, 2008, 74.0 and 73.8 shares issued and outstanding, respectively)	72	72
Additional paid-in capital	628	625
Accumulated deficit	(1,073)	(7)
Treasury stock (March 31, 2009 and September 30, 2008, 0.1 shares)	—	(3)
Accumulated other comprehensive loss	(396)	(225)
TOTAL SHAREOWNERS' EQUITY (DEFICIT)	(769)	462
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY (DEFICIT)	$ 2,874	$ 4,674

See notes to consolidated financial statements.

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ARVINMERITOR, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

	Six Months Ended March 31, 2009	2008
	(Unaudited)	
OPERATING ACTIVITIES		
Net income (loss)	$ (1,038)	$ 8
Less: income (loss) from discontinued operations, net of tax	5	(15)
Income (loss) from continuing operations	(1,043)	23
Adjustments to income (loss) from continuing operations to arrive at cash used for operating activities:		
Depreciation and amortization	50	68
Asset impairment charges	279	—
Deferred income tax expense	632	21
Restructuring costs, net of payments	41	(5)
Pension and retiree medical expense	43	52
Loss on debt extinguishment	—	3
Other adjustments to income (loss) from continuing operations	7	(8)
Pension and retiree medical contributions	(61)	(43)
Proceeds from terminations of interest rate swaps	—	28
Changes in off-balance sheet receivable securitization and factoring	(183)	197
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations	(197)	(430)
Operating cash flows used for continuing operations	(432)	(94)
Operating cash flows used for discontinued operations	(8)	(14)
CASH USED FOR OPERATING ACTIVITIES	(440)	(108)
INVESTING ACTIVITIES		
Capital expenditures	(84)	(63)
Acquisitions of businesses and investments, net of cash acquired	—	(41)
Proceeds from disposition of property and businesses	2	8
Proceeds from investments and marketable securities	6	5
Net investing cash flows provided by discontinued operations	—	55
CASH USED FOR INVESTING ACTIVITIES	(76)	(36)
FINANCING ACTIVITIES		
Borrowings on revolving credit facility, net	318	—
Borrowings (payments) on accounts receivable securitization program	(23)	128
Repayment of notes	(83)	(5)
Borrowings on lines of credit and other, net	6	4
Net change in debt	218	127
Debt issuance and extinguishment costs	—	(6)
Cash dividends	(8)	(15)
CASH PROVIDED BY FINANCING ACTIVITIES	210	106
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(26)	6
CHANGE IN CASH AND CASH EQUIVALENTS	(332)	(32)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		497		409
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	165	$	377

See notes to consolidated financial statements.

1. Basis of Presentation

ArvinMeritor, Inc. (the company or ArvinMeritor) is a global supplier of a broad range of integrated systems, modules and components serving commercial truck, trailer, light vehicle and specialty original equipment manufacturers (OEM) and certain aftermarkets. The consolidated financial statements are those of the company and its consolidated subsidiaries.

In the opinion of the company, the unaudited financial statements contain all adjustments, consisting solely of adjustments of a normal, recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These statements should be read in conjunction with the company's audited consolidated financial statements and notes thereto included the Annual Report on Form 10-K for the fiscal year ended September 30, 2008. The results of operations for the six months ended March 31, 2009 are not necessarily indicative of the results for the full year.

The substantial uncertainty and significant deterioration in the worldwide credit markets, the global economic downturn and the current climate in the U.S. and other economies have severely diminished demand for the products of the company's customers. As a result, commercial and light vehicle production and sales volumes have declined significantly in most markets. Management of the company believes volumes will continue to be at severely depressed levels and that the impact of these lower volumes will continue to impact the company's profitability and cash flow for the remainder of fiscal year 2009 and possibly longer. The company's cash and liquidity needs have been impacted by the level, variability and timing of its customers' worldwide vehicle production and other factors outside of its control. In addition, although the company is pursuing a long term strategy to become primarily a commercial vehicle systems business, the financial and economic environment has made this difficult to accomplish in the short term and has left it with servicing the cash outflows of certain of its light vehicle businesses, which have been substantial. Cash flow in the first half of fiscal year 2009 was negatively affected by decreased earnings due to lower sales and will continue to be negatively impacted during the remainder of fiscal year 2009 due to expected production declines, the resulting restructurings and the current volatility in the financial markets, which could affect certain of the company's customers or vendors. The company saw its usage of the revolving credit facility under its senior secured credit facility throughout the first half of the fiscal year increase significantly to meet working capital and other operational needs. At March 29, 2009, the company had $165 million in cash and cash equivalents and an undrawn amount of $311 million under the revolving credit facility. Availability under the revolving credit facility is subject to a senior secured debt to EBITDA ratio covenant, as defined in the agreement, which may limit borrowings under the agreement as of each quarter end. In addition to the factors described above, in the second quarter, the company's credit rating was downgraded by credit rating agencies and there were significant declines in its stock price. It is possible the company may be required to obtain an amendment to the senior secured credit facility and its U.S. securitization facility by the end of its third fiscal quarter to allow additional flexibility under the senior secured debt to EBITDA covenant contained therein and, in the absence of a waiver, to prevent a default under such facilities. If such amendments or waivers are not necessary before the end of the third quarter, it is increasingly likely that the company will require them prior to the end of the fiscal year. If such amendments or waivers are needed and are not obtained, the lenders under these facilities could accelerate the company's obligations, which, through cross defaults, could allow acceleration of obligations under certain of its other debt arrangements, including its outstanding convertible notes. If amendments or waivers are needed, the company would negotiate with the lenders under these facilities in order to obtain an amendment or waiver which would allow the required additional financial flexibility. We have had initial communications with the agent bank regarding a possible amendment or waiver consistent with others accomplished in the industry. However, there can be no assurances as to whether any such amendment or waiver may be obtained or, if obtained, whether the terms and restrictions of such amendment or waiver will be as favorable as current arrangements.

The company's future liquidity is subject to a number of factors, including access to adequate funding under the senior secured credit facility, vehicle production schedules and customer demand and access to other borrowing arrangements such as factoring or securitization facilities. Even with an amendment or waiver to the senior secured credit facility and the U.S. securitization facility, after taking into account these and other factors, if the current trends in the automotive and commercial vehicle industries continue, management expects accessible liquidity over the next 12 months to be at severely diminished levels as compared to historical levels. Without additional liquidity enhancing actions or improvement in the current industry and financial environment, future levels of liquidity may not be sufficient to offset unforeseen negative trends or developments. The company may be required to take additional liquidity enhancing actions, including, without limitation, exploring asset sales or obtaining additional external sources of liquidity. There can be no assurances that the company will be able to execute these actions or that these actions will be sufficient if the company's end markets do not recover. The accompanying financial statements have been prepared on a going concern basis which assumes that the company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. These financial statements do not include any adjustments relating to the recoverability or classification of assets or the amounts or classification of liabilities that might be necessary should the company be unable to continue as a going concern.

The company's fiscal quarters end on the Sundays nearest December 31, March 31 and June 30 and its fiscal year ends on the Sunday nearest September 30. The second quarter of fiscal years 2009 and 2008 ended on March 29, 2009 and March 30, 2008, respectively. All year and quarter references relate to the company's fiscal year and fiscal quarters, unless otherwise stated. For ease of

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presentation, September 30 and March 31 are used consistently throughout this report to represent the fiscal year end and first quarter end, respectively.

2. Earnings per Share

Basic earnings per share is calculated using the weighted average number of shares outstanding during each period. The diluted earnings per share calculation includes the impact of dilutive common stock options, restricted stock, performance share awards and convertible securities, if applicable.

A reconciliation of basic average common shares outstanding to diluted average common shares outstanding is as follows (in millions):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
Basic average common shares outstanding	72.6	72.2	72.4	72.0
Impact of restricted stock	—	0.3	—	0.5
Diluted average common shares outstanding	72.6	72.5	72.4	72.5

The potential effects of restricted stock and stock options were excluded from the diluted earnings per share calculation for the three and six months ended March 31, 2009 because their inclusion in a net loss period would reduce the net loss per share. Therefore, at March 31, 2009, options to purchase 1.9 million shares of common stock were excluded from the computation of diluted earnings per share. In addition, 1.3 million shares of restricted stock were excluded from the computation of diluted earnings per share at March 31, 2009. At March 31, 2008, options to purchase 2.0 million shares of common stock were not included in the computation of diluted earnings per share because their exercise price exceeded the average market price for the period and thus their inclusion would be anti-dilutive. The company's convertible senior unsecured notes are excluded from the computation of diluted earnings per share, as the company's average stock price during the quarter is less than the conversion price.

3. New Accounting Standards

New accounting standards to be implemented:

On October 1, 2008, the company partially adopted as required, Statement of Financial Accounting Standards (SFAS) No. 157 – "Fair Value Measurements" which provides a definition of fair value, establishes a framework for measuring fair value and requires expanded disclosures about fair value measurements. In February 2008, the Financial Accounting Standards Board (FASB) approved FASB Staff Position (FSP) No. FAS 157-2, "Effective Date of FASB Statement No. 157" that permits companies to partially defer the effective date of SFAS No. 157 for one year for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FSP No. FAS 157-2 does not permit companies to defer recognition and disclosure requirements for financial assets and financial liabilities or for non-financial assets and non-financial liabilities that are remeasured at least annually. The company has elected to defer the adoption of SFAS No. 157 with respect to certain non-financial assets and liabilities as permitted by FSP No. 157-2.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an Amendment of ARB No. 51". This Statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. SFAS No. 160 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. The statement also requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. If a parent retains a noncontrolling equity investment in the former subsidiary, that investment is measured at its fair value. SFAS No. 160 is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008 and will be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements will be applied retrospectively for all periods presented. The company is currently assessing the potential impact of the standard on our financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007) ("SFAS 141(R)"), "Business Combinations", which replaces SFAS No. 141, Business Combinations. SFAS No. 141(R) retains the fundamental requirements of Statement No. 141 that the acquisition method of accounting (which Statement No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. The new standard extends the acquisition method of accounting to all transactions and other events in which one entity obtains control over one or more other businesses. It retains the guidance in Statement No. 141 for identifying and recognizing intangible assets separately from goodwill; however, it differs from Statement No. 141 in accounting for the negative goodwill and requires it to be recognized as a gain from a bargain purchase. The statement requires the acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of SFAS No. 141(R) is not expected to have a material impact on the company's consolidated financial condition and results of operations.

