

MERITOR INC
Form 10-Q
August 01, 2014
Index

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

FORM 10-Q

QUARTERLY REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 29, 2014
Commission File No. 1-15983

MERITOR, INC.

(Exact name of registrant as specified in its charter)

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

(248) 435-1000

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

Large accelerated filer	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	Smaller reporting company	

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

Yes No

97,844,611 shares of Common Stock, \$1.00 par value, of Meritor, Inc. were outstanding on June 29, 2014.

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MERITOR, INC.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share amounts)

	Three Months Ended		Nine Months Ended June	
	June 30,		30,	
	2014	2013	2014	2013
	(Unaudited)			
Sales	\$986	\$993	\$2,855	\$2,792
Cost of sales	(863)	(884)	(2,513)	(2,505)
GROSS MARGIN	123	109	342	287
Selling, general and administrative	(54)	(67)	(179)	(194)
Pension settlement loss	—	(36)	—	(36)
Restructuring costs	—	(12)	(3)	(29)
Other operating expense	(1)	—	(2)	(2)
OPERATING INCOME (LOSS)	68	(6)	158	26
Equity in earnings of ZF Meritor	190	—	190	—
Equity in earnings of other affiliates	11	15	28	34
Interest expense, net	(22)	(45)	(97)	(99)
INCOME (LOSS) BEFORE INCOME TAXES	247	(36)	279	(39)
Provision for income taxes	(11)	(1)	(30)	(18)
INCOME (LOSS) FROM CONTINUING OPERATIONS	236	(37)	249	(57)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net	(2)	(1)	1	(6)
of tax				
NET INCOME (LOSS)	234	(38)	250	(63)
Less: Net income attributable to noncontrolling interests	—	—	(4)	—
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	\$234	\$(38)	\$246	\$(63)
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.				
Net income (loss) from continuing operations	\$236	\$(37)	\$245	\$(57)
Income (loss) from discontinued operations	(2)	(1)	1	(6)
Net income (loss)	\$234	\$(38)	\$246	\$(63)
BASIC EARNINGS (LOSS) PER SHARE				
Continuing operations	\$2.42	\$(0.38)	\$2.51	\$(0.58)
Discontinued operations	(0.02)	(0.01)	0.01	(0.07)
Basic earnings (loss) per share	\$2.40	\$(0.39)	\$2.52	\$(0.65)
DILUTED EARNINGS (LOSS) PER SHARE				
Continuing operations	\$2.33	\$(0.38)	\$2.47	\$(0.58)
Discontinued operations	(0.02)	(0.01)	0.01	(0.07)
Diluted earnings (loss) per share	\$2.31	\$(0.39)	\$2.48	\$(0.65)
Basic average common shares outstanding	97.6	97.2	97.5	97.0
Diluted average common shares outstanding	101.1	97.2	99.1	97.0

See notes to consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	Three Months Ended June 30, 2014		Nine Months Ended June 30, 2014	
	2013		2013	
	(Unaudited)			
Net income (loss)	\$234	\$(38)	\$250	\$(63)
Other comprehensive income (loss):				
Foreign currency translation adjustments	8	(33)	8	(34)
Pension and other postretirement benefit related adjustments	11	25	31	23
Unrealized gain (loss) on investments and foreign exchange contracts	—	(1)	2	(1)
Other comprehensive income (loss), net of tax	19	(9)	41	(12)
Total comprehensive income (loss)	253	(47)	291	(75)
Less: Comprehensive (income) loss attributable to noncontrolling interest	—	1	(4)	—
Comprehensive income (loss) attributable to Meritor, Inc.	\$253	\$(46)	\$287	\$(75)

