ARVINMERITOR INC
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PROSPECTUS SUPPLEMENT
(To Prospectus dated February 19, 2002)

[ArvinMeritor Logo]
ARVINMERITOR, INC.

$200,000,000
6 5/8% Notes due 2007

The notes will mature on June 15, 2007. Interest on the notes is payable June 15 and December 15 of each year, beginning December 15, 2002 and will accrue from July 1, 2002. We may redeem the notes, in whole or in part, at any time prior to maturity at the redemption price described in this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

	PRICE TO PUBLIC(1)	DISCOUNTS AND COMMISSIONS	PROCEEDS TO ARVINMERITOR
Per Note....................	99.684%	1.375%	98.309%
Total.......................	$199,368,000	$2,750,000	$196,618,000

(1) Plus accrued interest from July 1, 2002, if settlement occurs after that date.

The notes will not be listed on any national securities exchange. Currently, there is no public market for the notes.

We expect to deliver the notes to investors through the book-entry delivery system of The Depository Trust Company on or about July 1, 2002.

DEUTSCHE BANK SECURITIES MERRILL LYNCH & CO.

BANC OF AMERICA SECURITIES LLC HSBC UBS WARBURG

BANC ONE CAPITAL MARKETS, INC.
COMERICA SECURITIES
CREDIT LYONNAIS SECURITIES

JUNE 26, 2002

In making your investment decision, you should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We and the underwriters have not authorized anyone to provide you with any additional information. If you receive any other information, you should not rely on it. Any statement contained in this

prospectus supplement will be deemed to modify and supercede any previous statement contained or incorporated by reference in the accompanying prospectus.

This prospectus supplement and accompanying prospectus do not constitute an offer to sell, or the solicitation of an offer to buy, the notes offered by this prospectus supplement and the accompanying prospectus in any jurisdiction where the offer or sale is not permitted. Neither the delivery of this prospectus supplement and the accompanying prospectus nor any distribution of notes pursuant to this prospectus supplement and the accompanying prospectus shall, under any circumstances, create any implication that there has been no change in the information set forth in or incorporated by reference into this prospectus supplement and the accompanying prospectus or in our affairs since the date of this prospectus supplement.

We began operations as a combined company on July 7, 2000 as a result of the merger of Meritor Automotive, Inc. and Arvin Industries, Inc. and, accordingly, do not have an operating history as a combined company before that date. Except where otherwise noted, the historic financial information included in this prospectus supplement for periods prior to July 7, 2000 reflects only the results of Meritor and its consolidated subsidiaries. The information for periods after July 7, 2000 represents the results of ArvinMeritor and our consolidated subsidiaries. This information may not be indicative of our future results of operations, financial position or cash flows.

As used in this prospectus supplement, the terms "ArvinMeritor," the "Company," "we," "us" and "our" refer to ArvinMeritor, Inc., its subsidiaries and its predecessors, unless the context indicates otherwise.

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SUMMARY

This summary highlights selected information from this prospectus supplement and may not contain all the information that is important to you. You should read the following summary together with the more detailed information and financial statements and notes to the financial statements contained elsewhere or incorporated by reference in this prospectus supplement or the accompanying prospectus, as described under the heading "Where You Can Find More Information" in the accompanying prospectus. To fully understand this offering, you should read all these documents. As used in this prospectus supplement, references to fiscal 1999, fiscal 2000 and fiscal 2001 are to our fiscal years ended September 30, 1999, 2000 and 2001, respectively, and references to the second quarter of fiscal 2001 and 2002 are to our fiscal quarters ended March 31, 2001 and 2002, respectively.

ARVINMERITOR, INC.

GENERAL

We are a leading global supplier of a broad range of integrated systems, modules and components, serving light vehicle, commercial truck, trailer and specialty original equipment manufacturers and certain aftermarkets. As of September 30, 2001, we operated 165 manufacturing facilities in 27 countries around the world.

Our sales were $6.8 billion for the fiscal year ended September 30, 2001 and $3.3 billion for the six months ended March 31, 2002. For the fiscal year ended September 30, 2001, 53% of our sales were from our light vehicle systems segment, 32% were from our commercial vehicle systems segment, 13% were from our light vehicle aftermarket segment and 2% were from other businesses that do not focus on automotive products (primarily our coil coating operation).

We serve our customers worldwide through three operating segments:

- Light Vehicle Systems supplies aperture systems (roof, door and access control systems and motion control products), undercarriage systems (suspension, ride control and wheel products) and air and emissions systems for passenger cars, light trucks and sport utility vehicles to original equipment manufacturers.

- Commercial Vehicle Systems supplies drivetrain systems and components, including axles, brakes, drivelines and ride control products, for medium- and heavy-duty trucks, trailers and off-highway equipment and specialty vehicles.

- Light Vehicle Aftermarket supplies exhaust, ride control and filter products and accessories to the passenger car, light truck and sport utility vehicle aftermarket.

BUSINESS STRATEGY

The industry in which we operate is cyclical and has been characterized historically by periodic fluctuations in demand for vehicles for which we supply products. Lower demand in several of our principal markets had a negative effect

on our financial results for fiscal 2001 and continues to have an effect in 2002.

We are a global supplier of a broad range of components and systems for use in commercial, specialty and light vehicles worldwide, and we have developed market positions as a leader in most of our served markets. In the short term, we seek to maintain these market positions in the face of the industry downturns described above. In the longer term, we work to enhance our leadership positions, capitalize on our existing customer, product and geographic strengths, and increase sales, earnings and profitability. Our business strategies to achieve these goals include the following:

- reduce costs, improve product quality and lower required asset investment levels by continuously improving core business processes;

- leverage our geographic strengths to meet the global sourcing needs of customers, as well as to address new markets;

- provide lower cost and higher quality products, and more systems and modules to customers that are increasing their outsourcing activities;

- improve our design and engineering capabilities and invest in new technologies and product development;

- leverage our aftermarket business by using existing distribution channels to market new products, both those manufactured by us and those manufactured by others and sold by us under distribution agreements; and

- selectively pursue strategic and business development opportunities, including licensing agreements, marketing arrangements, joint ventures, acquisitions and dispositions.

ArvinMeritor was formed as an Indiana corporation in connection with the merger of Meritor Automotive, Inc. and Arvin Industries, Inc. on July 7, 2000. Meritor Automotive, Inc. was a Delaware corporation that was spun off by its parent company, Rockwell International Corporation, on September 30, 1997. Our principal executive offices are located at 2135 West Maple Road, Troy, Michigan 48084-7186. Our telephone number is 248-435-1000.

THE OFFERING

SECURITIES OFFERED......................	$200,000,000 initial principal amount of 6 5/8% Note due 2007.
MATURITY DATE...........................	June 15, 2007
INTEREST PAYMENT DATES..................	June 15 and December 15 of each year, commencing December 15, 2002.
REDEMPTION..............................	At our option, we may redeem any or all of the notes in whole or in part, at any time, at the redemption prices described under "Description of the

	Notes -- Optional Redemption" in this prospectus supplement.
RANKING..................................	The notes: - are unsecured; - rank equally with all our existing and future unsecured and unsubordinated debt; - are senior to any future subordinated debt; and - are effectively junior to any secured debt and to existing and future debt and other liabilities of ou subsidiaries.
COVENANTS................................	We will issue the notes under an indenture containin covenants for your benefit. These covenants restrict our ability, with certain exceptions, to: - incur debt secured by liens; - engage in sale/leaseback transactions; or - merge or consolidate with another entity or sell substantially all of our assets to another entity.
USE OF PROCEEDS..........................	We will receive net proceeds from this offering of approximately $196 million, which we intend to use t repay outstanding indebtedness incurred under our five-year amended and restated revolving credit facility and for general corporate purposes, as furt described under "Use of Proceeds" below.
FURTHER ISSUANCES........................	We may create and issue further notes ranking equall and ratably with the notes offered hereby in all respects, so that such further notes will be consolidated and form a single series with the notes offered hereby and will have the same terms as to status, redemption or otherwise as the notes offered hereby.

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SUMMARY FINANCIAL DATA

The following summary consolidated financial data have been taken or derived from, and should be read in conjunction with, the financial information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. The results of operations and financial position data as of and for the years ended September 30, 2001, 2000 and 1999 have been derived from our audited financial statements. The information as of March 31, 2002 and 2001, and for the quarters and six months then ended, is unaudited and reflects all adjustments which are of a normal recurring nature and, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows as of and for the periods presented. The results of operations for the quarter and six months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full fiscal year ending September 30, 2002.

	ACTUAL		
	QUARTER ENDED MARCH 31,	SIX MONTHS ENDED MARCH 31,	YEAR ENDED SEPTEMBER 30,

	2002	2001	2002	2001	2001	2000	1999
			(IN MILLIONS, EXCEPT PER SHARE DATA)				
RESULTS OF OPERATIONS							
Sales							
Light Vehicle Systems	$ 913	$ 951	$1,765	$1,821	$3,588	$2,031	$1,575
Commercial Vehicle Systems	532	583	1,015	1,135	2,199	2,872	2,875
Light Vehicle Aftermarket	205	216	399	413	859	209	--
Other	37	37	74	77	159	41	--
Total Sales	$1,687	$1,787	$3,253	$3,446	$6,805	$5,153	$4,450
Operating Income							
Light Vehicle Systems	$ 53	$ 62	$ 97	$ 114	$ 213	$ 149	$ 130
Commercial Vehicle Systems	16	10	27	22	32	221	233
Light Vehicle Aftermarket	12	8	21	11	44	6	--
Other	1	(3)	--	(6)	(10)	--	--
Segment Operating Income	82	77	145	141	279	376	363
Gain on sale of business and other	--	--	--	--	--	89	24
Restructuring costs and other charges	--	(9)	(15)	(55)	(84)	(26)	(28)
Merger expenses	--	--	--	--	--	(10)	--
Total Operating Income	82	68	130	86	195	429	359
Equity in earnings of affiliates	(1)	4	(1)	9	4	29	35
Non-operating one-time items	--	--	--	--	--	--	--
Interest expense, net and other	(25)	(38)	(53)	(73)	(136)	(89)	(61)
Provision for income taxes	(18)	(11)	(24)	(7)	(21)	(141)	(129)
Minority interests	(3)	(2)	(6)	(4)	(7)	(10)	(10)
Income Before Cumulative Effect of Accounting Change	35	21	46	11	35	218	194
Cumulative Effect of Accounting Change(2)	--	--	(42)	--	--	--	--
Net Income	$ 35	$ 21	$ 4	$ 11	$ 35	$ 218	$ 194
Diluted Earnings Per Share:							
Earnings Per Share Before Cumulative Effect of Accounting Change	$ 0.52	$ 0.32	$ 0.69	$ 0.17	$ 0.53	$ 4.12	$ 3.75
Cumulative Effect of Accounting Change(2)	--	--	(0.63)	--	--	--	--
Diluted Earnings Per Share	$ 0.52	$ 0.32	$ 0.06	$ 0.17	$ 0.53	$ 4.12	$ 3.75