In April 2008, the FASB issued FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets." The FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The FSP is intended to improve the consistency between the useful life of an intangible asset determined under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), and other U.S. generally accepted accounting principles. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and is to be applied prospectively to intangible assets acquired after the effective date. Disclosure requirements are to be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. The company is currently evaluating the impact FSP 142-3 will have on our consolidated financial statements.

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)", which applies to all convertible debt instruments that have a "net settlement feature", which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. FSP APB 14-1 requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuers' nonconvertible debt borrowing rate. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is not permitted and retroactive application to all periods presented is required. The company is currently evaluating the impact FSP APB 14-1 will have on our consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force ("EITF") Issue No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. The FSP affects entities that accrue dividends on share-based payment awards during the awards' service period when the dividends do not need to be returned if the employees forfeit the award. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years, with early application not permitted. The company is currently evaluating the impact of this FSP on our consolidated financial statements.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." The FSP requires new disclosures on investment policies and strategies, categories of plan assets, fair value measurements of plan assets, and significant concentrations of risk, and is effective for fiscal years ending after December 15, 2009, with earlier application permitted. The company is currently evaluating the impact of this FSP on our consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." The FSP provides additional guidance for estimating fair value when the market activity for an asset or liability has declined significantly. The FSP is effective for interim and annual periods ending after June 15, 2009. The company is currently evaluating the impact of this FSP on our consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments.” The FSP amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," and APB Opinion No. 28, “Interim Financial Reporting,” to require disclosures about the fair value of financial instruments during all interim reporting periods. The FSP is effective for interim and annual periods ending after June 15, 2009. The company is currently evaluating the impact of this FSP on our consolidated financial statements.

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Accounting standards implemented in fiscal year 2009:

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)." The recognition requirements of SFAS No. 158 related to the funded status of defined benefit pension plans and other postretirement benefit plans were adopted by the company as of September 30, 2007. SFAS No. 158 also requires that companies measure the funded status of their defined benefit pension plans and other postretirement benefit plans as of the balance sheet date. Those provisions require the measurement date for plan assets and liabilities to coincide with the sponsor's year end. The company elected to adopt the measurement date provisions of SFAS No. 158 at October 1, 2008. Prior to adopting these provisions, the company used a measurement date of June 30 for its defined benefit and other postretirement benefit plans. Using the "one-measurement" approach, the impact of adopting the measurement date provisions of SFAS No. 158 as of October 1, 2008 was an increase to accumulated deficit of $20 million ($20 million after-tax), representing the net periodic benefit cost for the period between the measurement date utilized in fiscal year 2008 and the beginning of fiscal year 2009, which previously would have been expensed in the first quarter of fiscal year 2009 on a delayed basis.

On October 1, 2008, the company partially adopted as required, SFAS No. 157 – "Fair Value Measurements" which provides a definition of fair value, establishes a framework for measuring fair value and requires expanded disclosures about fair value measurements. The company adopted the measurement and disclosure requirements of SFAS No. 157 relating to its financial assets and financial liabilities which are measured on a recurring basis (at least annually). The adoption of SFAS No. 157 did not have a material impact on the company's fair value measurements.

SFAS No. 157 defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS No. 157 establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into the following levels:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

Level 3 — Unobservable inputs based on our own assumptions.

The fair value of the company's financial assets and liabilities that are recognized at fair value on a recurring basis at March 31, 2009 are as follows (in millions):

	Level 1	Level 2	Level 3
Financial Assets and Liabilities:			
Foreign exchange forward contracts:			
Assets	N/A	$ 6	N/A
Liabilities	N/A	32	N/A

In October 2008, the FASB issued FSP No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." FSP No. 157-3 clarifies the application of SFAS No. 157, "Fair Value Measurements" and key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP No. 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. The issuance of FSP No. 157-3 did not have any impact on the company's results of operations or financial position.

On January 1, 2009, the company adopted, as required, the provisions of SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133" which requires expanded disclosures about derivative and hedging activities. SFAS No. 161 has the same scope as SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement changes the disclosure requirements for derivative instruments and hedging activities. Enhanced disclosures are required about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The adoption of SFAS No. 161 did not have a material effect on the company's financial statements other than providing certain enhanced disclosures. Refer to Note 17 for additional disclosure on derivative instruments and hedging activities.

4. Discontinued Operations

Emissions Technologies

The company's Emissions Technologies (ET) business supplied exhaust systems and exhaust system components, including mufflers, exhaust pipes, catalytic converters, diesel particulate filters and exhaust manifolds, primarily to original equipment

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manufacturers. On May 17, 2007, the company sold its ET business to EMCON Technologies Holdings Limited (EMCON), a private equity affiliate of J.P. Morgan Securities Inc.

Gross amounts due from EMCON were $5 million and $18 million at March 31, 2009 and September 30, 2008, respectively, and are included in receivables, trade and other, net in the consolidated balance sheet. Gross amounts due to EMCON were $13 million and $50 million at March 31, 2009 and September 30, 2008, respectively and are included in other current liabilities (see Note 14). The amounts due from (to) EMCON at March 31, 2009 and September 30, 2008 primarily relate to amounts received (paid), or expected to be received (paid), by EMCON associated with certain assets and liabilities of ET that were retained by the company.

The company paid approximately $15 million related to these amounts in the first six months of fiscal year 2009. During the second quarter of fiscal year 2009, the company recognized $6 million of pre-tax income related to changes in estimates and other adjustments to certain of these assets and liabilities. This amount is recorded in income (loss) from discontinued operations in the consolidated statement of operations.

During the second quarter of fiscal year 2008, the company received the final working capital adjustment of $28 million, which was based upon closing working capital at the time of sale of ET. In addition, pre-sale funding obligations, which were recorded as a receivable from EMCON and an offsetting payable in the consolidated balance sheet at September 30, 2007, were settled in the second quarter of fiscal year 2008. During the first quarter of fiscal year 2008, the company received sale proceeds from escrow in connection with the delayed legal closings of certain ET businesses.

During the first six months of fiscal year 2008, the company recognized approximately $11 million of pre-tax additional costs related to the sale of the ET business. These costs were primarily related to revised estimates for certain pre-sale liabilities retained by the company and are recorded in income (loss) from discontinued operations in the consolidated statement of operations.

5. Impairments of Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the company reviews the carrying value of long-lived assets, excluding goodwill, to be held and used, for impairment whenever events or changes in circumstances indicate a possible impairment. An impairment loss is recognized when a long-lived asset's carrying value is not recoverable and exceeds estimated fair value.

At December 31, 2008, management determined certain impairment reviews were required due to declines in overall economic conditions including tightening credit markets, stock market declines and significant reductions in current and forecasted production volumes for light and commercial vehicles. As a result, the company recognized pre-tax, non-cash impairment charges of $209 million in the first quarter of fiscal year 2009, primarily related to the Light Vehicles Systems (LVS) segment. The estimated fair value of long-lived assets was calculated based on probability weighted cash flows taking into account current expectations for asset utilization and life expectancy. In addition, liquidation values were considered where appropriate, as well as indicated values from recent attempts to divest certain businesses.

The following table describes the significant components of long-lived asset impairments recorded during the first quarter of fiscal year 2009.

	CVS	LVS	Total
Land and buildings	$ 5	$ 41	$ 46
Other (primarily machinery and equipment)	3	154	157
Total assets impaired [(1)]	$ 8	$ 195	$ 203

(1) The company also recognized $6 million of non-cash impairment charges associated with certain corporate long-lived assets.

Net property at March 31, 2009 and September 30, 2008 is summarized as follows (in millions):

	March 31, 2009	September 30, 2008
Property at cost:		
Land and land improvements	$ 48	$ 66
Buildings	284	368
Machinery and equipment	1,006	1,567
Company-owned tooling	165	231
Construction in progress	109	139
Total	1,612	2,371
Less accumulated depreciation	(1,082)	(1,596)
Net property	$ 530	$ 775

6. Goodwill

In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets”, goodwill is reviewed for impairment annually or more frequently if significant indications of impairment exist. The goodwill impairment review is a two-step process. Step one compares the estimated fair value of a reporting unit with its carrying amount. An impairment loss may be recognized if the review indicates that the carrying value of a reporting unit exceeds its fair value. The company estimates fair value by using discounted cash flows and market multiples on earnings and any other evidence of value. If the carrying amount of a reporting unit exceeds its estimated fair value, step two requires that the fair value of the reporting unit be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the goodwill of the reporting unit exceeds the implied fair value, an impairment charge is recorded equal to the excess.

The impairment review is highly judgmental and involves the use of significant estimates and assumptions. These estimates and assumptions have a significant impact on the amount of any impairment charge recorded. Discounted cash flow methods are dependent upon assumptions of future sales trends, market conditions and cash flows of each reporting unit over several years. Actual cash flows in the future may differ significantly from those previously forecasted. Other significant assumptions include growth rates and the discount rate applicable to future cash flows.

During the first quarter of fiscal year 2009, both light and commercial vehicle industries experienced significant declines in overall economic conditions including tightening credit markets, stock market declines and significant reductions in current and forecasted production volumes for light and commercial vehicles. This, along with other factors, led to a significant decline in the company’s market capitalization subsequent to September 30, 2008. As a result, the company completed an impairment review of goodwill balances for its Commercial Vehicle Systems (CVS) and LVS reporting units during the first quarter of fiscal year 2009.

Step one of the company’s first quarter goodwill impairment review indicated that the carrying value of the LVS reporting unit significantly exceeded its estimated fair value. As a result, the company recorded a $70 million non-cash impairment charge in the first quarter of fiscal year 2009 to write-off the entire goodwill balance of its LVS reporting unit. This charge is included in asset impairment charges in the consolidated statement of operations. The fair value of this reporting unit was estimated using earnings multiples and other available information, including indicated values from recent attempts to divest certain businesses. The company’s step one impairment review of goodwill associated with its CVS reporting unit did not indicate an impairment existed as of December 31, 2008.