See notes to consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

	June 30, 2014 (Unaudited)	September 30, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$303	\$318
Receivables, trade and other, net	644	596
Inventories	441	414
Other current assets	56	56
TOTAL CURRENT ASSETS	1,444	1,384
NET PROPERTY	411	417
GOODWILL	439	434
OTHER ASSETS	516	335
TOTAL ASSETS	\$2,810	\$2,570
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Short-term debt	\$5	\$13
Accounts and notes payable	715	694
Other current liabilities	351	339
TOTAL CURRENT LIABILITIES	1,071	1,046
LONG-TERM DEBT	1,086	1,125
RETIREMENT BENEFITS	861	886
OTHER LIABILITIES	319	335
TOTAL LIABILITIES	3,337	3,392
COMMITMENTS AND CONTINGENCIES (See Note 20)		
EQUITY (DEFICIT):		
Common stock (June 30, 2014 and September 30, 2013, 97.8 and 97.4 shares issued and outstanding, respectively)	97	97
Additional paid-in capital	919	914
Accumulated deficit	(881)	(1,127)
Accumulated other comprehensive loss	(693)	(734)
Total deficit attributable to Meritor, Inc.	(558)	(850)
Noncontrolling interests	31	28
TOTAL DEFICIT	(527)	(822)
TOTAL LIABILITIES AND DEFICIT	\$2,810	\$2,570

See notes to consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

	Nine Months Ended June 30,	
	2014	2013
	(Unaudited)	
OPERATING ACTIVITIES		
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES (See Note 9)	\$103	\$(73)
INVESTING ACTIVITIES		
Capital expenditures	(39)	(31)
Other investing activities	—	1
Net investing cash flows provided by discontinued operations	3	6
CASH USED FOR INVESTING ACTIVITIES	(36)	(24)
FINANCING ACTIVITIES		
Repayment of notes and term loan	(308)	(427)
Proceeds from debt issuance	225	500
Debt issuance costs	(9)	(12)
Other financing activities	10	10
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(82)	71
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	(3)
CHANGE IN CASH AND CASH EQUIVALENTS	(15)	(29)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	318	257
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$303	\$228

See notes to consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)

(In millions)

(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Deficit Attributable to Meritor, Inc.	Noncontrolling Interests	Total
Beginning balance at September 30, 2013	\$97	\$914	\$ (1,127)	\$ (734)	\$ (850)	\$ 28	\$ (822)
Comprehensive income	—	—	246	41	287	4	291
Equity based compensation expense	—	6	—	—	6	—	6
Noncontrolling interest dividends	—	—	—	—	—	(1)	(1)
Other equity adjustments	—	(1)	—	—	(1)	—	(1)
Ending Balance at June 30, 2014	\$97	\$919	\$ (881)	\$ (693)	\$ (558)	\$ 31	\$ (527)
Beginning balance at September 30, 2012	\$96	\$901	\$ (1,105)	\$ (915)	\$ (1,023)	\$ 41	\$ (982)
Comprehensive loss	—	—	(63)	(12)	(75)	—	(75)
Vesting of restricted stock	1	(1)	—	—	—	—	—
Repurchase of convertible notes	—	(2)	—	—	(2)	—	(2)
Issuance of convertible notes	—	9	—	—	9	—	9
Equity based compensation expense	—	5	—	—	5	—	5
Noncontrolling interest dividends	—	—	—	—	—	(14)	(14)
Ending Balance at June 30, 2013	\$97	\$912	\$ (1,168)	\$ (927)	\$ (1,086)	\$ 27	\$ (1,059)

See notes to consolidated financial statements.

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

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

In the opinion of the company, the unaudited financial statements contain all adjustments, consisting solely of adjustments of a normal, recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These statements should be read in conjunction with the company's audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K, for the fiscal year ended September 30, 2013. The results of operations for the three and nine months ended June 30, 2014, are not necessarily indicative of the results for the full year.

The company's fiscal year ends on the Sunday nearest September 30. The third quarter of fiscal years 2014 and 2013 ended on June 29, 2014 and June 30, 2013, respectively. All year and quarter references relate to the company's fiscal year and fiscal quarters, unless otherwise stated. For ease of presentation, September 30 and June 30 are used consistently throughout this report to represent the fiscal year end and third quarter end, respectively.

2. Earnings per Share

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

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

	Three Months Ended		Nine Months Ended June 30,	
	June 30, 2014	2013	2014	2013
Basic average common shares outstanding	97.6	97.2	97.5	97.0
Impact of stock options	0.1	—	0.1	—
Impact of restricted shares	1.6	—	1.5	—
Impact of convertible notes	1.8	—	—	—
Diluted average common shares outstanding	101.1	97.2	99.1	97.0

On November 7, 2013, the Board of Directors approved a grant of performance restricted share units to all executives eligible to participate in the long-term incentive plan. Each performance share unit represents the right to receive one share of common stock upon achievement of certain performance and time vesting criteria. The fair value of each share unit is \$7.97, the company's share price on the grant date of December 1, 2013.