ACTUAL

SIX MONTHS ENDED

	AND AT MARCH 31, (UNAUDITED)		YEAR ENDED AN AT SEPTEMBER 3	
	2002	2001	2001	2000
	(IN MILLIONS, EXCEPT PER SHARE DAT			
FINANCIAL POSITION				
Total assets	$4,213	$4,532	$4,362	$4,720
Short-term debt	24	79	94	183
Long-term debt	1,335	1,534	1,313	1,537
Preferred capital securities	39	64	57	74
Minority interests	58	73	69	96
Total shareowners' equity	656	711	651	793
OTHER DATA				
EBITDA(3)	$ 175	$ 200	$ 409	$ 610
Depreciation and other amortization	94	97	193	143
Goodwill amortization(2)	--	12	24	19
Cash provided by operating activities	138	265	605	228
Cash used for investing activities	(85)	(130)	(210)	(200)
Cash provided by (used for) financing activities	(62)	(169)	(402)	38
Capital expenditures	64	103	206	225
Cash dividends per share	0.20	0.44	0.76	0.64

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(1) Pro forma financial information gives effect to the July 2000 merger of Meritor and Arvin as if the merger had occurred at the beginning of each fiscal year, and reflects (a) the amortization of goodwill from the merger and the elimination of historical Arvin goodwill amortization expense; (b) the adjustment to interest expense for borrowings to fund the Arvin cash consideration and other financing costs; (c) the income tax effects of (a) and (b) above; and (d) the adjustment of shares outstanding representing the exchange of one share of Meritor common stock for 0.75 shares of ArvinMeritor common stock and one share of Arvin common stock for one share of ArvinMeritor common stock, based on the average shares outstanding for each year. The pro forma financial information is not necessarily indicative of what our results of operations or financial position would have been had the merger been in effect as of and for the periods presented.

(2) Effective October 1, 2001, we adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets," which requires goodwill to be subject to an annual impairment test, or more frequently if certain indicators arise, and also eliminates goodwill amortization. As required by this standard, we reviewed the fair values of each of our reporting units using discounted cash flows and market multiples. As a result of this review, we recorded an impairment loss on goodwill as a cumulative effect of accounting change for our Coil Coating operations (classified as "other" for segment reporting) of $42 million ($42 million after-tax, or $0.63 per diluted share) in the quarter ended December 31, 2001. The adoption of the new accounting standard also eliminated goodwill amortization expense of $12 million ($10 million after-tax, or $0.15 per diluted share) for the first six months of fiscal 2002 and will eliminate $24 million ($20 million after-tax, or $0.30 per diluted share) for the full year.

(3) The pro forma EBITDA for the year ended September 30, 2000 was $854 million and for the year ended September 30, 1999 was $805 million. See footnote (1). EBITDA is defined as income before income taxes, plus interest expense, depreciation and amortization. EBITDA should not be considered as a

substitute for operating earnings, net income, cash flow or other statement of consolidated income or cash flow data computed in accordance with generally accepted accounting principles or as a measure of a company's results of operations or liquidity. Although EBITDA is not defined in generally accepted accounting principles, it is widely used as a measure of a company's operating performance and its ability to service its indebtedness because it assists in comparing performance on a consistent basis across companies without regard to depreciation and amortization, which can vary significantly depending on accounting methods (particularly where acquisitions are involved) or non-operating factors such as historical cost bases and capital structure.

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FORWARD-LOOKING INFORMATION

This prospectus supplement and the accompanying prospectus, including the information we incorporate by reference, contain statements relating to our future results (including certain projections and business trends) that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "estimate," "should," "are likely to be" and similar expressions. These forward-looking statements are based on currently available competitive, financial and economic data and management's views and assumptions regarding future events. Such forward-looking statements are inherently uncertain, and actual results may differ materially from those projected as a result of certain risks and uncertainties, including, but not limited to:

- global economic and market conditions;
- the demand for commercial, specialty and light vehicles for which we supply products;
- risks inherent in operating abroad, including foreign currency exchange rates;
- potential increases in raw material costs;
- original equipment manufacturers' program delays;
- demand for and market acceptance of new and existing products;
- successful development of new products;
- reliance on major original equipment manufacturer customers;
- labor relations of ArvinMeritor, our customers and suppliers;
- successful integration of acquired or merged businesses;
- the ability to achieve the expected annual savings and synergies from past and future business combinations;
- competitive product and pricing pressures;
- the amount of our debt;
- our ability to access capital markets;
- the credit ratings of our debt; and

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

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

USE OF PROCEEDS

The net proceeds to us from the sale of the notes we are offering will be approximately $196 million after deducting underwriting discounts and commissions and our estimated offering expenses and will be used to repay outstanding borrowings under our five-year $750-million amended and restated revolving credit facility, which matures on June 27, 2005, and for general corporate purposes. At March 31, 2002, we had outstanding $178 million in borrowings under our five-year facility. Indebtedness under this credit facility bears interest at fluctuating rates based on quoted market rates, plus an applicable margin based on our credit rating. At March 31, 2002, the weighted average interest rate was 3.19% under our five-year amended and restated revolving credit facility.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of our fiscal years ended September 30, 1997 through 2001 and for the six months ended March 31, 2001 and 2002 is set forth below. The ratios for periods ended prior to July 7, 2000, the date of the merger of Meritor and Arvin, reflect only the results of Meritor and its consolidated subsidiaries. The ratios for periods ended after July 7, 2000 reflect the results of Meritor and its consolidated subsidiaries prior to the merger and ArvinMeritor and its consolidated subsidiaries after the merger.

	FISCAL YEAR ENDED SEPTEMBER 30,				
	1997	1998	1999	2000	2001
Ratio of Earnings to Fixed Charges(a)	12.0(b)	6.0	5.4	4.6	1.5

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

(b) On September 30, 1997, Rockwell International Corporation transferred its

automotive businesses to Meritor and distributed all of the issued and outstanding shares of Meritor's common stock to Rockwell shareowners. The ratio for the fiscal year ended September 30, 1997 has been prepared based on the combined historical financial position and results of operations of the ongoing automotive business of Rockwell prior to the distribution, and is not necessarily indicative of what the financial position and results of operations would have been had Meritor been an independent company during that period.

CAPITALIZATION

The following table sets forth our consolidated capitalization at March 31, 2002 on a historical basis and as adjusted to give effect to the issuance of the notes in this offering and the application of the net proceeds from the sale of the notes as described under "Use of Proceeds." This table should be read in conjunction with "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes of ArvinMeritor appearing elsewhere or incorporated by reference in this prospectus supplement.

	AS OF MARCH 31, 2002	
	ACTUAL	AS ADJUSTED
	(UNAUDITED) (IN MILLIONS)	
Cash	$ 92	$ 110
Short-term debt	$ 24	$ 24
Long-term debt:		
6 3/4% Notes due 2008	100	100
7 1/8% Notes due 2009	150	150
6.8% Notes due 2009	498	498
8 3/4% Notes due 2012	400	400
6 5/8% Notes due 2007	--	200
Bank revolving credit facilities	178	0
Lines of credit and other	9	9
Total long-term debt	1,335	1,357
Preferred Capital Securities	39	39
Minority interests	58	58
Shareowners' equity:		
Common Stock	71	71
Additional paid-in-capital	549	549
Retained earnings	441	441
Treasury stock	(50)	(50)
Unearned compensation	(15)	(15)
Accumulated other comprehensive loss	(340)	(340)
Total shareowners' equity	656	656
Total capitalization	$2,112	$2,134

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and other information and data contained in the Summary Financial Data section in this prospectus supplement, and in our Annual Report on Form 10-K for the fiscal year ended September 30, 2001 and our Quarterly Report on Form 10-Q for the Quarterly Period ended March 31, 2002, which are incorporated by reference in this prospectus supplement and the accompanying prospectus.

Our fiscal year ends on the Sunday nearest September 30, and our fiscal quarters end on the Sundays nearest December 31, March 31 and June 30. All year and quarter references relate to our fiscal year and fiscal quarters unless otherwise stated.

OVERVIEW AND OUTLOOK

Our industry is rapidly transforming to keep pace with the globalization and consolidation of the original equipment manufacturers (OEMs), as well as the continued trends of outsourcing by the OEMs and systems integration. The increased competitive pressures and complexity of the industry are presenting suppliers with many challenges and growth opportunities. We believe that we have all the ingredients and qualities in place to continue to be a leading Tier One supplier. We have the advantages of scale, product breadth, geographic scope, technological leadership and systems integration capability to be one of the industry's strongest competitors and to take further advantage of industry trends.

Our long-term goals for financial performance have been established with the recognition that we operate in a cyclical industry that has been characterized historically by periodic fluctuations in demand for light, commercial and specialty vehicles, and related aftermarkets, resulting in corresponding fluctuations in demand for our products. Accordingly, we will measure our performance against these long-term financial goals over a multi-year period.

Lower demand in several of our principal markets, including commercial truck and light vehicle markets in North America and light vehicle replacement markets, had a negative effect on our financial results for fiscal 2001 and continues to have an effect in 2002.

The current outlook for our major served markets for fiscal 2002 continues to anticipate some declines from fiscal 2001 levels. We expect U.S. and Canadian Class 8 truck production to increase about 1 percent compared to fiscal 2001. Western European heavy- and medium-duty trucks are estimated to be down 8 percent from fiscal 2001. In the light vehicle original equipment markets, we currently expect a 1 percent decline in North American and a 3 percent decline in Western European light vehicle production during fiscal 2002. We expect the light vehicle replacement market to remain weak in fiscal 2002.

Other factors that could affect our results for the full fiscal year include the impact of currency fluctuations on sales and operating income, which is difficult to predict. We are also monitoring reports of potential steel shortages and price increases from steel mills, which could impact the third quarter and full fiscal 2002 results of operations.

We have realized significant cost savings from our fiscal 2001 synergy related actions and restructuring programs, and we expect to continue to realize incremental savings from restructuring actions implemented in the latter part of

fiscal 2001 and in the first quarter of this fiscal year. We will continue to drive strong financial performance through aggressive ongoing cost-reduction efforts.

While our restructuring programs and cost reduction actions continue at a vigorous pace and we are making progress in improving our cost structure, our top priorities remain keeping service at a high level and exceeding our customers' expectations. We will continue to focus on providing best-in-class engineering and technology support. Our ongoing commitment to continuous improvement and customer satisfaction is further evidenced by the rollout of the ArvinMeritor Performance System, which is a

combination of lean manufacturing principles and best practices. This internally focused system is designed to empower teams to drive out waste, eliminate non-value added tasks, reduce cycle and lead times, and improve processes.

RESULTS OF OPERATIONS

The merger of Arvin and Meritor was accounted for as a purchase with Meritor designated as the acquiror. Accordingly, the historic financial information for periods prior to July 7, 2000 reflects only the results of Meritor and its consolidated subsidiaries. The information for the periods after July 7, 2000 represents the results of ArvinMeritor and our consolidated subsidiaries. Consequently, period to period comparisons are materially affected as a result of this merger. All share and per share data prior to July 7, 2000 have been restated to conform with the exchange of Meritor shares to ArvinMeritor shares on a one Meritor share for 0.75 ArvinMeritor shares basis, in connection with the merger. All earnings per share amounts are on a diluted basis. All references to pro forma amounts assume that the merger occurred at the beginning of each period presented, and do not give pro forma effect to any acquisitions or divestitures made by Arvin or Meritor. The pro forma financial information contained in this section is not necessarily indicative of what our results of operations or financial position would have been had the merger been in effect as of and for the periods presented.