A summary of the changes in the carrying value of goodwill, by segment, is as follows (in millions):

	CVS	LVS	Total
Balance at September 30, 2008	$ 451	$ 71	$ 522
Impairment charge	—	(70)	(70)
Foreign currency translation	(28)	(1)	(29)
Balance at March 31, 2009	$ 423	$ —	$ 423

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7. Restructuring Costs

At March 31, 2009 and September 30, 2008, $48 million and $30 million, respectively, of restructuring reserves related to unpaid employee termination benefits remained in the consolidated balance sheet. The changes in restructuring reserves for the six months ended March 31, 2009 are as follows (in millions):

	Employee Termination Benefits	Asset Impairment	Plant Shutdown & Other	Total
Balance at September 30, 2008	$ 30	$ —	$ —	$ 30
Activity during the period:				
Charges to continuing operations – Fiscal Year 2009 Actions	38	—	—	38
Charges to continuing operations – Performance Plus	22	6	16	44
Asset write-offs	—	(6)	—	(6)
Retirement plan curtailment charges (see Note 18)	—	—	(16)	(16)
Cash payments	(41)	—	—	(41)
Currency translation and other	(1)	—	—	(1)
Balance at March 31, 2009	$ 48	$ —	$ —	$ 48

Fiscal Year 2009 Actions: During the first six months of fiscal year 2009, the company approved certain restructuring actions in response to a significant decline in global market conditions. These actions primarily related to the reduction of approximately 2,850 salaried, hourly and temporary positions worldwide. The company recorded restructuring costs of $38 million associated with these actions during the first six months of fiscal year 2009. The company's CVS and LVS segments recorded approximately $16 million and $18 million, respectively, of costs associated with this restructuring program in the first six months of fiscal year 2009, with the remaining costs recorded at corporate locations.

Performance Plus: During fiscal year 2007, the company launched a profit improvement and cost reduction initiative called "Performance Plus." As part of this program, the company identified significant restructuring actions which would eliminate up to 2,800 positions in North America and Europe and rationalize certain global facilities. The company's CVS and LVS businesses recorded $30 million and $14 million, respectively, of costs associated with this restructuring program during the first six months of fiscal year 2009. During the second quarter of fiscal year 2009, as part of Performance Plus, the company announced the closure of its CVS brakes plant in Tilbury, Ontario, Canada (Tilbury) and its LVS coil spring operations in Milton, Ontario, Canada (Milton). Costs associated with these closures included $18 million for estimated employee severance benefits, $16 million primarily associated with pension termination benefits (see Note 18) and $4 million associated with certain asset impairment charges. In addition, the company recognized approximately $6 million of costs, including asset impairment charges of $2 million, associated with previously announced plant closures.

Cumulative restructuring costs recorded for this program are $137 million as of March 31, 2009 and primarily relate to employee termination costs of $102 million in connection with a reduction of approximately 1,800 salaried and hourly employees, $16 million, primarily associated with pension termination benefits, asset impairment charges of $17 million and other shutdown costs of $2 million. Remaining costs of this restructuring program will be incurred over the next several years.

8. Income Taxes

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

In the first quarter of fiscal year 2009, the company recorded a charge of $665 million to establish valuation allowances against its U.S. net deferred tax assets and the net deferred tax assets of its 100% owned subsidiaries in France, Germany, Italy, and Sweden. In accordance with SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109), the company evaluates the deferred income taxes quarterly to determine if valuation allowances are required. SFAS No. 109 requires that companies assess whether valuation allowances should be established against their deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. In making such judgments, significant weight is given to evidence that can be objectively verified. As previously disclosed in the fiscal year 2008 Form 10-K, the company had determined in prior periods that a valuation allowance

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was not necessary for the deferred tax assets in the U.S. based on several factors including: (a) numerous restructuring initiatives the company undertook in fiscal years 2007 and 2008, generating significant savings in future periods; (b) the expected recovery of the commercial vehicle market; (c) the implementation of a major cost reduction and value creation program to generate additional improvements in earnings in future periods and (d) the repatriation of foreign earnings, which would generate significant taxable income in fiscal year 2009 and reduce future net interest expense in certain tax jurisdictions.

The company believes that these valuation allowances are now required due to events and developments that occurred during the first quarter of fiscal year 2009. In conducting the first quarter 2009 analysis, the company utilized a consistent approach which considers its three-year historical cumulative income (loss) including an assessment of the degree to which any losses were driven by items that are unusual in nature and incurred in order to improve future profitability. In addition, the company reviewed changes in near-term market conditions and any other factors arising during the period which may impact future operating results. Both positive and negative evidence were considered in the analysis. Significant negative evidence exists due to the ongoing deterioration of the global markets. The analysis for the first quarter of fiscal year 2009 showed a three-year historical cumulative loss in the U.S., France, Germany, Italy and Sweden. The losses continue to exist even after adjusting the results to remove unusual items and charges, which is considered a significant factor in the analysis as it is objectively verifiable and therefore, significant negative evidence. In addition, the recent global market deterioration reduced the expected impact of tax planning strategies that were included in our analysis. Accordingly, based on a three year historical cumulative loss, combined with significant and inherent uncertainty as to the timing of when the company would be able to generate the necessary level of earnings to recover its deferred tax assets in the U.S., France, Germany, Italy and Sweden, the company concluded that valuation allowances were required.

In the first six months of fiscal year 2009, the company recorded approximately $625 million of net unfavorable tax items discrete to this period primarily related to the valuation allowances recorded in certain jurisdictions and the tax effect of fixed asset impairments and restructuring charges. These discrete items increased the company’s effective tax rate for the six months ended March 31, 2009.

As of September 30, 2008, the company had approximately $131 million of gross unrecognized tax benefits of which $87 million represents the amount that, if recognized, would favorably affect the effective income tax rate in future periods. At March 31, 2009, the amount of gross unrecognized tax benefits and the amount that would favorably affect the effective income tax rate in future periods are $116 million and $30 million, respectively. The change in amount of tax benefits to be recognized in March 31, 2009 and September 30, 2008 is primarily due to the valuation allowances that were recorded during the period.

9. Acquisitions

In December 2007, the company’s CVS business acquired Mascot Truck Parts Ltd (Mascot) for a cash purchase price of $19 million. Mascot remanufactures transmissions, drive axles, steering gears and drivelines.

On October 4, 2004, the company formed two joint ventures in France with AB Volvo to manufacture and distribute axles. The company acquired its 51-percent interest for a purchase price of €19 million ($25 million). The company had an option to purchase and AB Volvo had an option to require the company to purchase the remaining 49-percent interest in one of the joint ventures beginning in the first quarter of fiscal year 2008 for €16 million ($23 million) plus interest at EURIBOR rates, plus a margin. In December 2007, this option was exercised and the related liability was settled. The option to purchase the minority interest was essentially a financing arrangement, as the minority shareholder did not participate in any profits or losses of the joint venture. Therefore, no minority interest was recognized in prior periods for the 49-percent interest in this joint venture.

10. Accounts Receivable and Securitization and Factoring

Off-balance sheet arrangements

The company participates in an arrangement to sell trade receivables through certain of its European subsidiaries. Under the arrangement, the company sells, at any point in time, up to €125 million of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the company’s consolidated balance sheet. The company continues to perform collection and administrative functions related to these receivables. Costs associated with this securitization arrangement were $3 million and $4 million for the six months ended March 31, 2009 and 2008, respectively, and are included in operating income (loss) in the consolidated statement of operations. The gross amount of proceeds received from the sale of receivables under this arrangement was $200 million and $326 million for the six months ended March 31, 2009 and 2008, respectively. The company’s retained interest in receivables sold was $11 million and $16 million at March 31, 2009 and September 30, 2008, respectively. The company had utilized, net of retained interests, €73 million ($98 million) and €114 million ($167 million) of this accounts receivable securitization facility as of March 31, 2009 and September 30, 2008, respectively.

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In addition, several of the company's subsidiaries, primarily in Europe, factor eligible accounts receivable with financial institutions. Certain receivables are factored without recourse to the company and are excluded from accounts receivable. The amount of factored receivables excluded from accounts receivable was $128 million and $243 million at March 31, 2009 and September 30, 2008, respectively. Costs associated with these factoring arrangements were $3 million and $5 million for the six months ended March 31, 2009 and 2008, respectively, and are included in operating income (loss) in the consolidated statement of operations.

On-balance sheet arrangements

The company also participates in a U.S. accounts receivable securitization program to enhance financial flexibility and lower interest costs. This program is provided on a committed basis by SunTrust Bank (with Three Pillars Funding LLC acting as the conduit lender) and expires in September 2009. The lender under this securitization program has notified the company that it does not intend to renew the facility when it expires in September 2009.Under this program, which was originally established in September 2005, amended in fiscal years 2006 and 2007, and renewed in fiscal year 2008, the company sells substantially all of the trade receivables of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation (ARC), a wholly-owned, special purpose subsidiary. The maximum borrowing capacity under this program was voluntarily lowered from $175 million to $125 million during the second quarter of fiscal year 2009. ARC funds these purchases with borrowings under a loan agreement with a bank. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the consolidated balance sheet (see Note 16). At March 31, 2009 and September 30, 2008, the company had utilized $88 million and $111 million, respectively, of this accounts receivable securitization facility. Borrowings under this arrangement are collateralized by approximately $163 million of receivables held at ARC at March 31, 2009. This arrangement, as most recently renewed, includes the same financial covenants as the company's senior secured credit facility (see Note 16).

11. Inventories

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

	March 31, 2009	September 30, 2008
Finished goods	$ 202	$ 237
Work in process	65	102
Raw materials, parts and supplies	239	284
Total	$ 506	$ 623

12. Other Current Assets

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

	March 31, 2009	September 30, 2008
Current deferred income tax assets, net (see Note 8)	$ 15	$ 110
Customer reimbursable tooling and engineering	25	27
Asbestos-related recoveries (see Note 19)	8	8
Deposits and collateral	23	19
Prepaid income taxes	23	31
Investment in debt defeasance trust (see Note 16)	—	6

Prepaid and other	21	17
Other current assets	$ 115	$ 218

Costs incurred for tooling and engineering, principally for light vehicle products, for which customer reimbursement is contractually guaranteed are classified as customer reimbursable tooling and engineering. These costs are billed to the customer based on the terms of the contract. Provisions for losses are provided at the time management expects costs to exceed anticipated customer reimbursements.

