ARVINMERITOR INC
Form 10-Q
February 03, 2011

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

FORM 10-Q

QUARTERLY REPORT

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

For the Quarterly Period Ended January 2, 2011

Commission File No. 1-15983

ARVINMERITOR, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Yes X No

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

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

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

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

Yes No X

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

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

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

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

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

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

See notes to consolidated financial statements.

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

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

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

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

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

See notes to consolidated financial statements.

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

1. Basis of Presentation

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

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

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

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

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

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

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

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

3. New Accounting Standards

Accounting standards implemented in fiscal year 2011

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

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

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

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

4. Discontinued Operations

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

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

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

Remaining Chassis Businesses

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

Divestitures

Body Systems

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

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

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

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

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

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

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

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

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

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

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

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

5. Goodwill

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

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

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

6. Restructuring Costs

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

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

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

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

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

7. Income Taxes

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

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

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

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

8. Accounts Receivable Securitization and Factoring

Off-balance sheet arrangements

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

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

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

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

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

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

On-balance sheet arrangements

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

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

9. Operating Cash Flow

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

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

10. Inventories

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

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

11. Other Current Assets

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

	December 31,	September 30,

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

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

12. Other Assets

Other assets are summarized as follows (in millions):

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

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

13. Other Current Liabilities

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

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

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

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

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

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

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

14. Other Liabilities

Other liabilities are summarized as follows (in millions):

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

15. Long-Term Debt