2002 Second Quarter Compared to 2001 Second Quarter

Sales for the second quarter of fiscal 2002 were $1,687 million, a decrease of $100 million, or 6 percent, as compared to last year's second quarter results. The sales decline was driven primarily by the Commercial Vehicle Systems (CVS) business, which has been affected by reduced build rates for heavy- and medium-duty trucks, as well as the Light Vehicle Systems (LVS) business, which has been affected by softness in Western European light vehicle production.

Effective October 1, 2001, we adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets," which requires goodwill to be subject to an annual impairment test, and also eliminates goodwill amortization. The adoption of the new accounting standard eliminated goodwill amortization expense of $6 million ($5 million after-tax, or $0.07 per diluted share) for the second quarter of fiscal 2002.

Second quarter fiscal 2002 operating income was $82 million, compared to $68 million in the second quarter of fiscal 2001. Included in operating income for the second quarter of fiscal 2001 were restructuring costs of $9 million ($6 million after-tax, or $0.09 per diluted share).

Operating income increased $5 million from $77 million, excluding restructuring costs, for the second quarter of fiscal 2001. After adjusting for goodwill amortization expense of $6 million in 2001 and restructuring costs, operating

income decreased by $1 million from $83 million. Operating margin improved to 4.9 percent, compared to last year's 4.3 percent before restructuring costs (4.6 percent after adjusting for goodwill amortization expense). Our continued efforts to reduce costs through restructuring actions and other initiatives have allowed us to improve operating margin.

Equity in earnings of affiliates declined $5 million, compared to the same period last year, primarily due to lower earnings from commercial vehicle affiliates. Interest expense, net and other decreased $13 million, or 34 percent, compared to the same period last year, primarily reflecting lower interest rates and debt levels.

The second quarter effective tax rate of 32 percent was up from 31 percent for the second quarter of the prior year, as adjusted to remove the effects of goodwill amortization. We expect the full year effective tax rate to approximate the second quarter rate of 32 percent.

Net income for the second quarter of fiscal 2002 was $35 million, or $0.52 per diluted share, compared to $21 million, or $0.32 per diluted share in the same period last year. Before restructuring costs in fiscal 2001, net income was up $8 million from $27 million, or $0.41 per diluted share, for the same period last year.

LVS sales were $913 million, down $38 million, or 4 percent, from the second quarter of fiscal 2001 and operating income was $53 million, a decrease of $9 million from last year's second quarter. Operating margin fell to 5.8 percent from 6.5 percent in last year's second quarter (6.6 percent adjusted to exclude goodwill amortization expense of $1 million). Continued pricing pressures from the vehicle manufacturers, coupled with higher engineering costs associated with new product development for aperture and undercarriage modules and air induction technology, contributed to the operating margin decline. LVS continues to implement cost-reduction initiatives to offset these margin challenges. In addition, start-up costs associated with a new Detroit manufacturing facility negatively impacted the second quarter of fiscal 2002 results by approximately $2 million.

CVS sales were $532 million, down $51 million, or 9 percent, from last year's second quarter. The decline in Class 8 truck production in the U.S. and Canada was the major factor in the sales decrease. Despite the sales decline, operating income increased to $16 million, compared to $10 million in the second quarter of fiscal 2001 and operating margin improved to 3.0 percent, compared to 1.7 percent in last year's second quarter (2.2 percent after excluding goodwill amortization expense of $3 million). The operating margin improvement is the result of restructuring programs and other cost-reduction actions that have lowered its fixed cost structure.

Light Vehicle Aftermarket (LVA) sales were $205 million, down $11 million, or 5 percent, from last year's second quarter due to lower demand in exhaust and shock absorber product lines. Even though sales remained weak for aftermarket parts, LVA was able to increase its operating income to $12 million from $8 million in fiscal 2001 second quarter. LVA operating margin increased to 5.9 percent, up from 3.7 percent in the second quarter of fiscal 2001 (4.2 percent after excluding goodwill amortization expense of $1 million), as a result of improved pricing and continued cost-reduction activities.

Six Months Ended March 31, 2002 Compared to Six Months Ended March 31, 2001

For the first six months of fiscal 2002, sales were $3,253 million, a decrease of $193 million or 6 percent, from the same period last year. The sales decline

was driven primarily by reduced build rates for heavy-and medium-duty trucks in the U.S. and Canada and softness in Western European light vehicle production.

As required by SFAS 142, "Goodwill and Other Intangible Assets," we reviewed the fair values of each of our reporting units using discounted cash flows and market multiples. As a result of this review, we recorded an impairment loss on goodwill as a cumulative effect of accounting change for our Coil Coating operations (classified as "other" for segment reporting) of $42 million ($42 million after-tax, or $0.63 per diluted share) in the first quarter of fiscal 2002. Increased competition, consolidation in the coil coating applications industry and the struggling U.S. steel market caused a decrease in the fair value of this business. The adoption of the new accounting standard also eliminated goodwill amortization expense of $12 million ($10 million after-tax, or $0.15 per diluted share) for the first six months of fiscal 2002 and will eliminate $24 million ($20 million after-tax, or $0.30 per diluted share) for the full year.

Operating income for the first six months of fiscal 2002 was $130 million, compared to $86 million in the same period last year. Included in operating income were restructuring costs of $15 million ($10 million after-tax, or $0.15 per diluted share) in the first six months of 2002 and $55 million ($36 million after-tax, or $0.54 per diluted share) in the first six months of 2001.

The first quarter fiscal 2002 restructuring charge of $15 million was related to employee and other severance costs for approximately 450 salaried employees. We expect to recover these costs in less than one year and estimate these actions, when fully implemented, will reduce annual operating costs by approximately $24 million ($16 million after-tax). Our LVS business is expected to account for approximately 50 percent of the annual savings, CVS business about 42 percent, and LVA and other about 8 percent.

Operating income before restructuring costs was $145 million for the first six months of 2002, an increase of $4 million, compared to $141 million for the same period last year ($153 million after adjusting for

goodwill amortization of $12 million in 2001). This reflects an operating margin of 4.5 percent, up from 4.1 percent last year (4.4 percent after adjusting for goodwill amortization expense). We have been able to improve our operating margins, despite a decline in sales, through savings generated by cost-reduction and restructuring programs.

Equity in earnings of affiliates for the first six months of fiscal 2002 declined $10 million, compared to the same period last year, primarily due to declining earnings from commercial vehicle affiliates. Interest expense, net and other, decreased $20 million, or 27 percent, compared to the same period last year, primarily reflecting lower interest rates and debt levels. Total debt levels have been reduced by $66 million since September 30, 2001.

The effective tax rate for the first six months of fiscal 2002 was 32 percent, up from 31 percent for the same period last year, as adjusted to remove the effects of goodwill amortization. We expect the full year effective tax rate to approximate this rate.

Income before cumulative effect of accounting change was $46 million, or $0.69 per diluted share for the six months ended March 31, 2002, as compared to net income of $11 million, or $0.17 per diluted share for the same period last year. As discussed previously, we recorded a cumulative effect of accounting change upon the adoption of SFAS 142, of $42 million ($42 million after-tax, or $0.63 per diluted share) in the first quarter of fiscal 2002. Net income in the first

six months of fiscal 2002 was $4 million.

LVS sales were $1,765 million, down $56 million, or 3 percent, from the first six months of fiscal 2001 and operating income was $97 million, a decrease of $17 million from the same period last year. Operating margin fell to 5.5 percent from 6.3 percent for the same period last year (6.4 percent adjusted to exclude goodwill amortization expense of $3 million). Continued margin pressures from the vehicle manufacturers and production declines contributed to the operating margin decline. LVS continues to offset these margin challenges through restructuring and other programs aimed at lowering fixed costs. In addition, start-up costs associated with a new Detroit manufacturing facility negatively impacted the first six months of fiscal 2002 results by approximately $6 million.

CVS sales were $1,015 million, down from $1,135 million, or 11 percent, compared to last year's first six months. Operating income was $27 million, compared to $22 million in the same period last year. CVS operating margin was 2.7 percent, compared to 1.9 percent in the first six months of fiscal 2001 (2.5 percent after excluding goodwill amortization expense of $6 million). The continued decline in heavy-and medium-duty truck production was the major factor in the sales decrease. CVS has been able to offset much of the impact of the sales decline on its margins by lowering its fixed-cost structure through restructuring programs and other cost-reduction activities.

LVA sales were $399 million, down from $413 million, or 3 percent, compared to the first six months of fiscal 2001. Operating income increased to $21 million from $11 million for the same period last year. LVA operating margin increased to 5.3 percent in the first six months of fiscal 2002, up from 2.7 percent in fiscal 2001 (3.1 percent after excluding goodwill amortization expense of $2 million). While the markets remained weak for aftermarket parts, LVA was able to increase its operating margin as a result of improved pricing and the impact of ongoing cost reductions.

2001 Compared to 2000

Sales

Sales for fiscal 2001 were $6,805 million, up $1,652 million, or 32 percent, over last year's sales of $5,153 million. Included in fiscal 2001 is a full year of sales attributable to the merger with Arvin, whereas fiscal 2000 includes Arvin results only for the fourth quarter. The increase in sales is due to $2,439 million of incremental sales from Arvin in the first three quarters of fiscal 2001, partially offset by a $787 million decline in sales relating primarily to the CVS segment, which has been experiencing a steep decline in Class 8 North American truck volumes. Fiscal 2001 Class 8 North American truck volumes declined 48 percent from fiscal 2000 levels. Pro forma sales in fiscal 2000, as if Arvin and Meritor had operated as a merged company during the entire year, were $7,722 million. The $917 million or 12 percent decline in

sales from pro forma 2000 levels is attributable to the decline in heavy truck volumes, as described above, as well as volume declines in the North American light vehicle market and a softening of demand in the aftermarket.

LVS sales increased to $3,588 million in fiscal 2001 from $2,031 million a year ago, as a result of the incremental sales of $1,633 million in fiscal 2001 related to the merger with Arvin. This sales increase is slightly offset by $84 million of negative currency exchange. LVS sales were down $80 million, or 2 percent, from fiscal 2000's pro forma sales of $3,668 million. LVS sales in North America increased 83 percent (down 5 percent on a pro forma basis). Sales

in South America and Europe were up 181 percent and 61 percent, respectively (both up 1 percent on a pro forma basis). Sales in Asia/Pacific grew 13 percent (6 percent on a pro forma basis).