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13. Other Assets

Other assets are summarized as follows (in millions):

	March 31, 2009	September 30, 2008
Non-current deferred income tax assets, net (see Note 8)	$ 70	$ 530
Investments in non-consolidated joint ventures	119	134
Assets for uncertain tax positions (see Note 8)	22	34
Long-term receivables (see Note 15)	—	45
Prepaid pension costs (see Note 18)	1	25
Unamortized debt issuance costs	26	29
Capitalized software costs, net	22	25
Asbestos-related recoveries (see Note 19)	45	44
Note receivable due from EMCON, net of discount	15	13
Other	32	46
Other assets	$ 352	$ 925

The long-term receivable of $45 million at September 30, 2008 was related to certain Canadian income tax payments made by the company on behalf of Rockwell Automation, Inc. (Rockwell). Prior to the spin-off of the automotive business to Meritor (a predecessor of the company) from Rockwell International (now Rockwell Automation, Inc.) in fiscal year 1997, a Tax Allocation Agreement was signed between Rockwell and Meritor. Subsequent to the spin-off, the Canadian Revenue Agency (CRA) began performing a Canadian Tax audit over certain of the company's financing activities. As a result, the CRA issued tax reassessments to ArvinMeritor, for which Rockwell was liable under the Tax Allocation Agreement. ArvinMeritor appealed the reassessments on behalf of Rockwell. Between fiscal years 2004 and 2008, Rockwell transferred funds to ArvinMeritor to cover the required tax payments while the appeal was pending. At that time, ArvinMeritor recorded a long-term receivable and corresponding liability (see Note 15) for these funds in the company's consolidated balance sheet. During the second quarter of fiscal year 2009, the appeal was resolved and a majority of the long-term receivable and liability were settled. The remaining receivable and liability of approximately $5 million are expected to settle during the third quarter of fiscal year 2009.

The note receivable due from EMCON bears interest at a rate of 4 percent per annum and is payable in June 2012 or earlier upon a change in control. EMCON may prepay the note at any time. The company recorded the note, net of a $7 million and $8 million discount at March 31, 2009 and September 30, 2008, respectively, to reflect the difference between the stated rate per the agreement of 4 percent and the effective interest rate of approximately 9 percent. This discount will be amortized over the term of the note as interest income.

In accordance with Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," costs relating to internally developed or purchased software in the preliminary project stage and the post-implementation stage are expensed as incurred. Costs in the application development stage that meet the criteria for capitalization are capitalized and amortized using the straight-line basis over the estimated economic useful life of the software.

Patents, licenses and other intangible assets were $7 million and $6 million at March 31, 2009 and September 30, 2008, respectively, and are amortized over their contractual or estimated useful lives, as appropriate. The company anticipates amortization expense for patents, licenses and other intangible assets of approximately $6 million to be recorded over the remaining five years of the assets' useful lives.

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14. Other Current Liabilities

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

	March 31, 2009	September 30, 2008
Compensation and benefits	$ 152	$ 239
Due to EMCON (see Note 4)	13	50
Income taxes (see Note 8)	13	35
Taxes other than income taxes	39	54
Product warranties	42	58
Restructuring (see Note 7)	48	30
Foreign currency hedge contracts (see Note 17)	28	16
Reserve for commercial dispute	—	25
Asbestos-related liabilities (see Note 19)	14	15
Interest	6	7
Environmental (see Note 19)	8	8
Other	72	73
Other current liabilities	$ 435	$ 610

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

The company's LVS segment records product warranty liabilities based on individual customer or warranty-sharing agreements. Product warranties are recorded for known warranty issues when amounts can be reasonably estimated.

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

	Six Months Ended March 31,	
	2009	2008
Total product warranties – beginning of period	$ 102	$ 103
Accruals for product warranties	22	29
Payments	(19)	(34)
Foreign currency translation	(7)	4
Change in estimates and other	(8)	(6)
Total product warranties – end of period	90	96
Less: Non-current product warranties (see Note 15)	(48)	(46)
Product warranties – current	$ 42	$ 50

15. Other Liabilities

Other liabilities are summarized as follows (in millions):

	March 31, 2009	September 30, 2008
Asbestos-related liabilities (see Note 19)	$ 58	$ 54
Non-current deferred income tax liabilities (see Note 8)	67	4
Liabilities for uncertain tax positions (see Note 8)	58	52
Product warranties (see Note 14)	48	44
Environmental (see Note 19)	9	10
Long-term payable (see Note 13)	—	45
Other	32	38
Other liabilities	$ 272	$ 247

16. Long-Term Debt

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

	March 31, 2009	September 30, 2008
7-1/8 percent notes due March 2009	$ —	$ 6
6.8 percent notes due February 2009	—	77
8-3/4 percent notes due 2012	276	276
8-1/8 percent notes due 2015	251	251
4.625 percent convertible notes due 2026[1]	300	300
4.0 percent convertible notes due 2027[1]	200	200
Revolving credit facility	318	—
Accounts receivable securitization (see Note 10)	88	111
Lines of credit and other	58	52
Unamortized gain on swap unwind	26	30
Subtotal	1,517	1,303
Less: current maturities	(141)	(240)
Long-term debt	$ 1,376	$ 1,063

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

Debt Securities

In February and March 2009, the company repaid the $77 million outstanding 6.8 percent notes and the $6 million outstanding 7 1/8 percent notes, respectively. Both notes were repaid in full upon maturity and no gain or loss on debt extinguishment was recognized for either transaction.

Senior Secured Credit Facilities

The company has a $700 million revolving credit facility, which matures in June 2011. Due to the bankruptcy of Lehman Brothers in 2008, $34 million of these commitments are unavailable. The remaining amount of availability under this facility is dependent upon various factors, including principally performance against certain financial covenants. These financial covenants are based on (i) the ratio of the company's senior secured indebtedness to EBITDA and (ii) the amount of annual capital expenditures. The company is required to maintain a total senior secured-debt-to-EBITDA ratio, as defined in the agreement, no greater than 2.50 to 1 on the last day of any fiscal quarter through and including the fiscal quarter ending March 31, 2009 and (ii) 2.00 to 1 on the last day of any fiscal quarter thereafter. At March 31, 2009, the company was in compliance with all covenants.

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The revolving credit facility includes a $150 million limit on the issuance of letters of credit. At March 31, 2009 and September 30, 2008, approximately $37 million and $38 million of letters of credit were issued, respectively. The company had an additional $10 million and $13 million outstanding at March 31, 2009 and September 30, 2008, respectively, on letters of credit available through other facilities.

Borrowings under the revolving credit facility are collateralized by approximately $637 million of the company's assets, primarily consisting of eligible domestic U.S. accounts receivable, inventory, plant, property and equipment, intellectual property and the company's investment in all or a portion of certain of its wholly-owned subsidiaries.

Borrowings under the revolving credit facility are subject to interest based on quoted LIBOR rates plus a margin, and a commitment fee on undrawn amounts, both of which are based upon the company's current credit rating for the senior secured facility. At March 31, 2009, the margin over the LIBOR rate was 275 basis points, and the commitment fee was 50 basis points.

The company amended this revolving credit facility in December 2007 and recognized a $3 million loss on debt extinguishment associated with the write-off of debt issuance costs. This loss on debt extinguishment is recorded in interest expense, net in the consolidated statement of operations.

Certain of the company's subsidiaries, as defined in the credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the amended revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the publicly-held notes outstanding under the company's indentures (see Note 22).

Investment in Debt Defeasance Trust

The company had $6 million of U.S. government securities in an irrevocable trust, for the sole purpose of funding payments of principal and interest through the stated maturity on the $6 million of outstanding 7-1/8 percent notes due March 2009, in order to defease certain covenants under the associated indenture. As these securities were restricted and could only be withdrawn and used for payments of the principal and interest on the aforementioned notes, the assets of the trust were recorded in Other Current Assets (see Note 12) in the consolidated balance sheet. As this debt matured during the second quarter of fiscal year 2009, it was repaid with the securities in the trust.

Convertible Securities

In February 2007, the company issued $200 million of 4.00 percent convertible senior unsecured notes due 2027 (the 2007 convertible notes). In March 2006, the company issued $300 million of 4.625 percent convertible senior unsecured notes due 2026 (the 2006 convertible notes). The 2007 convertible notes bear cash interest at a rate of 4.00 percent per annum from the date of issuance through February 15, 2019, payable semi-annually in arrears on February 15 and August 15 of each year. After February 15, 2019, 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 4.00 percent. The 2006 convertible notes bear cash interest at a rate of 4.625 percent per annum from the date of issuance through March 1, 2016, payable semi-annually in arrears on March 1 and September 1 of each year. 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 percent.

Conversion Features – convertible securities

The 2007 convertible notes are convertible into shares of the company's common stock at an initial conversion rate, subject to adjustment, equivalent to 37.4111 shares of common stock per $1,000 initial principal amount of notes, which represents an initial conversion price of approximately $26.73 per share. If converted, the accreted principal amount will be settled in cash and the remainder of the company's conversion obligation, if any, in excess of such accreted principal amount will be settled in cash, shares of common stock, or a combination thereof, at the company's election. Holders may convert their notes at any time on or after February 15, 2025. The maximum number of shares of common stock the 2007 convertible notes are convertible into is approximately 7 million.

The 2006 convertible notes are convertible into shares of the company's common stock at an initial conversion rate, subject to adjustment, 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. If converted, the accreted principal amount will be settled in cash and the remainder of the company's conversion obligation, if any, in excess of such accreted principal amount will be settled in cash, shares of common stock, or a combination thereof, at the company's election. Holders may convert their notes at any time on or after March 1, 2024. The maximum number of shares of common stock the 2006 convertible notes are convertible into is approximately 14 million.