The actual number of performance units that will vest will depend upon the company's performance relative to the established M2016 goals for the three-year performance period of October 1, 2013 to September 30, 2016, measured at the end of the performance period. The number of potential performance units will depend on meeting the established M2016 goals at the following weights: 50% associated with achieving 10% Adjusted EBITDA margin, 25% associated with reducing net debt, including retirement benefit liabilities, by \$400 million to less than \$1.5 billion, and 25% associated with generating incremental booked revenue of \$500 million per year (at run-rate). The number of shares that vest will be between 0% and 200% of the estimated grant date amount of 1.5 million shares. For

the three and nine months ended June 30, 2014, compensation cost recognized related to the performance shares was \$1 million and \$2 million, respectively. Performance shares are excluded from the diluted earnings per share calculation for the three and nine months ended June 30, 2014 as the shares are contingent upon the satisfaction of certain conditions that have not been satisfied as of the respective reporting periods.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the three months ended June 30, 2014, 1.8 million shares were included in the computation of diluted earnings per share because the average share price exceeded the conversion price for the 7.875 percent convertible notes due 2026. For the three months ended June 30, 2013, and nine months ended June 30, 2014 and 2013, the average share price during each period did not exceed the conversion price.

For the three and nine months ended June 30, 2014, options to purchase 0.1 million and 0.4 million shares of common stock, respectively, were excluded from the computation of diluted earnings per share because their exercise price exceeded the average market price for the periods and thus their inclusion would be anti-dilutive. For both the three and nine months ended June 30, 2013, options to purchase 0.5 million shares of common stock, were excluded from the computation of diluted earnings per share because their exercise price exceeded the average market price for the periods and thus their inclusion would be anti-dilutive.

The potential effects of restricted shares and share units were excluded from the diluted earnings per share calculation for the three and nine months ended June 30, 2013 because their inclusion in a loss from continuing operations period would reduce the loss per share from continuing operations attributable to common shareholders.

3. New Accounting Standards

Accounting standards implemented during fiscal year 2014

In January 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU 2013-01 clarifies which instruments and transactions are subject to the offsetting disclosure requirements established by ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The company adopted this guidance at the beginning of its first quarter of fiscal year 2014 within Note 18.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires that reclassification adjustments for items that are reclassified from accumulated other comprehensive income to net income be presented on the financial statements or in a note to the financial statements. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The company adopted this guidance at the beginning of its first quarter of fiscal year 2014 within Note 21.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 eliminates the option of presenting unrecognized tax benefits as a liability or as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward. An unrecognized tax benefit, or portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 with early adoption permitted. The company adopted this guidance at the beginning of its first quarter of fiscal year 2014. The adoption of ASU 2013-11 did not have a material effect on the company's consolidated statement of financial position, results of operations, or cash flows.

Accounting standards to be implemented

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. A strategic shift could include a disposal of: (1) a major geographical area of operations; (2) a major line of business; and (3) a major equity method investment. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods

within those annual periods. The company plans to implement this standard in the first quarter of the fiscal year beginning October 1, 2015 and is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

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(Unaudited)

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 merges revenue recognition standards of the FASB and International Accounting Standards Board (IASB). The FASB and IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS) that would: (1) remove inconsistencies and weaknesses in revenue requirements; (2) provide a more robust framework for addressing revenue issues; (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) provide more useful information to users of financial statements through improved disclosure requirements; and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2016, and interim periods within those annual periods. The company plans to implement this standard in the first quarter of the fiscal year beginning October 1, 2017 and is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

4. Discontinued Operations

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Sales	\$—	\$—	\$—	\$—
Loss before income taxes	\$(1)	\$(1)	(3)	(6)
Benefit (provision) for income taxes	(1)	—	4	—
Income (loss) from discontinued operations attributable to Meritor, Inc.	\$(2)	\$(1)	\$1	\$(6)

Pre-tax loss from discontinued operations for the three and nine months ended June 30, 2014 and 2013 was primarily due to environmental remediation costs. The benefit for income taxes for the nine months ended June 30, 2014 was primarily attributable to the expiration of the statute of limitations on certain tax contingencies of previously divested businesses.