CVS reported $2,199 million in sales for components and systems for original equipment and the aftermarket in fiscal 2001, including $41 million of incremental sales in fiscal 2001 related to the Arvin merger and $82 million of negative currency exchange, versus $2,872 million in fiscal 2000. CVS sales in North America were $1,464 million in fiscal 2001, down $556 million, or 28 percent from fiscal 2000. The 48 percent volume decline in the North American Class 8 truck market and the 29 percent decline in the North American medium truck market drove this decline. Western European sales were down $116 million, or 17 percent in a heavy and medium truck market that was down 4 percent. South American sales were down 1 percent, while sales in the rest of the world were flat. Sales of $2,199 million were down $727 million from $2,926 million pro forma in fiscal 2000.

The LVA business is attributable to Arvin, and accordingly is included in fiscal 2000 for only the fourth quarter. LVA sales were $859 million in fiscal 2001, versus $209 million in the prior year. The increase is due to the inclusion of $648 million of sales in the first three quarters of fiscal 2001 due to the merger. On a pro forma basis, LVA sales declined $91 million, or 10 percent, from $950 million pro forma fiscal 2000 sales. Softening customer demand resulted in depressed volumes in this segment.

Operating Income

Fiscal 2001 operating income was $195 million, down $234 million from fiscal 2000. Operating margin was 2.9 percent in fiscal 2001 versus 8.3 percent in fiscal 2000. In fiscal 2001, we recorded charges totaling $84 million ($56 million after-tax, or $0.85 per share) related to restructuring costs and other items. The restructuring charge was $67 million, and the other items include a charge related to additional environmental liability of $5 million and an employee separation charge of $12 million. In fiscal 2000, we completed the sale of our LVS seat adjusting systems business for approximately $135 million in cash, resulting in a one-time gain of $83 million ($51 million after-tax, or $0.96 per share). Also during fiscal 2000, we recorded a restructuring charge of $26 million ($16 million after-tax, or $0.30 per share), merger expenses of $10 million ($6 million after-tax, or $0.11 per share), and a gain on sale of land of $6 million ($3 million after-tax, or $0.05 per share).

Excluding the restructuring costs and other charges, merger expenses and one-time gains, operating income was $279 million, down $97 million from $376 million in fiscal 2000. This decrease in operating income is primarily attributable to revenue declines in the CVS business of over 20 percent from fiscal 2000. Additionally, operating income from Other (business units not focused on automotive products) decreased $10 million. Partially offsetting these operating income declines is the favorable impact of including Arvin results for a full year in fiscal 2001, versus only the fourth quarter of fiscal 2000.

Segment operating income (which is operating income before restructuring costs and other charges, merger expenses, and gain on sale of business and other) of $279 million was down $236 million, or 46 percent from fiscal 2000's pro forma segment operating income of $515 million. The steep decline in CVS markets and the related decline in CVS revenues, particularly in North America, was the primary driver of this decline. The remaining decline is attributable to declines in operating income in the LVS and Other segments of $19 million each. Segment operating margin was 4.1 percent in fiscal 2001, as compared to 6.7 percent in pro forma fiscal 2000.

LVS operating income was $213 million in fiscal 2001, up $64 million, or 43 percent, from fiscal 2000. Results from the merger with Arvin contributed an additional $74 million of operating income in fiscal 2001. LVS operating margin declined to 5.9 percent, from 7.3 percent in fiscal 2000. LVS operating income was down $19 million from pro forma 2000 operating income of $232 million and operating margin was 5.9 percent in fiscal 2001, versus 6.3 percent in pro forma fiscal 2000. Continued pricing pressures from the vehicle manufacturers, coupled with North American production declines, contributed to the operating margin decline. LVS continues to offset these challenges through restructuring and other programs aimed at lowering fixed costs.

CVS operating income was $32 million, a decrease of $189 million from fiscal 2000. Operating margin declined from 7.7 percent in fiscal 2000 to 1.5 percent in fiscal 2001. The margin decline was driven by the 48 percent drop in North American heavy truck volumes and the 29 percent decline in North American medium truck volumes. These volume reductions outpaced the lowering of our fixed costs. Compared to pro forma fiscal 2000, operating income was down $199 million, and operating margin was down from 7.9 percent.

LVA operating income was $44 million in fiscal 2001, with an operating margin of 5.1 percent, compared to operating income of $6 million and a related margin of 2.9 percent in fiscal 2000. The inclusion of a full year of activity in fiscal 2001, due to the merger with Arvin on July 7, 2000, added $28 million to operating income. Compared to pro forma fiscal 2000, operating income was up slightly from $43 million and operating margin was up 60 basis points from 4.5 percent. The operating margin increase is the result of improved pricing, the favorable impact of ongoing cost reductions and lower changeover spending.

Equity in Earnings of Affiliates

Equity in earnings of affiliates declined to $4 million, as compared to $29 million a year ago, primarily due to declining earnings from commercial vehicle affiliates. Equity in earnings of affiliates was $40 million on a pro forma basis in fiscal 2000.

Interest Expense, Net and Other

Interest expense, net and other, for fiscal 2001 was $136 million, up $47 million, or 53 percent, from $89 million in fiscal 2000. This increase is primarily attributable to the July 7, 2000 merger with Arvin, which increased total debt by over $700 million. The decline in interest expense, net and other, from $142 million pro forma 2000 to $136 million in 2001 reflects lower debt levels and interest rates. Included in fiscal 2001 interest expense, net and other, is a discount of $3 million on the sale of receivables.

Income Taxes

The effective income tax rate in fiscal 2001 was 33.5 percent, compared to 38.2 percent in fiscal 2000. The effective tax rate has been favorably impacted by ongoing legal entity restructuring, which more closely aligns our organization structure with the underlying operations of the business.

Net Income and Basic and Diluted Earnings Per Share

Net income for fiscal 2001 was $35 million, or $0.53 per basic and diluted share, a decrease of 84 percent and 87 percent, respectively, as compared to fiscal 2000 net income of $218 million, or $4.12 per basic and diluted share. On a pro forma basis, fiscal 2000 basic and diluted earnings per share was $4.02.

2000 Compared to 1999

Sales

Sales for fiscal 2000 were $5,153 million, up $703 million, or 16 percent, over fiscal 1999 sales of $4,450 million. Included in fiscal 2000 sales are $714 million of sales attributable to the merger with Arvin and a decrease of about $130 million due to currency exchange. The sale of the seat adjusting systems business in November 1999 resulted in a decrease of $98 million in sales year-over-year. Additionally, the

transmission and clutch business contributed sales of $166 million in fiscal 1999. The results of this business are now reported as affiliate income, due to the formation of the ZF Meritor joint venture in fiscal 1999. Pro forma sales, as if Arvin and Meritor had operated as a merged company in all periods, were $7,722 million in fiscal 2000, an increase of 3 percent over pro forma 1999 sales.

LVS sales increased $456 million, or 29 percent, to $2,031 million from $1,575 million in fiscal 1999. Fiscal 2000 sales include $447 million of sales from Arvin businesses. The remaining increase in sales is due to penetration gains and strong industry volumes which were partially offset by the sale of the LVS seat adjusting systems business in early fiscal 2000 and the $84 million negative impact of currency. The seat adjusting systems business had fiscal 1999 sales of $129 million and fiscal 2000 sales of $31 million. On a pro forma basis, LVS sales for fiscal 2000 were $3,668 million, up $194 million or 6 percent from $3,474 million in 1999. Additional market penetration gains in exhaust systems drove this growth. LVS sales in North America grew 48 percent (11 percent on a pro forma basis). Sales in South America and Asia/Pacific grew 7 percent and 5 percent, respectively (up 4 percent and 6 percent on a pro forma basis, respectively). Sales in Europe were up 15 percent (down 2 percent on a pro forma basis).

CVS reported $2,872 million in sales of components and systems for original equipment and the aftermarket in fiscal 2000, including $17 million attributable to the merger with Arvin, which was down slightly from fiscal 1999 sales. CVS sales in North America were $2,020 million, down $148 million, or 7 percent, from $2,168 million in fiscal 1999. The decline in North American heavy truck markets of approximately 8 percent drove this decline. European sales were up $103 million, or 18 percent, and South American sales were up $18 million, or 27 percent, while sales in the rest of the world were up $24 million. On a pro forma basis, CVS sales would have been $2,926 million in fiscal 2000, down $15 million, or 1 percent, from pro forma 1999 sales.

LVA sales were $209 million in fiscal 2000 with no sales in fiscal 1999, because this business is attributable to Arvin and is included in the consolidated results only from July 7, 2000, and forward. On a pro forma basis, LVA sales in fiscal 2000 were $950 million, an increase of 5 percent, or $44 million from pro forma 1999 levels. The increase in pro forma sales is attributable primarily to the inclusion of a full year of results of the Purolator business, which was acquired by Arvin in March 1999. Purolator generated $318 million of pro forma sales in fiscal 2000, as compared to $203 million in pro forma sales in fiscal 1999. These increases were partially offset by price reductions and product mix issues, the negative impact of currency translation and a softening of markets in both North America and Europe in the latter part of the fiscal year.

Operating Income

Fiscal 2000 operating income was $429 million, up $70 million from fiscal 1999. Operating margin was 8.3 percent in fiscal 2000 versus 8.1 percent in fiscal

1999. In fiscal 2000, we completed the sale of our LVS seat adjusting systems business for approximately $135 million in cash, resulting in a one-time gain of $83 million ($51 million after-tax, or $0.96 per share). Also during fiscal 2000, we recorded a restructuring charge of $26 million ($16 million after-tax, or $0.30 per share), merger expenses of $10 million ($6 million after-tax, or $0.11 per share) and a gain on sale of land of $6 million ($3 million after-tax, or $0.05 per share). Fiscal 1999 operating income was $359 million, and includes a restructuring charge of $28 million ($17 million after-tax, or $0.33 per share) and a one-time gain of $24 million ($18 million after-tax, or $0.34 per share) in connection with the formation of a transmission and clutch joint venture with ZF.

Excluding the restructuring charges, merger costs and one-time gains from sales of businesses and assets, operating income was $376 million in fiscal 2000, up $13 million from $363 million in fiscal 1999. This increase is attributable to the results of Arvin, included in results after July 7, 2000. Segment operating margin was 7.3 percent in fiscal 2000, as compared to 8.2 percent in fiscal 1999. On a pro forma basis, segment operating income was $515 million in fiscal 2000, down 3 percent from $533 million in fiscal 1999. Pro forma segment operating margin declined from 7.1 percent in fiscal 1999 to 6.7 percent in fiscal 2000.

LVS operating income was $149 million in fiscal 2000, with operating margin of 7.3 percent. Operating income was up $19 million, or 15 percent, from 1999, although operating margin decreased from 8.3 percent. Results from the merger with Arvin contributed $7 million of operating income in fiscal 2000. Operating income increased due to the volume contribution from higher sales and favorable product mix. On a pro forma basis, operating income for fiscal 2000 increased $33 million, or 17 percent, to $232 million. Pro forma operating margin increased from 5.7 percent in fiscal 1999 to 6.3 percent in fiscal 2000.