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Prior to February 15, 2025 (2007 convertible notes) and March 1, 2024 (2006 convertible notes), holders may convert their notes only under the following circumstances:

- during any calendar quarter, if the closing price of the company's 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 percent of the applicable conversion price;

- 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 is equal to or less than 97 percent of the average conversion value of the notes during such five consecutive trading day period;

- upon the occurrence of specified corporate transactions, including, without limitation, a Change of Control and Termination of Trading (as defined therein); or

- if the notes are called by the company for redemption.

Redemption Features – convertible securities

On or after February 15, 2019, the company may redeem the 2007 convertible notes, in whole or in part, for cash at a redemption price equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest. On each of February 15, 2019 and 2022, or upon certain fundamental changes (which include a Change of Control and Termination of Trading, as defined therein), holders may require the company to purchase all or a portion of their 2007 convertible notes at a purchase price in cash equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest.

On or after March 1, 2016, the company may redeem the 2006 convertible notes, in whole or in part, for cash at a redemption price equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest. On each of March 1, 2016, 2018, 2020, 2022 and 2024, or upon certain fundamental changes, holders may require the company to purchase all or a portion of their 2006 convertible notes at a purchase price in cash equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest.

The 2007 and 2006 convertible notes are fully and unconditionally guaranteed by certain subsidiaries of the company that currently guarantee the company's obligations under its senior secured credit facility and other publicly-held notes (see Senior Secured Credit Facilities above).

Accounts Receivable Securitization

The company participates in a U.S. accounts receivable securitization program to enhance financial flexibility and lower interest costs (see Note 10). This program is provided on a committed basis by SunTrust Bank (with Three Pillars Funding LLC acting as the conduit lender) and expires in September 2009. The lender under this securitization program has notified the company that it does not intend to renew the facility when it expires in September 2009.The weighted average interest rate on borrowings under this arrangement was approximately 3.04% percent at March 31,

2009. Amounts outstanding under this agreement are reported as short-term debt in the consolidated balance sheet and are collateralized by $163 million of eligible receivables purchased and held by ARC at March 31, 2009. If certain receivables performance-based covenants are not met, it would constitute a termination event, which, at the option of the banks, could result in termination of the accounts receivable securitization arrangement. At March 31, 2009, the company was in compliance with all covenants. This program, as most recently renewed, includes the same financial covenants as the company's senior secured credit facility agreement.

Related Parties

A 57-percent owned consolidated joint venture of the company has a $6 million, 6.5-percent loan with its minority partner. This loan matures in March 2010 and is included in short-term debt in the consolidated balance sheet.

Interest Rate Swap Agreements

In January 2008, the company terminated all of its interest rate swap agreements and received proceeds from these terminations, including interest received, of $28 million. The unamortized fair value adjustment of the notes associated with these and previous interest rate swap terminations was $26 million and $30 million at March 31, 2009 and September 30, 2008, respectively. The fair value adjustment of the notes is classified as long-term debt in the consolidated balance sheet and is amortized to earnings as a reduction of interest expense over the remaining term of the debt.

Leases

The company has various operating leasing arrangements. Future minimum lease payments under these operating leases are $24 million in 2009, $21 million in 2010, $18 million in 2011, $15 million in 2012, $13 million in 2013 and $24 million thereafter.

17. Financial Instruments

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

Foreign Exchange Contracts

The company's operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates. The company has a foreign currency cash flow hedging program to reduce the company's exposure to changes in exchange rates. The company uses foreign currency forward contracts to manage the company's exposures arising from foreign currency exchange risk. Gains and losses on the underlying foreign currency exposures are partially offset with gains and losses on the foreign currency forward contracts.

Under this program, the company has designated the foreign exchange contracts (the "contracts") as cash flow hedges of underlying forecasted foreign currency purchases and sales. The effective portion of changes in the fair value of the contracts is recorded in Accumulated Other Comprehensive Loss (AOCL) in the consolidated balance sheet and is recognized in operating income when the underlying forecasted transaction impacts earnings. The fair values of derivative instruments are presented on a gross basis as the company does not have any derivative contracts which are subject to master netting arrangements. The company does not have any hedges that required the posting of collateral as of March 31, 2009.

The company's foreign exchange contracts generally mature within 12-18 months. At March 31, 2009 and September 30, 2008, the company had outstanding contracts with notional amounts of $243 million and $422 million, respectively. These notional values consist primarily of contracts for the European euro, British pound sterling and Swedish Krona, and are stated in U.S. dollar equivalents at spot exchange rates at the respective dates.

Fair values of derivative instruments in the consolidated balance sheet at March 31, 2009 are as follows (in millions):

	Asset Derivatives		**Liability Derivatives**	
	Classification	**Fair Value**	**Classification**	**Fair Value**
Foreign exchange contracts:				
Derivatives designated as hedging instruments under FASB Statement No. 133	Other current assets	$ 6	Other current liabilities	$ 25
			Other liabilities	4
Total		$ 6		$ 29
Derivatives not designated as hedging instruments under FASB Statement No. 133			Other current liabilities	$ 3
Total derivatives		$ 6		$ 32

The effect of derivative instruments on comprehensive income (loss) for the three and six months ended March 31, 2009 is as follows (in millions):

	Location of Gain (Loss)	Amount of Gain (Loss) at March 31, 2009 Three Months Ended	Six Months Ended
Amount of gain (loss) recognized in AOCL (effective portion)	AOCL	$ 12	$ (26)
Amount of loss reclassified from AOCL into income (effective portion)	Cost of sales	$ (6)	$ (16)
Amount of gain (loss) recognized in income on derivatives not designated as hedging instruments and on discontinuance of cash flow hedges	Cost of sales	$ 1	$ (3)

At March 31, 2009 and September 30, 2008, there was a loss of $17 million and $10 million, respectively, recorded in AOCL. The company expects to reclassify this amount from AOCL to operating income during the next eighteen months as the forecasted hedged transactions are recognized in earnings.

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

Fair Value

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

	March 31, 2009		September 30, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 165	165	497	497
Foreign exchange contracts - asset	6	6	4	4
Investment in debt defeasance trust	—	—	6	6
Foreign exchange contracts - liability	32	32	16	16
Short-term debt	141	141	240	240
Long-term debt	1,376	597	1,063	882

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

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

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

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18. Retirement Benefit Liabilities

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

	March 31, 2009	September 30, 2008
Retiree medical liability	$ 536	$ 568
Pension liability	139	135
Other	34	42
Subtotal	709	745
Less: current portion (included in compensation and benefits)	(55)	(55)
Retirement benefit liabilities	$ 654	$ 690

The components of net periodic pension and retiree medical expense for the three months ended March 31 are as follows:

	2009		2008	
	Pension	Retiree Medical	Pension	Retiree Medical
Service cost	$ 5	$ —	$ 7	$ —
Interest cost	27	10	26	9
Assumed return on plan assets	(31)	—	(31)	—
Amortization of prior service costs	1	(2)	1	(2)
Recognized actuarial loss	5	7	9	7
Total expense	$ 7	$ 15	$ 12	$ 14

The components of net periodic pension and retiree medical expense for the six months ended March 31 are as follows:

	2009		2008	
	Pension	Retiree Medical	Pension	Retiree Medical
Service cost	$ 10	$ 1	$ 14	$ 1
Interest cost	54	19	52	18
Assumed return on plan assets	(62)	—	(63)	—
Amortization of prior service costs	1	(4)	2	(4)
Recognized actuarial loss	10	14	18	14
Total expense	$ 13	$ 30	$ 23	$ 29

The company recognizes the funded status of its benefit plans in accordance with the recognition provisions of SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)."* The company elected to adopt the measurement date provisions of SFAS No. 158 at October 1, 2008. Those provisions require the measurement date for plan assets and liabilities to coincide with the sponsor's year-end. Using the "one-measurement" approach, the impact of adopting the measurement date provisions of SFAS No. 158 at October 1, 2008 was an increase to accumulated deficit of approximately $20 million ($20 million after-tax), representing the net periodic benefit cost for the period between the measurement date utilized in fiscal year 2008 and the beginning of fiscal year 2009, which previously would have been expensed in the first quarter of fiscal year 2009 on a delayed basis.

On November 12, 2008, the company settled a lawsuit with the United Steel Workers with respect to certain retiree medical plan amendments for approximately $28 million. This settlement was paid in November 2008 and will increase the accumulated postretirement benefit obligation (APBO) by approximately $23 million. The increase in APBO will be reflected in the company's September 30, 2009 actuarial valuation as an increase in actuarial losses and will be amortized into periodic retiree medical expense over an average expected remaining service life of approximately ten years.

On February 24, 2009, the company announced the closure of its CVS brakes plant in Tilbury, Ontario, Canada. All salaried and hourly employees at this facility participate in both a salaried or hourly pension plan and a retiree medical plan. The expected

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closure of this facility triggered plan curtailments requiring the remeasurement of each plan. The measurement date of these valuations was February 28, 2009. SFAS No. 88, "*Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*" requires a plan curtailment loss to be recognized in earnings when it is probable that a curtailment will occur and the effects are reasonably estimable. Including termination benefits of approximately $15 million required to be paid under the terms of the plans, the company recognized plan curtailment losses of approximately $16 million, which were recorded in restructuring costs (see Note 7) in the consolidated statement of operations. Additionally, the remeasurements resulted in an $11 million ($8 million after-tax) increase in the projected benefit obligation (PBO), offset by a $7 million ($5 million after-tax) decrease in the APBO. The net increase in the benefit obligation was reflected as an increase in actuarial losses that will be amortized into expense over the plan participants' average remaining life expectancy of approximately 20 years. The remeasurement of these plans resulted in a reduction of the prepaid pension costs (see Note 13) of $25 million.

On March 5, 2009, the company announced its plans to close its LVS coil spring operations in Milton, Ontario, Canada. This expected closure also triggered a plan curtailment, which was not significant to the company's results of operations for the three months ended March 31, 2009. The terms of the plans provide for certain termination benefits which are subject to various benefit elections by the affected employees. In addition, certain terms associated with the plant closure are subject to further negotiations with the Canadian Auto Workers (CAW) union. Depending upon the outcome of these matters, the company estimates the range of termination benefits to be between zero and $5 million, which will be recognized as expense in the consolidated statement of operations when the amount can be reasonably estimated.

