

ArvinMeritor, Inc.

ArvinMeritor, Inc. (NYSE: ARM)
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Employees: 33,000
 Revenues: \$ 6,805,000,000
 Net Income: \$ 35,000,000
 Assets: \$ 4,362,000,000
 Liabilities: \$ 3,711,000,000
 Asbestos Assets: \$ 60,000,000
 Asbestos Liabilities: \$ 71,000,000
 As of September 30, 2001

Description: Formerly Meritor Automotive, ArvinMeritor was formed when Meritor acquired Arvin Industries. The company makes components for commercial vehicles (axles, brakes, transmissions, and clutches) as well as for light vehicles (door, roof, exhaust, and suspension systems). ArvinMeritor also offers light vehicle aftermarket products such as mufflers, filters (Purolator), and shock absorbers (Gabriel). The company sells private-label aftermarket parts through retailers such as Pep Boys DaimlerChrysler (and its Freightliner heavy truck subsidiary) accounts for about 15% of sales.

Asbestos Discussion from SEC filings:

From the Company's Form 10-K for the period ending September 29, 2002 at

<http://www.sec.gov/Archives/edgar/data/1113256/000095012302011934/y66532e10vk.txt>

Filed On: December 17, 2002

Maremont Corporation ("Maremont", a subsidiary of the company) and many other companies are defendants in suits brought by individuals claiming personal injuries as a result of exposure to asbestos-containing products. Maremont manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. Arvin acquired Maremont in 1986. During fiscal 1997 through 2002, Maremont paid approximately \$52 million to address asbestos-related claims, substantially all of which was reimbursed by insurance. Maremont's asbestos-related reserves and corresponding asbestos-related recoveries are summarized as follows (in millions):

	2002	2001
Unbilled committed settlements	\$ 9	\$12
Pending claims	50	48
Shortfall and other	7	11

Total asbestos-related reserves	\$66	\$71
Asbestos-related recoveries	\$59	\$60

A portion of the asbestos-related recoveries and reserves are included in current assets and liabilities, with the majority of the amounts recorded in noncurrent assets and liabilities (see Notes 10, and 12 through 14). The unbilled committed settlements reserve relates to committed settlements that Maremont agreed to pay when Maremont participated in the Center for Claims Resolution (CCR). Maremont shared in the payments of defense and indemnity costs of asbestos-related claims with other CCR members. The CCR handled the resolution and processing of asbestos claims on behalf of its members until February 1, 2001, when it was reorganized and discontinued negotiating shared settlements.

Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended March 30, 2003

<http://www.sec.gov/Archives/edgar/data/1113256/000095012403001692/k77025e10vq.txt>

Filed On: May 13, 2003

Maremont Corporation (Maremont, a subsidiary of the company) and many other companies are defendants in suits brought by individuals claiming personal injuries as a result of exposure to asbestos-containing products. Maremont manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. Arvin acquired Maremont in 1986.

A portion of the asbestos-related recoveries and reserves are included in current assets and liabilities, with the majority of the amounts recorded in noncurrent assets and liabilities (see Notes 10 through 13).

The unbilled committed settlements reserve relates to committed settlements that Maremont agreed to pay when Maremont participated in the Center for Claims Resolution (CCR). Maremont shared in the payments of defense and indemnity costs of asbestos-related claims with other CCR members. The CCR handled the resolution and processing of asbestos claims on behalf of its members until February 1, 2001, when it was reorganized and discontinued negotiating shared settlements. There were no significant billings to insurance companies related to committed settlements in the six months ended March 31, 2003.