CVS operating income was $221 million in fiscal 2000, a decrease of 5 percent from 1999. Operating margin declined by 40 basis points to 7.7 percent in fiscal 2000. The decline in margin was driven by higher costs due to unfavorable economics, the negative impact of currency exchange and higher warranty expenses. On a pro forma basis, operating income for fiscal 2000 was $231 million, also down 6 percent from pro forma fiscal 1999. Pro forma operating margin of 7.9 percent also declined by 40 basis points.

LVA operating income was $6 million in fiscal 2000, with an operating margin of 2.9 percent. This business was acquired as part of the merger with Arvin and is, accordingly, included in the consolidated results from July 7, 2000, and forward. On a pro forma basis, operating income and margin for fiscal 2000 were $43 million and 4.5 percent, respectively, down from fiscal 1999 pro forma operating income of $72 million and related margin of 7.9 percent. The decline in LVA pro forma operating income relates primarily to reduced pricing and product mix issues, and was partially offset by increased volume. The decline in operating income also reflects the soft market conditions experienced in late fiscal 2000 and consolidation of the distribution channel base.

Equity in Earnings of Affiliates

Equity in earnings of affiliates was down $6 million in fiscal 2000, to $29 million, primarily as a result of the lower North American truck volumes.

Interest Expense, Net and Other

Interest expense, net and other, for fiscal 2000 was $89 million, up $28 million from fiscal 1999 interest expense, net and other, of $61 million. The increase

was primarily attributable to higher debt levels associated with acquisitions and the share repurchase programs. On a pro forma basis, fiscal 2000 interest expense, net and other, increased $25 million, to $142 million, primarily as a result of the share repurchase programs and acquisitions made during fiscal 1999.

Income Taxes

Our effective income tax rate in fiscal 2000 was 38.2 percent, compared to 38.8 percent in fiscal 1999. The tax rate decline was primarily due to our legal entity restructuring which more closely aligns our organizational structure with the underlying operations of the business.

Net Income and Basic and Diluted Earnings Per Share

Net income for fiscal 2000 was $218 million, or $4.12 per basic and diluted share, an increase of 12 percent and 10 percent, respectively, as compared with fiscal 1999 net income of $194 million, or $3.75 per basic and diluted share. On a pro forma basis, fiscal 2000 basic and diluted earnings per share was $4.02, compared to 1999 basic and diluted earnings per share of $3.67.

FINANCIAL CONDITION

Operating Cash Flow

Cash provided by operating activities for the first six months of fiscal 2002 was $138 million, a decrease of $27 million compared to the first six months of fiscal 2001 (excluding the $100 million impact of the accounts receivable securitization program, discussed below). Depreciation and other amortization expense

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was $94 million for the first six months of fiscal 2002. We anticipate depreciation and other amortization expense to be approximately $190 million to $200 million for the entire fiscal year.

Our cash provided by operating activities was $605 million in fiscal 2001, and is primarily the result of significant improvement in working capital levels and the sale of $211 million of receivables (see below). Working capital improvements were driven by improved inventory turnover and higher days in payables. Cash provided by operating activities was $228 million and $262 million in fiscal 2000 and 1999, respectively. The decline in cash provided by operating activities in fiscal 2000 from fiscal 1999 is primarily the result of working capital levels not being reduced commensurate with the decline in sales during the fourth quarter of fiscal 2000. In addition, increased pension funding and retiree medical payments contributed to the reduction from 1999 levels.

Investing Cash Flow

Cash used for investing activities was $85 million and $130 million for the first six months of fiscal 2002 and 2001, respectively. Capital expenditures were $64 million in the first six months of fiscal 2002, compared to $103 million in the first six months of fiscal 2001. The decrease was driven by our fiscal 2002 cost-reduction initiatives, which included limitations on capital spending and salaried workforce reductions (discussed previously). We anticipate full year fiscal 2002 capital expenditures of approximately $170 million to $180 million. Cash used for other investing activities consists primarily of deferred payments associated with acquisitions made in prior years and additional investment in our affiliates.

Our operating cash flow allowed us to fund capital expenditures of $206 million in fiscal 2001. In fiscal 2001, cash used for investing activities also included $34 million used for the acquisition of a business and investments. The cash used was partially offset by $30 million of proceeds from dispositions of assets and an investment in an affiliate.

In fiscal 2000, cash used for investing activities included capital expenditures of $225 million, cash payments of $49 million relating to the merger between Arvin and Meritor and cash used for acquisitions of businesses and investments of $74 million. This cash used was partially offset by $148 million of proceeds from dispositions of assets, property and businesses, primarily relating to the sale of the seat adjusting systems business. The increase in capital spending for fiscal 2000 compared to fiscal 1999 was due in part to the inclusion of Arvin capital expenditures after the merger.

In fiscal 1999, cash used for investing activities included capital expenditures of $170 million and cash used for three acquisitions totaling $573 million, offset somewhat by $51 million of proceeds from the formation of the transmission and clutch joint venture with ZF Friedrichshafen AG (ZF).

Financing Cash Flow

Cash used for financing activities in the first six months of fiscal 2002 included a net reduction in debt of $66 million. Included in the net reduction in debt were net proceeds of $394 million from the issuance of notes (see below) and the purchase of preferred capital securities of $18 million. Cash used for financing activities also includes payments of $13 million for cash dividends and proceeds of $17 million from the exercise of stock options. Our second quarter dividend of $0.10 per share was paid on March 25, 2002, to shareowners of record on March 4, 2002. Cash used for financing activities for the first six months of fiscal 2001 included the purchase of preferred capital securities of $10 million, purchases of our common stock of $31 million, cash dividends of $29 million and a decrease in revolving debt of $99 million.

Cash used for financing activities was $402 million in fiscal 2001. Cash provided by operating activities was used to repay $303 million of debt and $17 million of preferred capital securities. Additionally, we made payments of $31 million for the repurchase of our stock and $51 million for cash dividends in fiscal 2001.

Net cash provided by financing activities was $38 million in fiscal 2000. The net increase in revolving debt in fiscal 2000 was $245 million. We made payments of $172 million for the repurchase of our common stock and $35 million for cash dividends.

Net cash provided by financing activities was $441 million in fiscal 1999. This amount included a $507 million increase in debt, primarily related to the February 1999 public offering of $500 million of debt securities. The proceeds were used to repay existing indebtedness, including short-term credit facilities entered into to facilitate three acquisitions. In addition, we made payments of $6 million for the repurchase of our stock, $29 million for cash dividends and $31 million for the settlement of interest rate agreements entered into in fiscal 1998 to secure interest rates in anticipation of offering debt securities.

LIQUIDITY

Long-Term Debt

At March 31, 2002, we had two unsecured credit facilities: a 364-day, $750

million revolving credit facility and a five-year $750 million revolving credit facility. The 364-day facility matured on June 26, 2002 and was replaced by a 3-year, $400 million revolving credit facility that matures in June 2005 under which we currently have no borrowings outstanding. The five-year facility matures on June 27, 2005. We also have $50 million of unsecured lines of credit and a commercial paper program with authorized borrowings of up to $1 billion. Interest rates applicable to the commercial paper borrowings are currently higher than the cost of other available sources of financing, and no commercial paper borrowings were outstanding as of March 31, 2002 or September 30, 2001.

Our credit facilities require us to maintain ratios specified in financial covenants as of the end of each quarter. These ratios, as defined in the agreements, include a total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio of 3.25x, and a minimum fixed charge coverage ratio (EBITDA less capital expenditures to interest expense) of 1.50x. Noncompliance with these covenants would constitute an event of default, and could allow lenders to suspend additional borrowings and accelerate repayment of outstanding borrowings. At March 31, 2002, we were in compliance with all covenants and there have been no events of default. In addition, if our credit ratings were reduced from current investment grade levels, the downgrade would result in increased interest costs and facility fees in connection with these facilities.

On April 12, 2001, we filed a shelf registration statement with the Securities and Exchange Commission registering $750 million aggregate principal amount of debt securities that may be offered in one or more series on terms to be determined at the time of sale. On February 26, 2002, we completed a public offering of debt securities under the shelf registration consisting of $400 million 10-year fixed-rate 8.75 percent notes due March 1, 2012. The notes were offered to the public at 100 percent of their principal amount, and the proceeds, net of underwriting discounts and commissions, were used to repay existing indebtedness under our revolving credit facilities. The notes offered by this prospectus supplement are part of the debt securities registered in the shelf registration statement.

We entered into two separate interest rate swap agreements in March 2002 and, in effect, converted $400 million total notional amount of our fixed rate notes to variable interest rates. Under the terms of the swap agreements, we receive a fixed rate of interest of 8.75 percent and 6.8 percent on notional amounts of $300 million and $100 million respectively, and pay variable rates based on 3-month LIBOR plus a weighted average spread of 2.51 percent.

Other Financing Arrangements

Accounts Receivable Securitization Facility

We participate in an asset securitization facility to improve financial flexibility and lower interest costs. ArvinMeritor Receivables Corporation (ARC), our wholly owned subsidiary, has entered into an agreement to sell an undivided interest in up to $250 million of trade receivables to a group of banks. The accounts receivable sold are reflected as a reduction to accounts receivable in the consolidated balance sheet. As of March 31, 2002, we had utilized $211 million of the asset securitization facility.

Although the facility allows for the sale of up to $250 million, this is predicated on the amount of qualifying receivables. As of March 31, 2002, we had sold the maximum amount that was available based on our qualifying receivables. If our credit ratings are reduced to certain levels, or 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 facility. At March 31, 2002, we were in compliance with all covenants.

Leases

We have entered into agreements to lease certain assets. These assets are held by special purpose entities ("SPEs"), which were established and are owned by independent third parties. In accordance with Statement of Financial Accounting Standards No. 13, "Accounting for Leases", the lease agreements are accounted for as operating leases and the lease payments are charged to operating income. Under current accounting principles generally accepted in the U.S., the assets and the related obligations are excluded from the consolidated balance sheet, and we do not consolidate the SPEs due to ownership by independent third parties. As of March 31, 2002, we had approximately $156 million outstanding under these arrangements. Several of these leases require us to maintain at the end of each quarter financial ratios that are similar to those in our revolving credit agreements. Noncompliance with these covenants could result in termination of the agreements and acceleration of the company's obligations. At March 31, 2002, we were in compliance with all covenants.

Product Recall Campaign

We have recalled certain of our 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 us for incorporation into our 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, we 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. We reported our finding to the National Highway Transportation Safety Administration in April 2002 and expanded the recall campaign to cover all of our axle products that had incorporated TRW model 20-EDL tie rod ends.

We estimate the cost of recalling all TRW Model 20-EDL tie rod ends to be approximately $30 million, of which approximately $13 million is estimated to be covered by TRW's recall campaigns. We believe we are entitled to reimbursement by TRW for our costs associated with the campaigns and, as of March 31, 2002, we have not accrued a reserve for this issue. On May 6, 2002, we 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.

OTHER INFORMATION

We have retirement medical and defined benefit pension plans that cover most of our U.S. and certain non-U.S. employees. Retirement medical plan benefit payments aggregated $53 million in fiscal 2001, $49 million in fiscal 2000 and $41 million in fiscal 1999. We made pension plan contributions of $44 million in fiscal 2001, $40 million in fiscal 2000 and $30 million in fiscal 1999. Management expects to fund at least the minimum pension plan contributions required by government regulations for the various plans and anticipates that pension plan funding will be between $40 million and $60 million in fiscal 2002.