19. Contingencies

Environmental

Federal, state and local requirements relating to the discharge of substances into the environment, the disposal of hazardous wastes and other activities affecting the environment have, and will continue to have, an impact on the manufacturing operations of the company. The process of estimating environmental liabilities is complex and dependent upon evolving physical and scientific data at the sites, uncertainties as to remedies and technologies to be used and the outcome of discussions with regulatory agencies. The company records liabilities for environmental issues in the accounting period in which its responsibility and investigation and remediation plans become probable and the cost can be reasonably estimated. At environmental sites in which more than one potentially responsible party has been identified, the company records a liability for its allocable share of costs related to its involvement with the site, as well as an allocable share of costs related to insolvent parties or unidentified shares. At environmental sites in which ArvinMeritor is the only potentially responsible party, the company records a liability for the total probable and estimable costs of remediation before consideration of recovery from insurers or other third parties.

The company has been designated as a potentially responsible party at seven Superfund sites, excluding sites as to which the company's records disclose no involvement or as to which the company's potential liability has been finally determined. Management estimates the total reasonably possible costs the company could incur for the remediation of Superfund sites at March 31, 2009 to be approximately $21 million, of which $3 million is recorded as a liability.

In addition to the Superfund sites, various other lawsuits, claims and proceedings have been asserted against the company, alleging violations of federal, state and local environmental protection requirements, or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. For these matters, management has estimated the total reasonably possible costs the company could incur at March 31, 2009 to be approximately $56 million, of which $14 million is recorded as a liability.

Included in the company's environmental liabilities are costs for on-going operation, maintenance and monitoring at environmental sites in which remediation has been put into place. This liability is discounted using a discount rate of 5-percent and is approximately $7 million at March 31, 2009. The undiscounted estimate of these costs is approximately $10 million.

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

	Superfund Sites	Non-Superfund Sites	Total
Balance at September 30, 2008	$ 3	$ 15	$ 18
Payments	—	(2)	(2)
Change in cost estimates	—	1	1
Balance at March 31, 2009	$ 3	$ 14	$ 17

Environmental reserves are included in Other Current Liabilities (see Note 14) and Other Liabilities (see Note 15).

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The actual amount of costs or damages for which the company may be held responsible could materially exceed the foregoing estimates because of uncertainties, including the financial condition of other potentially responsible parties, the success of the remediation, discovery of new contamination and other factors that make it difficult to predict actual costs accurately. However, based on management's assessment, after consulting with outside advisors that specialize in environmental matters, and subject to the difficulties inherent in estimating these future costs, the company believes that its expenditures for environmental capital investment and remediation necessary to comply with present regulations governing environmental protection and other expenditures for the resolution of environmental claims will not have a material adverse effect on the company's business, financial condition or results of operations. In addition, in future periods, new laws and regulations, changes in remediation plans, advances in technology and additional information about the ultimate clean-up remedies could significantly change the company's estimates. Management cannot assess the possible effect of compliance with future requirements.

Asset Retirement Obligations

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

Asbestos

Maremont Corporation ("Maremont"), a subsidiary of ArvinMeritor, manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. Arvin Industries, Inc., a predecessor of the company, acquired Maremont in 1986. Maremont and many other companies are defendants in suits brought by individuals claiming personal injuries as a result of exposure to asbestos-containing products. Maremont had approximately 30,000 pending asbestos-related claims at March 31, 2009 down from approximately 35,000 at September 30, 2008. Although Maremont has been named in these cases, in the cases where actual injury has been alleged, very few claimants have established that a Maremont product caused their injuries. Plaintiffs' lawyers often sue dozens or even hundreds of defendants in individual lawsuits on behalf of hundreds or thousands of claimants, seeking damages against all named defendants irrespective of the disease or injury and irrespective of any causal connection with a particular product. For these reasons, Maremont does not consider the number of claims filed or the damages alleged to be a meaningful factor in determining its asbestos-related liability.

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

	March 31, 2009	September 30, 2008
Asbestos-related reserves for pending and future claims	$ 55	$ 53
Asbestos-related recoveries	36	36

A portion of the asbestos-related recoveries and reserves are included in Other Current Assets and Liabilities, with the majority of the amounts recorded in Other Assets and Liabilities (see Notes 12, 13, 14 and 15).

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

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

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Bates White provided an estimate of the reasonably possible range of Maremont's obligation for asbestos personal injury claims over the next ten years of $52 million to $61 million. After consultation with Bates White, Maremont determined that as of March 31, 2009, the most likely and probable liability for pending and future claims over the next ten years is $52 million. The ultimate cost of resolving pending and future claims is estimated based on the history of claims and expenses for plaintiffs represented by law firms in jurisdictions with an established history with Maremont.

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

- Pending and future claims were estimated for a ten year period ending in fiscal year 2019. The forecast period used to estimate a reasonably possible range of claims was increased from four years at March 2008 to ten years at September 30, 2008. Maremont has reached certain longer-term agreements with key plaintiff law firms that make payments beyond the four year period more reasonably estimable. In addition, filings of mesothelioma claims have been relatively stable over the last four years resulting in an improvement in the reliability of future projections over a longer time period;
- Maremont believes that the litigation environment will change significantly beyond ten years and that the reliability of estimates of future probable expenditures in connection with asbestos-related personal injury claims will decline for each year further in the future. As a result, estimating a probable liability beyond ten years is difficult and uncertain;
- The ultimate cost of resolving pending and future claims filed in Madison County, Illinois, a jurisdiction where a substantial amount of Maremont's claims are filed, will decline to reflect average outcomes throughout the United States;
- Defense and processing costs for pending and future claims filed outside of Madison County, Illinois will be at the level consistent with Maremont's prior experience; and
- The ultimate indemnity cost of resolving nonmalignant claims with plaintiffs' law firms in jurisdictions without an established history with Maremont cannot be reasonably estimated. Recent changes in tort law and insufficient settlement history make estimating a liability for these nonmalignant claims difficult and uncertain.

Recoveries: Maremont has insurance that reimburses a substantial portion of the costs incurred defending against asbestos-related claims. The coverage also reimburses Maremont for any indemnity paid on those claims. The coverage is provided by several insurance carriers based on insurance agreements in place. Incorporating historical information with respect to buy-outs and settlements of coverage, and excluding any policies in dispute, the insurance receivable related to asbestos-related liabilities is $36 million. The difference between the estimated liability and insurance receivable is related to proceeds received from settled insurance policies and liabilities for shortfall and other. Certain insurance policies have been settled in cash prior to the ultimate settlement of the related asbestos liabilities. Amounts received from insurance settlements generally reduce recorded insurance receivables. Receivables for policies in dispute are not recorded.

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

Rockwell — ArvinMeritor, along with many other companies, has also been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos used in certain components of Rockwell products many years ago. Liability for these claims was transferred to the company at the time of the spin-off of the automotive business to Meritor from Rockwell in 1997. Currently there are thousands of claimants in lawsuits that name the company, together with many other companies, as defendants. However, the company does not consider the number of claims filed or the damages alleged to be a meaningful factor in determining asbestos-related liabilities. A significant portion of the claims do not identify any of Rockwell's products or specify which of the claimants, if any, were exposed to asbestos attributable to Rockwell's products, and past experience has shown that the vast majority of the claimants will never identify any of Rockwell's products. For those claimants who do show that they worked with Rockwell's products, management nevertheless believes it has meritorious defenses, in substantial part due to the integrity of the products involved, the encapsulated nature of any asbestos-containing components, and the lack of any impairing medical condition on the part

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of many claimants. The company defends these cases vigorously. Historically, ArvinMeritor has been dismissed from the vast majority of these claims with no payment to claimants.

The company engages Bates White to assist with determining whether it would be possible to estimate the cost of resolving pending and future Rockwell legacy asbestos-related claims that have been, and could reasonably be expected to be, filed against the company. Although it is not possible to estimate the full range of costs because of various uncertainties, Bates White advised the company that it would be able to determine an estimate of probable defense and indemnity costs which could be incurred to resolve pending and future Rockwell legacy asbestos-related claims. Accordingly, the company has recorded a $17 million and $16 million liability for defense and indemnity costs associated with these claims at March 31, 2009 and September 30, 2008, respectively. The accrual estimates are based on historical data and certain assumptions with respect to events that may occur in the future. The uncertainties of asbestos claim litigation and resolution of the litigation with the insurance companies make it difficult to predict accurately the ultimate resolution of asbestos claims. That uncertainty is increased by the possibility of adverse rulings or new legislation affecting asbestos claim litigation or the settlement process. Subject to these uncertainties and based on the company's experience defending these asbestos claims, the company does not believe these lawsuits will have a material adverse effect on its financial condition or results of operations.

Rockwell maintained insurance coverage that management believes covers indemnity and defense costs, over and above self-insurance retentions, for most of these claims. The company has initiated claims against these carriers to enforce the insurance policies. Although the status of one carrier as a financially viable entity is in question, the company expects to recover the majority of defense and indemnity costs it has incurred to date, over and above self-insured retentions, and a substantial portion of the costs for defending asbestos claims going forward. Accordingly, the company has recorded an insurance receivable related to Rockwell legacy asbestos-related liabilities of $17 million and $16 million at March 31, 2009 and September 30, 2008, respectively.

Guarantees

In December 2005, the company guaranteed a third party's obligation to reimburse another party for payment of health and prescription drug benefits to a group of retired employees. The retirees were former employees of a wholly-owned subsidiary of the company prior to it being acquired by the company. To date, the third party has met its obligations to reimburse the other party. The Accumulated Postretirement Benefit Obligation associated with these retiree medical benefits is considered the maximum potential exposure under this guarantee and is estimated to be approximately $25 million. No amount has been recorded for this guarantee based on the probability of the company having to perform under the guarantee. Due to the nature of this guarantee it is difficult to estimate its approximate term.