Upon dissolution of the CCR in February 2001, Maremont began handling asbestos-related claims through its own defense counsel and is committed to examining the merits of each asbestos-related claim. Maremont had approximately 47,900 and 37,500 pending asbestos-related claims at

March 31, 2003 and September 30, 2002, respectively. 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. For purposes of establishing reserves for pending asbestos-related claims, Maremont estimates its defense and indemnity costs based on the history and nature of filed claims to date and Maremont's experience. At September 30, 2001, Maremont did not have sufficient history apart from the CCR to estimate its asbestos-related reserves and used the experience factors developed by the CCR. As of March 31, 2003 and September 30, 2002, Maremont developed experience factors for indemnity and litigation costs using data on actual experience in resolving claims since February 2001 and its assessment of the nature of the claims. Billings to insurance companies for indemnity and defense costs of resolved cases were \$7 million in the six months ended March 31, 2003.

Several former members of the CCR have filed for bankruptcy protection, and these members have failed, or may fail, to pay certain financial obligations with respect to settlements that were reached while they were CCR members. Maremont is subject to claims for payment of a portion of these defaulted member shares (shortfall). In an effort to resolve the affected settlements, Maremont has entered into negotiations with plaintiffs' attorneys, and an estimate of Maremont's obligation for the shortfall is included in the total asbestos-related reserves. In addition,

Maremont and its insurers are engaged in legal proceedings to determine whether existing insurance coverage should reimburse any potential liability related to this issue. Payments by the company related to shortfall and other were \$1 million in the six months ended March 31, 2003. 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 the insurance agreements in place. Based on its assessment of the history and nature of filed claims to date, and of Maremont's insurance carriers, management believes that existing insurance coverage is adequate to cover substantially all costs relating to pending and future asbestos-related claims.

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 for asbestos-related claims are subject to considerable uncertainty because such liabilities are influenced by variables that are difficult to predict. If the assumptions with respect to the nature of pending claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of Maremont's liability for asbestos-related claims, and the effect on the company, could differ materially from current estimates.

Maremont has not accrued reserves for unknown claims that may be asserted against it in the future. Maremont does not have sufficient information to make a reasonable estimate of its potential liability

for asbestos-related claims that may be asserted against it in the future.

Product Recall Campaign

The company has recalled certain of its commercial vehicle axles equipped with TRW model 20-EDL tie rod ends because of potential safety-related defects in those ends. TRW, Inc. (TRW) manufactured the affected tie rod ends from June 1999 through June 2000 and supplied them to the company for incorporation into its axle products. TRW commenced recall campaigns in August 2000 and June 2001, covering 24 weeks of production, due to a purported manufacturing anomaly identified by TRW. However, after an analysis of field returns and customer reports of excessive wear, ArvinMeritor concluded that the defect was based on the design of a bearing used in the ball socket, which is part of the tie rod end, and not on the purported anomaly in the manufacturing process. The company reported its finding to the National Highway Transportation Safety Administration in April 2002 and expanded the recall campaign to cover all of its axle products that had incorporated TRW model 20-EDL tie rod ends.

ArvinMeritor estimates the cost of its expanded recall of TRW model 20-EDL tie rod ends to be approximately \$17 million. The company believes that it is entitled to reimbursement by TRW for its costs associated with the campaign. On May 6, 2002, the company filed suit against TRW in the U.S. District Court for the Eastern District of Michigan, claiming breach of contract and breach of warranty, and seeking compensatory and consequential damages in connection with the recall campaign. The company recorded a liability and offsetting receivable for the estimated

cost of its expanded recall campaign. As of March 31, 2003 and September 30, 2002, the company had recorded a receivable from TRW for \$17 million. The company has also recorded accrued product warranty reserves of \$11 million and \$15 million, net of claims paid to date, as of March 31, 2003 and September 30, 2002, respectively. See Note 12 for additional information related to the company's accrued product warranties.

In addition, the company has recorded a receivable of \$6 million and \$4 million as of March 31, 2003 and September 30, 2002, respectively, from TRW for reimbursement of customer claims paid to date that are covered by TRW's recall campaign.

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. The periods of indemnification vary in duration and often are not explicitly defined. The overall maximum amount of the obligation 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 indemnities.

Asbestos-Related News:

[Estimates Asbestos Related Liabilities at US\\$71 Million \(Published November 01, 2002\)](#)