Our total debt to capitalization ratio was 66 percent at March 31, 2002 and 67 percent at September 30, 2001 and 2000. We regularly consider various strategic and business opportunities, including acquisitions. Although no assurance can be given as to whether or when any acquisitions may be consummated, if an agreement were to be reached, we could finance such acquisitions by issuance of additional

debt or equity securities. The additional debt from any acquisitions, if consummated, could increase our total debt to capitalization ratio.

Based upon our projected cash flow from operations, existing bank credit facilities and the proceeds of this offering, management believes that sufficient liquidity is available to meet anticipated operating, capital and dividend requirements for the next 12 months.

AFFILIATES

At September 30, 2001, we had 14 joint ventures which were not majority-owned and controlled and were accounted for under the equity method of accounting. These strategic alliances provide for sales, product design, development and manufacturing in certain product and geographic areas. Aggregate sales of these affiliates were $1,782 million, $924 million and $488 million in fiscal 2001, 2000 and 1999, respectively. The increase in fiscal 2001 is due to the inclusion of $1,129 million in sales from Arvin's affiliates in the first three quarters of fiscal 2001 versus none from Arvin's affiliates in the corresponding period of the prior year, due to the merger, offset slightly by the decline in sales of certain CVS affiliates. The increase in fiscal 2000 is due to the inclusion of approximately $290 million in sales from Arvin's affiliates and $146 million attributable to sales of the ZF Meritor joint venture created in late fiscal 1999.

INTERNATIONAL OPERATIONS

Approximately 41 percent of our total assets as of September 30, 2001, and 37 percent of fiscal 2001 sales were outside North America. Management believes that international operations have significantly benefited our financial performance. However, international operations are subject to a number of risks inherent in operating abroad. There can be no assurance that these risks will not have a material adverse impact on our ability to increase or maintain our foreign sales or on our financial condition or results of operations. Our sales in fiscal 2001 and 2000 were negatively impacted by approximately $170 million and $130 million, respectively, due to exchange rate changes. Operating income in fiscal 2001 and 2000 was negatively impacted due to foreign exchange by $19 million and $20 million, respectively. The impact the euro and other currencies will have on our sales and operating income is difficult to predict in fiscal 2002.

On January 1, 2002, the euro became the sole legal tender in 12 countries of the European Union. We are engaged in business in many of the countries that participate in the European Monetary Union, and sales for fiscal 2001 in these countries were approximately 18 percent of our total sales. In addition, we enter into foreign currency forward exchange contracts denominated in the euro and have borrowings in participating countries.

We have made the necessary adjustments to accommodate the euro conversion, including modifications to our information technology systems and programs, pricing schedules and financial instruments, and believe that the conversion has not had and will not have a material adverse effect on our business, financial condition or results of operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to foreign currency exchange rate risk related to our transactions denominated in currencies other than the U.S. dollar and interest rate risk associated with our debt.

We enter into foreign currency forward exchange contracts to minimize the risk

of unanticipated gains and losses from currency rate fluctuations on foreign currency commitments entered into in the ordinary course of business. It is our policy not to enter into derivative financial instruments for speculative purposes, and therefore, we hold no derivative instruments for trading purposes.

We have performed a sensitivity analysis assuming a hypothetical 10 percent adverse movement in foreign currency exchange rates and interest rates applied to the underlying exposures described above. As of March 31, 2002, the analysis indicated that such market movements would not have a material effect on our business, financial condition or results of operations. Actual gains or losses in the future may differ significantly from that analysis, however, based on changes in the timing and amount of interest rate and foreign currency exchange rate movements and our actual exposures.

We entered into two separate interest rate swap agreements in March 2002 and, in effect, converted $400 million total notional amount of fixed rate notes to variable interest rates. Under the terms of the swap agreements, we receive a fixed rate of interest of 8.75 percent and 6.8 percent on notional amounts of $300 million and $100 million, respectively, and we pay variable rates based on 3-month LIBOR plus a weighted average spread of 2.51 percent.

NEW ACCOUNTING PRONOUNCEMENTS

Effective October 1, 2001, we adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets," which requires goodwill to be subject to an annual impairment test, or more frequently if certain indicators arise, and also eliminates goodwill amortization. As required by this standard, we reviewed the fair values of each of our reporting units using discounted cash flows and market multiples. As a result of this review, we recorded an impairment loss on goodwill as a cumulative effect of accounting change for our Coil Coating operations (classified as "other" for segment reporting) of $42 million ($42 million after-tax, or $0.63 per diluted share) in the quarter ended December 31, 2001. Increased competition, consolidation in the coil coating applications industry and the struggling U.S. steel market caused a decrease in the fair value of this business. The adoption of the new accounting standard also eliminated goodwill amortization expense of $12 million ($10 million after-tax, or $0.15 per diluted share) for the first six months of fiscal 2002 and will eliminate $24 million ($20 million after-tax, or $0.30 per diluted share) for the full year.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets". The new standard requires an impairment loss to be recognized if the carrying value of a long-lived asset or asset group is greater than the future undiscounted cash flows, and broadens the definition of discontinued operations to include a component of a segment. SFAS 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early adoption encouraged. We do not expect the adoption of this statement to have a significant impact on our financial position or results of operations.

There were no new accounting pronouncements adopted by us in fiscal 2001 that had a material impact on our financial condition or results of operations. We adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, on October 1, 2000, and we adopted Statement of Financial Accounting Standards No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities -- a replacement of FASB Statement No. 125" in the second quarter of fiscal 2001. The adoption of these statements did not have a material impact on

us.

BUSINESS

GENERAL

We are a leading global supplier of a broad range of integrated systems, modules and components serving light vehicle, commercial truck, trailer and specialty original equipment manufacturers (OEMs) and certain aftermarkets. We serve a broad range of OEM customers worldwide, including truck OEMs, light vehicle OEMs, semi-trailer producers and off-highway and specialty vehicle manufacturers, and the related aftermarkets. As of September 30, 2001, we operated 165 manufacturing facilities in 27 countries around the world. Sales outside the United States accounted for approximately 49% of total sales in fiscal 2001.

We serve customers worldwide through three operating segments:

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

- Commercial Vehicle Systems (CVS) supplies drivetrain systems and components, including axles, brakes, drivelines and ride control products, for medium- and heavy-duty trucks, trailers and off-highway equipment and specialty vehicles.

- Light Vehicle Aftermarket (LVA) supplies exhaust, ride control and filter products and accessories to the passenger car, light truck and sport utility aftermarket.

Business units that do not primarily focus on automotive products are classified as "Other." Our coil coating operation is the primary component in this classification.

ArvinMeritor was incorporated in Indiana in March 2000 in connection with the merger of Meritor Automotive, Inc. and Arvin Industries, Inc., which was effective on July 7, 2000.

References to our being a leading supplier or the world's leading supplier, and other similar statements as to our relative market position, are based principally on calculations we have made. These calculations are based on information we have collected, including company and industry sales data obtained from internal and available external sources, as well as our estimates. In addition to such quantitative data, our statements are based on other competitive factors such as our technological capabilities, our research and development efforts and innovations, and the quality of our products and services, in each case relative to that of our competitors in the markets we address.

INDUSTRY DEVELOPMENTS AND OUTLOOK

The industry in which we operate is cyclical and has been characterized historically by periodic fluctuations in demand for vehicles for which we supply products. Lower demand in several of our principal markets, including commercial truck and light vehicle markets in North America and light vehicle replacement markets, had a negative effect on our financial results for fiscal 2001 and continue to have an effect in 2002. Our most recent outlook for our major served markets for fiscal 2002 continues to anticipate some declines from fiscal 2001

levels. Currency fluctuations, notably weakness of the euro relative to the U.S. dollar, also impacted us in 2001 and may continue to impact us in 2002.

We continue to seek to mitigate the effects of these negative factors by implementing cost-reduction initiatives, limiting capital spending, reducing salaried workforce, reducing the number of our facilities and improving operational efficiencies. In that connection, we have undertaken restructuring actions and have achieved merger synergies in fiscal 2001 to improve efficiency and realize cost reductions.

BUSINESS STRATEGIES AND INDUSTRY TRENDS

We are a global supplier of a broad range of components and systems for use in commercial, specialty and light vehicles worldwide, and we have developed market positions as a leader in most of our served markets. In the short term, we seek to maintain these market positions in the face of industry downturns

described above. In the longer term, we work to enhance our leadership positions and capitalize on our existing customer, product and geographic strengths, and to increase sales, earnings and profitability. We employ various business strategies to achieve these goals as discussed below.

Several significant trends in the automotive industry influence our business strategies. These trends, which present opportunities and challenges to industry suppliers, include the globalization of OEMs and their suppliers, increased outsourcing by OEMs, increased demand for modules and systems by OEMs, with an increasing emphasis on engineering and technology and the consolidation of suppliers worldwide.

Our business strategies and the industry trends that affect them include the following:

Continuously Improve Core Business Processes

As OEMs expand their global presence to reach new markets, they are able to achieve significant cost savings and enhanced product quality and consistency by sourcing from the most capable full-service global suppliers. The criteria for selection of suppliers have increasingly focused on quality, cost and responsiveness. We have responded to this trend by continuously improving our core business processes through investment in information technology and capital equipment; rationalization of production among facilities; deintegration of non-core processes; establishment of flexible assembly sites; and simplification and increased commonality of products.

The goals of these actions are to reduce costs, improve product quality and lower required asset investment levels, which should result in reduced product development times or cycles and more flexibility to meet customer needs.

The merger provided an opportunity to advance this continuous improvement process by combining or selecting between the best practices of both constituent companies. In fiscal 2001, we launched the ArvinMeritor Performance System (AMPS) program, a continuous improvement initiative based on the best principles of Arvin's Total Quality Production System and Meritor's White Shirt continuous improvement program.

Leverage Geographic Strengths

As OEMs globalize, they also have the opportunity to take advantage of economies of scale through global sourcing of components and systems. Geographic expansion

to meet the global sourcing needs of customers and to address new markets will continue to be an important element of our growth strategy.

Management believes opportunities exist to further increase our presence in the light vehicle OEM market where, prior to the current downturn in the industry, our sales of light vehicle products increased each year from 1996 to 2000. The merger has enhanced our LVS product offerings and improved our ability to take advantage of these opportunities.

We also believe there are opportunities to increase sales to heavy-duty and medium-duty commercial vehicle OEMs in Europe, building on established customer relationships with our North American affiliates and our existing manufacturing presence in Europe. Emerging markets such as the Asia/Pacific region and South America also present growth opportunities, as demand for commercial, specialty and light vehicles increases in these areas. In evaluating opportunities in these emerging markets, we will continue to assess the economic situation in these regions and its potential effect on our businesses and served markets.