Indemnifications

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

Other

On March 31, 2008, S&E Quick Lube, a filter distributor, filed suit in U.S. District Court for the District of Connecticut alleging that twelve filter manufacturers, including a prior subsidiary of the company, engaged in a conspiracy to fix prices, rig bids and allocate U.S. customers for aftermarket automotive filters. This suit is a purported class action on behalf of direct purchasers of filters from the defendants. Several parallel purported class actions, including on behalf of indirect purchasers of filters, have been filed by other plaintiffs in a variety of jurisdictions in the United States and Canada. On April 16, 2009, the Attorney General of the State of Florida filed a complaint with the U.S. District Court for the Northern District of Illinois based on these same allegations. The company intends to vigorously defend the claims raised in all of these actions. The Antitrust Division of the U.S. Department of Justice (DOJ) is also investigating the allegations raised in these suits. The DOJ has issued subpoenas to certain employees of the defendants, which include the company. The company is fully cooperating with the investigation. The company is unable to estimate a range of exposure, if any, at this time.

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

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20. Comprehensive Income (Loss)

On an annual basis, disclosure of comprehensive income (loss) is incorporated into the Consolidated Statement of Shareowners' Equity (Deficit). This statement is not presented on a quarterly basis. Comprehensive income includes net income (loss) and components of other comprehensive income (loss), such as foreign currency translation adjustments, employee benefit related adjustments and unrealized gains and losses on derivatives and equity securities.

Comprehensive income (loss) is summarized as follows (in millions):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
Net income (loss)	$ (47)	$ 20	$ (1,038)	$ 8
Foreign currency translation adjustments	(11)	52	(168)	82
Unrealized gain (loss) on investments and foreign currency contracts, net	16	(7)	(9)	(13)
Adjustment to apply measurement date provisions of SFAS No. 158, net of tax	—	—	9	—
Employee benefit related adjustments, net of tax	(3)	—	(3)	(3)
Comprehensive income (loss)	$ (45)	$ 65	$ (1,209)	$ 74

21. Business Segment Information

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

The company reports operating results under two segments: Commercial Vehicle Systems (CVS) and Light Vehicle Systems (LVS). CVS supplies drivetrain systems and components, including axles and drivelines, braking systems and suspension systems, for medium- and heavy-duty trucks, trailers and specialty vehicles to original equipment manufacturers (OEMs) and the commercial vehicle aftermarket. LVS is a major supplier of aperture systems (roof and door systems), chassis systems (ride control, suspension systems and modules) and wheel products for passenger cars, motorcycles and all-terrain vehicles, light trucks and sport utility vehicles to OEMs.

The company measures segment operating performance based on earnings before interest, taxes, depreciation and amortization and loss on sale of receivables (EBITDA). The company uses EBITDA as the primary basis for the CODM to evaluate the performance of each of the company's reportable segments.

The accounting policies of the segments are the same as those applied in the Consolidated Financial Statements, except for the use of EBITDA. The company may allocate certain common costs, primarily corporate functions, between the segments differently than the company would for stand alone financial information prepared in accordance with GAAP. These allocated costs include expenses for shared services such as information technology, finance, communications, legal and human resources. The company does not allocate interest expense and certain legacy and other corporate costs not directly associated with the segments' EBITDA. In anticipation of the planned separation of the light vehicles business from the company, LVS started building its own corporate functions during the fourth quarter of fiscal year 2008 and utilization of common corporate resources by LVS has decreased in the first six months of fiscal year 2009. The company completed an analysis during the three months ended March 31, 2009, and modified its methodology for allocating certain corporate costs to its CVS and LVS segments. Under the revised allocation methodology the company estimates that $1 million of corporate costs per quarter represents a reasonable allocation of common corporate costs to LVS going forward. The company has adjusted the allocation of common corporate costs retroactively to the beginning of the fiscal year resulting in an increase of $6 million to LVS EBITDA (and a corresponding decrease to CVS EBITDA) for the three months ended December 31, 2008. The revised allocations are reflected in the segment EBITDA amounts shown below.

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Segment information is summarized as follows (in millions):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Six Months Ended March 31, 2009	Six Months Ended March 31, 2008
Sales:				
Commercial Vehicle Systems	$ 739	$ 1,192	$ 1,695	$ 2,272
Light Vehicle Systems	371	589	785	1,172
Total sales	$ 1,110	$ 1,781	$ 2,480	$ 3,444
Segment EBITDA:				
Commercial Vehicle Systems	$ 15	$ 84	$ 45	$ 155
Light Vehicle Systems	(29)	19	(331)	21
Segment EBITDA [(1)]	(14)	103	(286)	176
Unallocated corporate costs	(7)	(4)	(23)	(5)
Depreciation and amortization	(18)	(36)	(50)	(68)
Loss on sale of receivables	(2)	(5)	(6)	(9)
Interest expense, net	(23)	(20)	(45)	(47)
Benefit (provision) for income taxes	12	(14)	(633)	(24)
Income (loss) from continuing operations	$ (52)	$ 24	$ (1,043)	$ 23

	March 31, 2009	September 30, 2008
Segment Assets:		
Commercial Vehicle Systems	$ 2,014	$ 2,591
Light Vehicle Systems	689	1,072
Total segment assets[(2)]	2,703	3,663
Corporate	171	1,011
Total assets	$ 2,874	$ 4,674

(1) Segment EBITDA results for the six months ended March 31, 2009 reflect $273 million of non-cash impairment charges recognized in the first quarter of fiscal year 2009 (see Notes 5 and 6).

(2) At March 31, 2009 and September 30, 2008, segment assets include $163 million and $212 million, respectively, of receivables sold to ARC under the U.S. accounts receivable securitization agreement (see Note 10).

22. Supplemental Guarantor Condensed Consolidating Financial Statements

Certain of the company's wholly-owned subsidiaries, as defined in the credit agreement (the Guarantors) irrevocably and unconditionally guarantee amounts outstanding under the senior secured revolving credit facility. Similar subsidiary guarantees were provided for the benefit of the holders of the publicly-held notes outstanding under the company's indentures (see Note 16).

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

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Condensed Consolidating Statement of Operations
(In millions)

	Three Months Ended March 31, 2009				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$ —	$ 484	$ 626	$ —	$ 1,110
Subsidiaries	—	19	52	(71)	—
Total sales	—	503	678	(71)	1,110
Cost of sales	(7)	(422)	(664)	71	(1,022)
GROSS MARGIN	(7)	81	14	—	88
Selling, general and administrative	(8)	(20)	(41)	—	(69)
Restructuring costs	(1)	(3)	(52)	—	(56)
Other expense	(1)	(1)	1	—	(1)
OPERATING INCOME (LOSS)	(17)	57	(78)	—	(38)
Equity in losses of affiliates	—	(2)	(1)	—	(3)
Other income (expense), net	23	37	(60)	—	—
Interest income (expense), net	(25)	13	(11)	—	(23)
INCOME (LOSS) BEFORE INCOME TAXES	(19)	105	(150)	—	(64)
Benefit (provision) for income taxes	—	(10)	22	—	12
Equity income from continuing operations of subsidiaries	(33)	(404)	—	437	—
LOSS FROM CONTINUING OPERATIONS	(52)	(309)	(128)	437	(52)
INCOME FROM DISCONTINUED OPERATIONS	5	9	8	(17)	5
NET LOSS	$ (47)	$ (300)	$ (120)	$ 420	$ (47)

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Condensed Consolidating Statement of Operations
(In millions)

	Three Months Ended March 31, 2008				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$ —	$ 564	$ 1,217	$ —	$ 1,781
Subsidiaries	—	28	73	(101)	—
Total sales	—	592	1,290	(101)	1,781
Cost of sales	(14)	(534)	(1,167)	101	(1,614)
GROSS MARGIN	(14)	58	123	—	167
Selling, general and administrative	(22)	(44)	(39)	—	(105)
Restructuring costs	—	(1)	(4)	—	(5)
Other expense	(1)	—	—	—	(1)
OPERATING INCOME (LOSS)	(37)	13	80	—	56
Equity in earnings of affiliates	—	3	3	—	6
Other income (expense), net	30	(14)	(16)	—	—
Interest income (expense), net	(15)	(23)	18	—	(20)
INCOME (LOSS) BEFORE INCOME TAXES	(22)	(21)	85	—	42
Benefit (provision) for income taxes	7	4	(25)	—	(14)
Minority interests	—	—	(4)	—	(4)
Equity income from continuing operations of subsidiaries	39	51	—	(90)	—
INCOME FROM CONTINUING OPERATIONS	24	34	56	(90)	24
LOSS FROM DISCONTINUED OPERATIONS	(4)	(2)	(3)	5	(4)
NET INCOME	$ 20	$ 32	$ 53	$ (85)	$ 20

Condensed Consolidating Statement of Operations
(In millions)

	Six Months Ended March 31, 2009				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$ —	$ 1,012	$ 1,468	$ —	$ 2,480
Subsidiaries	—	49	114	(163)	—
Total sales	—	1,061	1,582	(163)	2,480
Cost of sales	(17)	(923)	(1,542)	163	(2,319)
GROSS MARGIN	(17)	138	40	—	161
Selling, general and administrative	(37)	(59)	(79)	—	(175)
Restructuring costs	(4)	(14)	(64)	—	(82)
Asset impairment charges	(6)	(112)	(161)	—	(279)
Other expense	(1)	—	—	—	(1)
OPERATING LOSS	(65)	(47)	(264)	—	(376)
Equity in earnings (losses) of affiliates	—	(3)	4	—	1
Other income (expense), net	23	32	(55)	—	—
Interest income (expense), net	(50)	25	(20)	—	(45)
INCOME (LOSS) BEFORE INCOME TAXES	(92)	7	(335)	—	(420)
Provision for income taxes	(471)	(129)	(33)	—	(633)
Minority interest	—	—	10	—	10
Equity income from continuing operations of subsidiaries	(480)	(397)	—	877	—
LOSS FROM CONTINUING OPERATIONS	(1,043)	(519)	(358)	877	(1,043)
INCOME FROM DISCONTINUED OPERATIONS	5	9	8	(17)	5
NET LOSS	$ (1,038)	$ (510)	$ (350)	$ 860	$ (1,038)

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Condensed Consolidating Statement of Operations
(In millions)