5. Goodwill

In accordance with FASB Accounting Standards Codification (ASC) Topic 350-20, "Intangibles – Goodwill and Other", goodwill is reviewed for impairment annually during the fourth quarter of the fiscal year or more frequently if certain indicators arise. If business conditions or other factors cause the operating results and cash flows of a reporting unit to decline, the company may be required to record impairment charges for goodwill at that time. The company tests goodwill for impairment at a level of reporting referred to as a reporting unit, which is an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. When two or more components of an operating segment have similar economic characteristics, the components are aggregated and deemed a single reporting unit. An operating segment is deemed to be a reporting unit if all of its components are similar, if none of its components is a reporting unit, or if the segment comprises only a single component.

A summary of the changes in the carrying value of goodwill by the company's two reportable segments are presented below (in millions):

	Commercial Truck & Industrial	Aftermarket & Trailer	Total
Beginning balance at September 30, 2013	\$262	\$172	\$434
Foreign currency translation	3	2	5

Balance at June 30, 2014	\$265	\$174	\$439
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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Restructuring Costs

At both June 30, 2014 and September 30, 2013, \$9 million and \$12 million, respectively, of restructuring reserves primarily related to unpaid employee termination benefits remained in the consolidated balance sheet. The changes in restructuring reserves for the nine months ended June 30, 2014 and 2013 are as follows (in millions):

	Employee Termination Benefits	Asset Impairment	Plant Shutdown & Other	Total	
Beginning balance at September 30, 2013	\$12	\$—	\$—	\$12	
Activity during the period:					
Charges to continuing operations	3	—	—	3	
Cash payments – continuing operations	(6) —	—	(6)
Total restructuring reserves at June 30, 2014	9	—	—	9	
Less: non-current restructuring reserves	(3) —	—	(3)
Restructuring reserves – current, at June 30, 2014	\$6	\$—	\$—	\$6	
Balance at September 30, 2012	\$15	\$—	\$—	\$15	
Activity during the period:					
Charges to continuing operations	18	1	10	29	
Asset write-offs	—	(1) —	(1)
Cash payments – continuing operations	(17) —	—	(17)
Other	(1) —	(1) (2)
Total restructuring reserves at June 30, 2013	15	—	9	24	
Less: non-current restructuring reserves	(3) —	(7) (10)
Restructuring reserves – current, at June 30, 2013	\$12	\$—	\$2	\$14	

M2016 Footprint Actions: As part of the company's M2016 Strategy, a three-year plan to achieve sustainable financial strength, the company approved a North American footprint realignment action and a European Shared Services Reorganization. As part of these actions, the company eliminated 74 hourly and 27 salaried positions and incurred \$2 million of restructuring costs, primarily related to severance benefits, in the Commercial Truck & Industrial segment during fiscal year 2013.

Variable Labor Reductions: During the fourth quarter of fiscal year 2012, the company initiated a global variable labor headcount reduction plan intended to reduce labor and other costs in response to market conditions. As part of this action, the company eliminated approximately 600 hourly and 120 salaried positions and incurred \$10 million of restructuring costs in the Commercial Truck & Industrial segment, primarily severance benefits, of which \$5 million was recognized in fiscal year 2013 and \$5 million was recognized in fiscal year 2012. Restructuring actions associated with the variable labor reductions were substantially complete as of March 31, 2014.

Remanufacturing Consolidation: During the first quarter of fiscal year 2013, the company announced the planned consolidation of its remanufacturing operations in the Aftermarket & Trailer segment resulting in the closure of one remanufacturing plant in Canada. The closure resulted in the elimination of 85 hourly positions including approximately 65 positions which were transferred to the company's facility in Indiana. The company recorded restructuring charges of \$3 million during fiscal year 2013, primarily associated with employee severance charges. Restructuring actions associated with the remanufacturing consolidation were substantially complete as of March 31, 2014.

Segment Reorganization and Asia Pacific Realignment: On November 12, 2012, the company announced a revised management reporting structure resulting in two business segments to drive efficiencies. On January 8, 2013, the

company announced restructuring actions related to this business segment rationalization. On March 26, 2013, the company announced plans to consolidate its operations in China by transferring manufacturing operations to the company's off-highway facility and closing its facility in Wuxi, China.