Capitalize on Customer Outsourcing Activities

OEMs are responding to global competitive pressures to improve quality and reduce manufacturing costs and related capital investments by outsourcing products that historically have been engineered and manufactured internally. Outsourcing enables OEMs to focus on their core design, assembly and marketing capabilities. One of our significant growth strategies is to provide lower cost and higher quality products to customers that are increasing their outsourcing activities.

Management believes truck and trailer OEMs in Europe will increasingly outsource in order to achieve cost and efficiency advantages. We work closely with current and prospective customers worldwide to identify and implement mutually beneficial outsourcing opportunities.

In markets addressed by LVS, the increased outsourcing trend has extended not only to components, but to entire modules and systems, requiring suppliers to provide a higher level of engineering, design, and electromechanical and systems integration expertise in order to remain competitive. Increased outsourcing by light vehicle OEMs has resulted in higher overall per vehicle sales by independent suppliers and presents the opportunity for supplier sales growth independent of the overall automotive industry growth trend.

We have sought and will continue to seek to capitalize on this trend by using our broad product lines and design, engineering and manufacturing expertise to expand sales of higher value modules and systems. For example, Air2Air(TM), LVS's new integrated airflow system, expands our existing exhaust system products to incorporate air induction components that are customarily produced internally by OEMs. In addition, LVS has developed, and is the leading supplier of, complete roof modules comprised of a roof liner bound to an outer shell using a patented process. These modules can also incorporate LVS sunroof technology and such items as sun visors, grab handles and interior lighting, as well as aerials and loudspeakers. LVS currently has development contracts for roof modules with several OEMs. While no assurances can be made, these arrangements have the potential of resulting in increased sales to OEMs in the future.

Introduce New Systems and Technologies

As OEMs seek the most capable global suppliers, the criteria for selection include not only quality, cost and responsiveness, but also certain full-service

capabilities, including an increasing emphasis on design and engineering.

We plan to continue investing in new technologies and product development and to continue working closely with our customers to develop and implement design, engineering, manufacturing and quality improvements. For example, we are continuing to develop technical expertise that will permit us to assist customers in meeting new and more stringent emissions requirements that are phased in over the next ten years in our primary markets in North America and Europe. In addition, we are developing braking systems technology that would assist customers in meeting proposed U.S. regulations to improve braking performance and reduce stopping distances for commercial motor vehicles.

Management believes that the strategy of continuing to introduce new and improved systems and technologies will be an important factor in our efforts to achieve our growth objectives. We will draw upon the engineering resources of our Technical Centers in Troy, Michigan and Columbus, Indiana, and our engineering centers of expertise in the United States, Brazil, Canada, France, Germany and the United Kingdom.

Leverage Aftermarket Business

Longer product lives of automotive parts adversely affect the demand for some aftermarket products. The average useful life of automotive products has been increasing steadily in recent years, due to innovations in products and technologies, resulting in less frequent replacement of parts and a negative effect on aftermarket sales.

We seek to mitigate the effects of this trend by using our existing distribution channels to market new products, both those manufactured by us and those manufactured by others and sold by us under distribution agreements. The merger furthered this strategy by combining Arvin's strength in the light vehicle aftermarket with Meritor's strength in the commercial vehicle aftermarket, thereby providing opportunities for operating synergies and cross-selling of products.

Selectively Pursue Strategic Opportunities

The globalization of OEMs and the trend toward entering into supply arrangements with the most capable global suppliers have contributed to the consolidation of automotive suppliers into larger, more efficient

and more capable companies. We regularly evaluate various strategic and business development opportunities, including licensing agreements, marketing arrangements, joint ventures, acquisitions and dispositions. We intend to continue to selectively pursue alliances and acquisitions that would allow us to gain access to new customers and technologies, penetrate new geographic markets and enter new product markets. We also intend to continue to review the prospects of our existing businesses to determine whether any of them should be modified, restructured, sold or otherwise discontinued.

PRODUCTS

We design, develop, manufacture, market, distribute, sell, service and support a broad range of products for use in commercial, specialty and light vehicles. In addition to sales of original equipment systems and components, we provide our products to OEMs, dealers, distributors, fleets and other end-users in the related aftermarkets. The merger has enhanced our product lines and provided opportunities for increased sales through cross-marketing products and services to customers of the two constituent companies.

The following chart sets forth operating segment sales by product for each of the three fiscal years ended September 30, 2001. Product sales by Arvin and its subsidiaries are included only for periods after the date of the merger. A narrative description of the principal products of our three operating segments and other operations follows the chart.

SALES BY PRODUCT

	FISCAL YEAR ENDED SEPTEMBER 30,		
	2001	2000	1999
LVS(1):			
Aperture Systems(2)	17%	23%	27%
Undercarriage Systems	11	9	8
Air and Emissions Systems	25	7	--
Total LVS	53%	39%	35%
CVS:			
Drivetrain Systems	13%	23%	25%
Stopping Systems	8	13	13
Specialty Products	6	10	12
Suspension Systems and Trailer Products(1)	5	9	11
Transmissions and Clutches(3)	--	1	4
Total CVS	32%	56%	65%
LVA(1):			
Exhaust System Products	5%	2%	--%
Ride Control Products	4	1	--
Filtration Products	4	1	--
Total LVA	13%	4%	--%
Other(1)	2%	1%	--%
Total	100%	100%	100%

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(1) Sales relating to motion control systems (included in aperture systems), ride control systems (included in undercarriage systems and suspension systems and trailer products), air and emissions systems, LVA products and Other are included only for periods after the date of the merger, July 7, 2000.

(2) We sold the seat adjusting systems business in November 1999 and sold the seat motors business in August 2001. Sales from these products are included in aperture systems prior to these dates.

(3) In August 1999, we transferred the transmission and clutch business to a new 50%-owned joint venture.

Light Vehicle Systems

A key strategy of LVS is to develop our market position in aperture systems (including roof, door and access control systems and gas springs), undercarriage components and systems (including suspension systems, ride control products and wheel products) and exhaust systems. The merger provided an enhanced platform for expansion of this business and improved our ability to supply suspension systems and corner modules to light vehicle OEMs. The following products comprise our LVS portfolio.

Aperture Systems

Roof Systems. We are one of the world's leading independent suppliers of sunroofs and roof systems products for use in passenger cars, light trucks and sport utility vehicles. We make one-piece, modular roof systems, some of which incorporate sunroofs, that provide OEMs with cost savings by reducing assembly time and parts. Our roof system manufacturing facilities are located in North America, Europe and the Asia/Pacific region.

Door Systems. We are a leading supplier of manual and power window regulators and a leading supplier of integrated door modules and systems. We manufacture window regulators at plants in North America, Europe and the Asia/Pacific region for light vehicle and heavy-duty commercial vehicle OEMs. Our wide range of power and manual door system products utilize numerous technologies and offer our own electric motors, which are designed for individual applications and to maximize operating efficiency and reduce noise levels.

Access Control Systems. We supply manual and power activated latch systems to light vehicle and heavy-duty commercial vehicle manufacturers, with leadership market positions in Europe and a market presence in North America and the Asia/Pacific region. Our access control products include modular and integrated door latches, actuators, trunk and hood latches and fuel flap locking devices. We have access control systems manufacturing facilities in North America, Europe and the Asia/Pacific region.

Motion Control Systems. We are a worldwide leader in the manufacture and supply of motion control and counterbalancing systems for the automotive industry. Our products include gas lift supports and vacuum actuators. We have motion control systems manufacturing facilities in the United States and the United Kingdom.

Undercarriage Systems

Suspension Systems. Through our 57%-owned joint venture with Mitsubishi Steel Manufacturing Co., we are one of the leading independent suppliers of products used in suspension systems for passenger cars, light trucks and sport utility vehicles in North America. Our suspension system products, which are manufactured at facilities in the United States and Canada, include coil springs, stabilizer bars and torsion bars. In addition, we supply automotive suspension components for the European light vehicle market from a manufacturing facility in England. Prior to the current downturn in the industry, this business experienced significant sales growth over recent years, as light vehicle OEMs have increased their outsourcing of suspension system products and the light vehicle market has grown.

Ride Control Systems. We provide ride control products, including shock absorbers, struts, ministruts and corner modules. Through our joint ventures with Kayaba Industries, Inc., we manufactured ride control products and were a leading supplier in the European OEM market in fiscal 2001.

Wheel Products. We are a leading supplier of steel wheel products to the light vehicle OEM market, principally in North and South America. We have wheel

manufacturing facilities in Brazil and Mexico.

Air and Emissions Systems

We are a leading global supplier of a complete line of exhaust system components, including mufflers, exhaust pipes, catalytic converters and exhaust manifolds. We sell these products to OEMs primarily as original equipment, while also supporting the replacement needs for manufacturers and the service parts needs for dealers. In August 2001, we signed our first letter of intent with respect to our Air2Air(TM)

system. An Air2Air(TM) system combines air induction and exhaust systems development into an integrated airflow system for OEM customers and provides an overall improved airflow system for better system performance with less development time.

We participate in this business both directly and through joint ventures and affiliates. These alliances include our 50% interest in Arvin Sango Inc., an exhaust joint venture based in North America, and our 49% interest in Zeuna Starker GmbH & Co., an exhaust systems supplier headquartered in Germany.

Commercial Vehicle Systems

Drivetrain Systems

Truck Axles. We are one of the world's leading independent suppliers of axles for medium- and heavy-duty commercial vehicles. Our axle manufacturing facilities located in the United States, South America and Europe produce axles for medium- and heavy-duty commercial vehicles. Our truck axle product line includes a wide range of drive and non-drive front steer axles and single and tandem rear drive axles, which can include driver-controlled differential lock for extra traction, aluminum carriers to reduce weight and pressurized filtered lubrication systems for longer life. Our front steer and rear drive axles can be equipped with our cam, wedge or air disc brakes, automatic slack adjusters and anti-lock braking systems.

Drivelines and Other Products. We also supply universal joints and driveline components, including our Permalube(TM) universal joint, a permanently lubricated universal joint used in the high mileage on-highway market.

Stopping Systems

We are a leading independent supplier of air brakes to medium- and heavy-duty commercial vehicle manufacturers in North America and Europe. In addition, in Brazil, which is the third largest truck and trailer market in the world, we are a leading supplier of brakes and brake-related products through our 49%-owned joint venture with Randon S. A. Veiculos e Implementos.

Through manufacturing facilities located in North America and Europe, we manufacture a broad range of foundation air brakes, as well as automatic slack adjusters for brake systems. Our foundation air brake products include cam drum brakes, which offer improved lining life and tractor/trailer interchangeability; air disc brakes, which provide fade resistant braking for demanding applications; wedge drum brakes, which are lightweight and provide automatic internal wear adjustment; hydraulic brakes; and wheel end components such as hubs, drums and rotors.

Federal regulations require that new heavy-duty and medium-duty vehicles sold in the United States be equipped with anti-lock braking systems (ABS). Through our

50%-owned joint venture with WABCO Automotive Products, a wholly-owned subsidiary of American Standard, Inc., we are the leading supplier of ABS and a supplier of other electronic and pneumatic control systems for North American heavy-duty commercial vehicles. The joint venture also supplies hydraulic ABS to the North American medium-duty truck market.