	Six Months Ended March 31, 2008				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$ —	$ 1,089	$ 2,355	$ —	$ 3,444
Subsidiaries	—	60	139	(199)	—
Total sales	—	1,149	2,494	(199)	3,444
Cost of sales	(21)	(1,044)	(2,281)	199	(3,147)
GROSS MARGIN	(21)	105	213	—	297
Selling, general and administrative	(42)	(77)	(78)	—	(197)
Restructuring costs	—	(1)	(14)	—	(15)
Other expense	(1)	—	—	—	(1)
OPERATING INCOME (LOSS)	(64)	27	121	—	84
Equity in earnings of affiliates	—	8	9	—	17
Other income (expense), net	30	(18)	(12)	—	—
Interest expense, net	(40)	(3)	(4)	—	(47)
INCOME (LOSS) BEFORE INCOME TAXES	(74)	14	114	—	54
Benefit (provision) for income taxes	22	(10)	(36)	—	(24)
Minority interests	—	—	(7)	—	(7)
Equity income from continuing operations of subsidiaries	75	69	—	(144)	—
INCOME FROM CONTINUING OPERATIONS	23	73	71	(144)	23
LOSS FROM DISCONTINUED OPERATIONS	(15)	(14)	(10)	24	(15)
NET INCOME	$ 8	$ 59	$ 61	$ (120)	$ 8

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Condensed Consolidating Balance Sheet
(In millions)

	March 31, 2009				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	$ 17	$ 3	$ 145	$ —	$ 165
Receivables, net	(3)	80	706	—	783
Inventories	—	189	317	—	506
Other current assets	72	(41)	84	—	115
TOTAL CURRENT ASSETS	86	231	1,252	—	1,569
NET PROPERTY	10	299	221	—	530
GOODWILL	—	275	148	—	423
OTHER ASSETS	140	140	72	—	352
INVESTMENTS IN SUBSIDIARIES	773	(333)	—	(440)	—
TOTAL ASSETS	$ 1,009	$ 612	$ 1,693	$ (440)	$ 2,874
CURRENT LIABILITIES					
Short-term debt	$ 1	$ —	$ 140	$ —	$ 141
Accounts payable	31	182	502	—	715
Other current liabilities	100	50	285	—	435
TOTAL CURRENT LIABILITIES	132	232	927	—	1,291
LONG-TERM DEBT	1,374	—	2	—	1,376
RETIREMENT BENEFITS	481	—	173	—	654
INTERCOMPANY PAYABLE (RECEIVABLE)	(352)	(487)	839	—	—
OTHER LIABILITIES	143	108	21	—	272
MINORITY INTERESTS	—	—	50	—	50
SHAREOWNERS' EQUITY (DEFICIT)	(769)	759	(319)	(440)	(769)
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY (DEFICIT)	$ 1,009	$ 612	$ 1,693	$ (440)	$ 2,874

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Condensed Consolidating Balance Sheet
(In millions)

	September 30, 2008				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	$ 174	$ 24	$ 299	$ —	$ 497
Receivables, net	(1)	86	1,029	—	1,114
Inventories	—	207	416	—	623
Other current assets	37	68	113	—	218
TOTAL CURRENT ASSETS	210	385	1,857	—	2,452
NET PROPERTY	10	185	580	—	775
GOODWILL	—	345	177	—	522
OTHER ASSETS	484	149	292	—	925
INVESTMENTS IN SUBSIDIARIES	1,516	608	—	(2,124)	—
TOTAL ASSETS	$ 2,220	$ 1,672	$ 2,906	$ (2,124)	$ 4,674
CURRENT LIABILITIES					
Short-term debt	$ 85	$ —	$ 155	$	$ 240
Accounts payable	57	275	955	—	1,287
Other current liabilities	99	95	416	—	610
TOTAL CURRENT LIABILITIES	241	370	1,526	—	2,137
LONG-TERM DEBT	1,060	—	3	—	1,063
RETIREMENT BENEFITS	504	—	186	—	690
INTERCOMPANY PAYABLE (RECEIVABLE)	(144)	(419)	563	—	—
OTHER LIABILITIES	97	130	20	—	247
MINORITY INTERESTS	—	—	75	—	75
SHAREOWNERS' EQUITY	462	1,591	533	(2,124)	462
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	$ 2,220	$ 1,672	$ 2,906	$ (2,124)	$ 4,674

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Condensed Consolidating Statement of Cash Flows
(In millions)

	Six Months Ended March 31, 2009				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CASH FLOWS USED FOR OPERATING ACTIVITIES	$ (129)	$ (1)	$ (310)	$ —	$ (440)
INVESTING ACTIVITIES					
Capital expenditures	(1)	(20)	(63)	—	(84)
Proceeds from investments and marketable securities	6	—	—	—	6
Proceeds from disposition of property and businesses	—	—	2	—	2
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	5	(20)	(61)	—	(76)
FINANCING ACTIVITIES					
Payments on account receivable securitization program	—	—	(23)	—	(23)
Borrowings on revolving credit facility, net	318	—	—	—	318
Repayment of notes	(83)	—	—	—	(83)
Borrowings on lines of credit and other, net	—	—	6	—	6
Intercompany advances	(260)	—	260	—	—
Cash dividends	(8)	—	—	—	(8)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(33)	—	243	—	210
EFFECT OF FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	(26)	—	(26)
CHANGE IN CASH AND CASH EQUIVALENTS	(157)	(21)	(154)	—	(332)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	174	24	299	—	497
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 17	$ 3	$ 145	$ —	$ 165

Condensed Consolidating Statement of Cash Flows
(In millions)

	Six Months Ended March 31, 2008				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ (16)	$ 12	$ (104)	$ —	$ (108)
INVESTING ACTIVITIES					
Capital expenditures	(1)	(14)	(48)	—	(63)
Acquisitions of businesses and investments, net of cash acquired	—	—	(41)	—	(41)
Proceeds from disposition of property and businesses	7	—	1	—	8
Proceeds from marketable securities	5	—	—	—	5
Net investing cash flows provided by discontinued operations	—	3	52	—	55
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	11	(11)	(36)	—	(36)
FINANCING ACTIVITIES					
Borrowings on account receivable securitization program	—	—	128	—	128
Repayment of notes	(5)	—	—	—	(5)
Borrowings on lines of credit and other, net	—	—	4	—	4
Debt issuance and extinguishment costs	(6)	—	—	—	(6)
Cash dividends	(15)	—	—	—	(15)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(26)	—	132	—	106
EFFECT OF FOREIGN CURRENCY EXCHANGE RATES ON CASH	—	—	6	—	6
CHANGE IN CASH AND CASH EQUIVALENTS	(31)	1	(2)	—	(32)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	182	5	222	—	409
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 151	$ 6	$ 220	$ —	$ 377

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

OVERVIEW

ArvinMeritor, Inc. is a global supplier of a broad range of integrated systems, modules and components to the motor vehicle industry. The company serves light vehicle, commercial truck, trailer and specialty original equipment manufacturers and certain aftermarkets. ArvinMeritor common stock is traded on the New York Stock Exchange under the ticker symbol ARM.

In 2008, we announced our intention to separate our Light Vehicle Systems (LVS) and Commercial Vehicle Systems (CVS) businesses. We subsequently attempted to complete the separation through a spin-off of the LVS business via a tax-free distribution to ArvinMeritor stockholders. The unprecedented challenges in the credit markets, deterioration in the automotive markets and other factors prompted us to investigate other alternatives for the separation, including a potential sale of all or portions of the business. In the second quarter of fiscal year 2009, we announced that we will reorganize the LVS business into separate product lines consisting of Body Systems, Chassis and Wheels. We intend to pursue a sale of the Body Systems business separately when market conditions support such actions. We are exploring immediate strategic alternatives for a timely and orderly disposition of the Chassis business. We believe the separation of LVS and CVS represents a major step in our corporate transformation and will improve corporate clarity and management focus. There are risks to the timing and certainty of completing any transaction, including the terms upon which any sale agreement with respect to any portion of the business may be entered into and the amount of any exit costs. During the first six months of fiscal year 2009, we incurred approximately $8 million of costs associated with separation related activities, which are included in the selling, general and administrative expenses in the consolidated statement of operations included in the Consolidated Financial Statements under Item 1. *Financial Statements.*

The following table reflects estimated automotive and commercial vehicle production volumes for selected original equipment (OE) markets for the second quarter ended March 31, 2009 and 2008 based on available sources and management's estimates.

	Quarter ended March 31,		Unit	Percent
	2009	**2008**	**Change**	**Change**
Commercial Vehicles (in thousands)				
North America, Heavy-Duty Trucks	27.5	46.4	(18.9)	(41)%
North America, Trailers	19.6	40.1	(20.5)	(51)%
Europe, Heavy and Medium Duty Trucks	67.0	158.6	(91.6)	(58)%
Europe, Trailers	25.3	51.5	(26.2)	(51)%
South America, Heavy and Medium Duty Trucks	21.0	35.0	(14.0)	(40)%
Light Vehicles (in millions)				
North America	1.7	3.5	(1.8)	(51)%
Europe	3.3	5.8	(2.5)	(43)%
South America	0.7	0.9	(0.2)	(22)%

We believe that the substantial uncertainty and significant deterioration in the worldwide credit markets, the global economic downturn and the current climate in the U.S. and other economies have, as shown in the above table, impacted the demand for the products of our customers. Many of our customers have experienced sharp declines in production and sales volumes, which started in November 2008 and have continued through March 2009 and are expected to continue at reduced levels in the near term with recovery varying by region. These decreases in production and sales volumes had a significant impact on our revenues and profitability in the three months ended March 31, 2009 and is expected to continue to have a significant impact for the remainder of the fiscal year. Our CVS and LVS businesses were adversely affected in the second quarter of fiscal year 2009 by decreased volumes in all of our major markets with most of the declines occurring in North America and Europe. While we have been unable to fully offset these market declines, we are focused on market share improvement and diversification strategies to help offset the decline. These strategies will also position us well as markets recover. OEM production declines during the second quarter were partially offset by higher sales in our specialty and aftermarket product lines compared to the prior year reflecting our efforts to diversify product offerings.

Highlights of our consolidated results from continuing operations for the three months ended March 31, 2009, are as follows:

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