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

During fiscal year 2013, the company recorded employee severance charges and other exit costs associated with the elimination of approximately 200 salaried positions (including contract employees) and 50 hourly positions of \$8 million and \$3 million in the Commercial Truck & Industrial and Aftermarket & Trailer segments, respectively, as well as \$3 million at a corporate location. The company also recognized \$2 million within the Commercial Truck & Industrial segment related to a lease termination. Restructuring actions associated with this program were substantially complete as of March 31, 2014.

7. Income Taxes

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

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

For the first nine months of fiscal year 2014, the company had approximately \$181 million of net pre-tax income compared to a net pre-tax loss of \$91 million in the first nine months of fiscal year 2013 in tax jurisdictions in which a tax expense (benefit) is not recorded. Income or losses arising from these jurisdictions resulted in an adjustment to the valuation allowance, rather than an adjustment to income tax expense.

Included in the net pre-tax income for the first nine months of fiscal year 2014 is \$210 million of earnings on the antitrust lawsuit settlement with Eaton Corporation inclusive of the \$20 million recovery of legal expenses (see Note 14), which was recorded in a jurisdiction with a valuation allowance. This income resulted in a \$79 million decrease to the valuation allowance, rather than an increase to income tax expense.

8. Accounts Receivable Factoring & Securitization

Off-balance sheet arrangements

Swedish Factoring Facility: The company has an arrangement to sell trade receivables due from AB Volvo through one of its European subsidiaries. Under this arrangement, which was renewed on June 27, 2014 and terminates on June 28, 2015, the company can sell up to, at any point in time, €150 million (\$204 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €103 million (\$140 million) and €148 million (\$199 million) of this accounts receivable factoring facility as of June 30, 2014 and September 30, 2013, respectively.

U.S. Factoring Facility: The company has an arrangement to sell trade receivables from AB Volvo and its subsidiaries. Under this arrangement, which was renewed on June 27, 2014 and terminates on October 29, 2015, the company can sell up to, at any point in time, €65 million (\$89 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €61 million (\$83 million) and €48 million (\$65 million) of this accounts receivable factoring facility as of June 30, 2014 and September 30, 2013, respectively.

The above facilities are backed by 364-day liquidity commitments from Nordea Bank which were renewed through May 2015. The commitments are subject to standard terms and conditions for these types of arrangements.

United Kingdom Factoring Facility: The company has an arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of its United Kingdom subsidiaries. Under this arrangement, which was renewed on January 24, 2013 and expires in February 2018, the company can sell up to, at any point in time, €25 million (\$34 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €8 million (\$11 million) and €7 million (\$9 million) of this accounts receivable factoring facility as of June 30, 2014 and September 30, 2013, respectively. The agreement is subject to standard terms and conditions for these types of arrangements including a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the program.

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Italy Factoring Facility: The company has an arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of its Italian subsidiaries. Under this arrangement, which expires in June 2017, the company can sell up to, at any point in time, €30 million (\$41 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €12 million (\$16 million) and €10 million (\$14 million) of this accounts receivable factoring facility as of June 30, 2014 and September 30, 2013, respectively. The agreement is subject to standard terms and conditions for these types of arrangements including a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the program.

Brazil Factoring Facility: The company entered into an arrangement to sell trade receivables from MAN and its subsidiaries. Under this arrangement, which began in October 2013 and was valid for invoices dated no later than March 31, 2014, the company could sell up to, at any point in time, R\$100 million of eligible trade receivables. The receivables under this program were sold at face value and were excluded from the consolidated balance sheet. The company had no balance utilized on this accounts receivable factoring facility as of June 30, 2014, and the agreement has expired.

In addition, several of the company's subsidiaries, primarily in Europe, factor eligible accounts receivable with financial institutions. Certain receivables are factored without recourse to the company and are excluded from accounts receivable in the consolidated balance sheet. The amount of factored receivables excluded from accounts receivable was \$23 million and \$18 million at June 30, 2014 and September 30, 2013, respectively.