Specialty Products

Off-Highway Vehicle Products. We supply heavy-duty axles, brakes and drivelines for use in numerous off-highway vehicle applications, including construction, material handling, agriculture, mining and forestry, in North America, South America, Europe and the Asia/Pacific region. These products are designed to tolerate high tonnages and operate under extreme conditions.

Government Products. We supply axles, brakes and brake system components including ABS, trailer products, transfer cases and drivelines for use in medium-duty and heavy-duty military tactical wheeled vehicles, principally in North America.

Specialty Vehicle Products. We supply axles, brakes and transfer cases for use in buses, coaches and recreational, fire and other specialty vehicles in North America and Europe, and we are the leading supplier of bus and coach axles and brakes in North America.

Suspension Systems and Trailer Products

We believe we are the world's leading manufacturer of heavy-duty trailer axles, with leadership positions in North America and in Europe. Our trailer axles are available in over 40 models in capacities from 20,000 to 30,000 pounds for virtually all heavy trailer applications and are available with our broad range of brake products, including ABS. In addition, we supply trailer air suspension products for which we have strong market positions in Europe and an increasing market presence in North America.

Transmissions and Clutches

Through our 50%-owned joint venture with ZF Friedrichshafen AG, we produce technologically advanced medium- and heavy-duty transmission components and systems for heavy vehicle original equipment manufacturers and the aftermarket for the United States, Canada and Mexico. This transmission product line enables us to supply a complete drivetrain system to heavy-duty commercial vehicle manufacturers in North America. The most recent additions to the joint venture's range of transmission models include FreedomLine(TM), a fully automated mechanical truck transmission without a clutch pedal, and SureShift(TM), a shift-by-wire system that provides the operating ease of an automatic transmission with full manual control by the driver. The joint venture also supplies clutches, including diaphragm-spring clutches.

Light Vehicle Aftermarket

The principal LVA products include mufflers; exhaust and tail pipes; catalytic converters; shock absorbers; struts; clamps; hangers; automotive oil, air, and fuel filters; and accessories. These products are sold under the brand names TIMAX(R), ANSA(R) and ROSI(R) (mufflers); Gabriel(R) (shock absorbers); and Purolator(R) (filters). LVA also markets products under private label to customers such as Pep Boys and CarQuest (ride control) and Quaker State (filters).

Other

"Other" includes business units that are not focused predominantly on automotive products and consists primarily of our coil coating operation. Coil coated steel and aluminum substrates are used in a variety of applications, which include consumer appliances; roofing and siding; garage and entry doors; heating, ventilation and air conditioning (HVAC); and transportation.

CUSTOMERS; SALES AND MARKETING

Our operating segments have numerous customers worldwide and have developed long-standing business relationships with many of these customers. Our ten largest customers accounted for 60% of our total sales in fiscal 2001.

Original Equipment

Both LVS and CVS market and sell products principally to OEMs. In North America, CVS also markets truck and trailer products directly to dealers, fleets and other end-users, which may designate the components and systems of a particular supplier for installation in the vehicles they purchase from OEMs.

Consistent with industry practice, LVS and CVS make most of their sales to OEMs through open purchase orders, which do not require the purchase of a minimum number of products. The customer typically may cancel these purchase orders on reasonable notice without penalty. LVS and CVS also sell products to certain customers under long-term arrangements that require us to provide annual cost reductions (through price reductions or other cost benefits for the OEMs). If we were unable to generate

sufficient cost savings in the future to offset such price reductions, our gross margins would be adversely affected.

Both LVS and CVS are dependent upon large OEM customers with substantial bargaining power, including with respect to price and other commercial terms. Although we believe that our businesses generally enjoy good relations with our OEM customers, loss of all or a substantial portion of sales to any of our large volume customers for whatever reason (including, but not limited to, loss of contracts, reduced or delayed customer requirements, plant shutdowns, strikes or other work stoppages affecting production by such customers) could have a significant adverse effect on our financial results. During fiscal 2001, DaimlerChrysler AG (which owns Chrysler, Mercedes-Benz AG and Freightliner Corporation) accounted for approximately $360 million of sales for CVS, $606 million of sales for LVS and $23 million of sales for LVA, or 15% of our total sales. In addition, for fiscal 2001, General Motors Corporation accounted for approximately $41 million of sales for CVS, $752 million of sales for LVS and $15 million of sales for LVA, or 12% of our total sales. No other customer accounted for over 10% of our total sales in fiscal 2001.

Except as noted above with respect to the North American market for heavy-duty trucks and trailers, LVS and CVS generally compete for new business from OEMs, both at the beginning of the development of new vehicle platforms and upon the redesign of existing platforms. New platform development generally begins two to four years prior to start-up of production. Once a supplier has been designated to supply products to a new platform, an OEM will generally continue to purchase those products from the supplier for the life of the platform, which typically lasts three to six years.

Aftermarkets

CVS also provides truck and trailer products and off-highway and specialty

products to OEMs, dealers and distributors in the aftermarket. LVA sells products primarily to wholesale distributors, retailers and installers. The light vehicle aftermarket includes fewer and larger customers, as the market consolidates and as OEMs increase their presence in the market.

Coil Coating

Our coil coating customers include steel companies, service centers and end manufacturers engaged in the transportation, appliance, construction and furniture industries.

COMPETITION

Each of our businesses operates in a highly competitive environment. LVS and CVS compete worldwide with a number of North American and international providers of components and systems, some of which belong to, or are associated with, some of our customers. Some of these competitors are larger and some are smaller than us in terms of resources and market shares. The principal competitive factors are price, quality, service, product performance, design and engineering capabilities, new product innovation and timely delivery. LVS has numerous competitors across its various product lines worldwide, including Brose (door systems); Webasto and Inalfa (roof systems); Kiekert (access control systems); Stabilus (motion control systems); Krupp-Hoesch (suspension systems); Hayes-Lemmerz (wheel products); and Tenneco (ride control systems and exhaust systems). The major competitors of CVS are Eaton Corporation (transmissions); Dana Corporation (truck axles and drivelines); Knorr (stopping systems); and Hendrickson (suspension systems and trailer products). In addition, certain OEMs manufacture for their own use products of the types we supply, and any future increase in this activity could displace our sales.

LVA competes with both OEMs and independent suppliers in North America and Europe and serves the market through our own sales force, as well as through a network of manufacturers' representatives. Major competitors include Tenneco, Goerlicks, Bosal and Catco (exhaust system products); Tenneco, Kayaba, Sachs, Tokico and Cofap (ride control products); and Champ Labs, Honeywell, Dana, Mann-Filter and Filtrauto (filtration products). Competitive factors include customer loyalty, competitive pricing, customized service, quality, timely delivery, product development and manufacturing process efficiency.

Our coil coating operation competes with other coil coaters and with customers' internal painting systems.

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RAW MATERIALS AND SUPPLIES

We believe we have adequate sources for the supply of raw materials and components for our business segments' manufacturing needs with suppliers located around the world. We do, however, concentrate our purchases of certain raw materials and parts over a limited number of suppliers, some of which are located in developing countries, and we are dependent upon the ability of our suppliers to meet performance and quality specifications and delivery schedules. Although we historically have not experienced any significant difficulties in obtaining an adequate supply of raw materials and components necessary for our manufacturing operations, the loss of a significant supplier or the inability of a supplier to meet performance and quality specifications or delivery schedules could have an adverse effect on us.

STRATEGIC INITIATIVES

We regularly consider various strategic and business opportunities, including licensing agreements, marketing arrangements and acquisitions, and review the

prospects of our existing businesses to determine whether any of them should be modified, restructured, sold or otherwise discontinued.

The industry in which we operate continues to experience significant consolidation among suppliers. This trend is due in part to globalization and increased outsourcing of product engineering and manufacturing by OEMs, and in part to OEMs reducing the total number of their suppliers by more frequently awarding long-term, sole-source or preferred supplier contracts to the most capable global suppliers. Scale is an important competitive factor, with the largest industry participants able to maximize key resources and contain costs.

Consistent with this trend, we completed the merger of Arvin and Meritor in fiscal 2000 in order to enhance the financial strength, diversity of operations and product lines of both companies and to better position ourselves to take advantage of global opportunities. In addition, we believe that efficiencies and cost savings resulting from the merger should enable us to improve upon and increase our strategic options and lower our average cost of capital. Annual pre-tax synergies are estimated to have been approximately $40 million in fiscal 2001.

In August 2001, we sold the manufacturing equipment related to our LVS seat motor business for approximately $11.7 million in cash. We had sold our seat adjusting systems business in November 1999, after determining that retention of this business was not consistent with the LVS strategy of developing market position in aperture systems and undercarriage components and systems.

In fiscal 2001, we announced restructuring actions to realign operations at selected facilities throughout the world to reflect the decline in our major markets, with a cost of approximately $105 million. In addition, in the first quarter of fiscal 2002, we recorded an additional restructuring charge of $15 million relating to employee severance benefits for approximately 450 salaried employees.

No assurance can be given as to whether or when any additional strategic initiatives will be consummated in the future. We will continue to consider acquisitions as a means of further expansion, but cannot predict whether our participation or lack of participation in industry consolidation will ultimately be beneficial to us. If an agreement with respect to any additional acquisitions were to be reached, we could finance such acquisitions by issuance of additional debt or equity securities. The additional debt from any such acquisitions, if consummated, could increase our debt to capitalization ratio. In addition, the ultimate benefit of any acquisition would depend on our ability to successfully integrate the acquired entity or assets into our existing business and to achieve any projected synergies.

JOINT VENTURES

As the automotive industry has become more globalized, joint ventures and other cooperative arrangements have become an important element of our business strategies. At September 30, 2001, we participated in joint ventures with interests in the United States, Argentina, Brazil, Canada, China, Colombia, the Czech Republic, Germany, Hungary, India, Italy, Japan, Mexico, South Africa, Spain, Turkey, Venezuela and the United Kingdom.

In accordance with accounting principles generally accepted in the United States, our consolidated financial statements include the operating results of those majority-owned joint ventures in which we have control. Consolidated joint ventures include our 57%-owned joint venture with Mitsubishi Steel Manufacturing Co. (suspension products for passenger cars, light trucks and sport utility

vehicles); and our 75% interest in a joint venture with Kayaba (ride control products). Unconsolidated joint ventures include our 50%-owned joint venture with WABCO Automotive Products (ABS systems for heavy-duty commercial vehicles); our 50%-owned joint venture with ZF Friedrichshafen AG (transmissions and clutches); our 50% interest in Arvin Sango Inc. and our 49% interest in Zeuna Starker GmbH & Co. (exhaust systems); our 49% interest in a joint venture with Randon S.A. Veiculos e Implementos (brakes and brake-related products); and our 40% interest in a second joint venture with Kayaba (steering pumps).

Effective September 30, 2001, ArvinMeritor and Kayaba terminated a North American joint venture that manufactured ride control products, and each company reacquired the properties it had contributed at formation in 1998. We had a 50.1% interest in this joint venture. We will continue to participate in two other joint ventures with Kayaba in Europe, in which we own 75% and 40% interests. Effective October 1, 200