Total costs associated with all of the off-balance sheet arrangements described above were \$2 million in the three months ended June 30, 2014 and 2013, respectively, and \$7 million and \$5 million in the nine months ended June 30, 2014 and 2013, respectively, and are included in selling, general and administrative expenses in the consolidated statement of operations.

On-balance sheet arrangements

The company has a \$100 million U.S. accounts receivables securitization facility. On June 21, 2013, the company entered into a one-year extension of the facility expiration date, which after the amendment, expires on June 18, 2016. On October 11, 2013, the company entered into an amendment whereby Market Street Funding, LLC assigned its purchase commitment to PNC Bank National Association (PNC). This program is provided by PNC, as Administrator and Purchaser, and the other Purchasers and Purchaser Agents from time to time (participating lenders), which are party to the agreement. Under this program, the company has the ability to sell an undivided percentage ownership interest in substantially all of its trade receivables (excluding the receivables due from AB Volvo and subsidiaries eligible for sale under the U.S. Factoring Facility) of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation (ARC), a wholly-owned, special purpose subsidiary. ARC funds these purchases with borrowings from participating lenders under a loan agreement. This program also includes a letter of credit facility pursuant to which ARC may request the issuance of letters of credit issued for the company's U.S. subsidiaries (originators) or their designees, which when issued will constitute a utilization of the facility for the amount of letters of credit issued. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the consolidated balance sheet. At June 30, 2014, no amounts, including letters of credit, were outstanding under this program. This program contains a financial covenant related to the company's priority-debt-to-EBITDA ratio, which is 2.00 to 1.00 as of the last day of the fiscal quarter throughout the remaining term of the agreement. At June 30, 2014, the company was in compliance with all covenants under its credit agreement (see Note 17).

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9. Operating Cash Flow

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

	Nine Months Ended June 30,	
	2014	2013
OPERATING ACTIVITIES		
Net income (loss)	\$250	\$(63)
Less: Income (loss) from discontinued operations, net of tax	1	(6)
Income (loss) from continuing operations	249	(57)
Adjustments to income (loss) from continuing operations to arrive at cash provided by (used for) operating activities:		
Depreciation and amortization	50	49
Restructuring costs	3	29
Loss on debt extinguishment	21	24
Equity in earnings of ZF Meritor	(190) —
Equity in earnings of other affiliates	(28	) (34)
Pension and retiree medical expense	30	69
Other adjustments to income (loss) from continuing operations	7	4
Dividends received from affiliates	28	14
Pension and retiree medical contributions	(31	) (88)
Restructuring payments	(6	) (17)
Changes in off-balance sheet accounts receivable factoring	(27	) 46
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations	4	(98)
Operating cash flows provided by (used for) continuing operations	110	(59)
Operating cash flows used for discontinued operations	(7	) (14)
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$103	\$(73)

10. Inventories

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

	June 30, 2014	September 30, 2013
Finished goods	\$193	\$184
Work in process	37	32
Raw materials, parts and supplies	211	198
Inventories	\$441	\$414

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11. Other Current Assets

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

	June 30, 2014	September 30, 2013
Current deferred income tax assets	\$23	\$23
Asbestos-related recoveries (see Note 20)	12	12
Deposits and collateral	5	4
Prepaid and other	16	17
Other current assets	\$56	\$56

12. Net Property

Net property is summarized as follows (in millions):

	June 30, 2014	September 30, 2013
Property at cost:		
Land and land improvements	\$35	\$35
Buildings	243	239
Machinery and equipment	928	915
Company-owned tooling	157	152
Construction in progress	49	48
Total	1,412	1,389
Less: Accumulated depreciation	(1,001)	(972)
Net property	\$411	\$417

13. Other Assets

Other assets are summarized as follows (in millions):

	June 30, 2014	September 30, 2013
Investment in ZF Meritor (see Note 14)	190	—
Investments in other non-consolidated joint ventures (see Note 14)	\$107	\$102
Asbestos-related recoveries (see Note 20)	59	59
Non-current deferred income tax assets, net	9	13
Unamortized debt issuance costs	32	32
Capitalized software costs, net	25	28
Prepaid pension costs	65	55
Other	29	46
Other assets	\$516	\$335

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

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The company holds a variable interest in a joint venture accounted for under the equity method of accounting. The joint venture manufactures components for commercial vehicle applications primarily on behalf of the company. The variable interest relates to a supply arrangement between the company and the joint venture whereby the company supplies certain components to the joint venture on a cost-plus basis. The company is not the primary beneficiary of the joint venture, as the joint venture partner has shared or absolute control over key manufacturing operations, labor relationships, financing activities and certain other functions of the joint venture. Therefore, the company does not consolidate the joint venture. At June 30, 2014, the company's investment in the joint venture was \$41 million representing the company's maximum exposure to loss. This amount is included in investments in non-consolidated joint ventures in the table above.

14. INVESTMENTS IN NON-CONSOLIDATED JOINT VENTURES

The company's non-consolidated joint ventures and related direct ownership interest are as follows:

	June 30, 2014	September 30, 2013	
Meritor WABCO Vehicle Control Systems (Commercial Truck)	50	% 50	%
Master Sistemas Automotivos Ltda. (Commercial Truck)	49	% 49	%
ZF Meritor LLC (Commercial Truck)	50	% 50	%
Sistemas Automotrices de Mexico S.A. de C.V. (Commercial Truck)	50	% 50	%
Ege Fren Sanayii ve Ticaret A.S. (Commercial Truck)	49	% 49	%
Automotive Axles Limited (Industrial)	36	% 36	%

The company's investments in non-consolidated joint ventures as of June 30, 2014 and September 30, 2013 are \$297 million and \$102 million, respectively.

In June 2014, ZF Meritor LLC ("ZF Meritor"), a joint venture between ZF Friedrichshafen AG, and Meritor Transmission LLC ("Meritor Transmission"), entered into a settlement agreement with Eaton Corporation ("Eaton") relating to an antitrust lawsuit filed in 2006. Pursuant to the terms of the settlement agreement, Eaton agreed to pay \$500 million to ZF Meritor. In July 2014, ZF Meritor received proceeds of \$400 million net of attorney's contingency fees. In July 2014, the company received proceeds of \$210 million based on the company's ownership interest in ZF Meritor including recovery of current and prior years attorney expenses paid by Meritor. ZF Meritor and Meritor Transmission have agreed to dismiss all pending antitrust litigation with Eaton. ZF Meritor did not have any operating activity or assets other than the receivable related to the settlement with Eaton.

The company's pre-tax share of the settlement was \$210 million (\$209 million after-tax), of which \$190 million was recognized as equity in earnings of ZF Meritor and \$20 million for the recovery of legal expenses from ZF Meritor was recognized as a reduction of selling, general and administrative expenses in the consolidated statement of operations. In July 2014, ZF Meritor reimbursed the company \$20 million for the recovery of current and prior year legal expenses. We recognized the recovery in SG&A as the historical incurrence of these costs was included in SG&A in the consolidated statement of operations in prior periods.

15. Other Current Liabilities

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

	June 30, 2014	September 30, 2013
Compensation and benefits	\$149	\$141
Income taxes	12	8
Taxes other than income taxes	51	47
Accrued interest	14	16

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Product warranties	23	20
Restructuring (see Note 6)	6	9
Asbestos-related liabilities (see Note 20)	18	18
Indemnity obligations (see Note 20)	12	12
Other	66	68
Other current liabilities	\$351	\$339

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

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

	Nine Months Ended June 30,	
	2014	2013
Total product warranties – beginning of period	\$57	\$44
Accruals for product warranties ⁽¹⁾	14	24
Payments	(18	) (13
Change in estimates and other	3	1
Total product warranties – end of period	56	56
Less: Non-current product warranties	(33	) (36
Product warranties – current	\$23	\$20

⁽¹⁾ Includes a \$12 million specific warranty contingency related to a non-safety, product performance issue recognized during the quarter ended June 30, 2013 (see Note 20).

16. Other Liabilities

Other liabilities are summarized as follows (in millions):

	June 30,	September 30,
	2014	2013
Asbestos-related liabilities (see Note 20)	\$96	\$96
Restructuring (see Note 6)	3	3
Non-current deferred income tax liabilities	104	100
Liabilities for uncertain tax positions	11	17
Product warranties (see Note 15)	33	37
Environmental	8	11
Indemnity obligations	20	26
Other	44	45
Other liabilities	\$319	\$335

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17. Long-Term Debt

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

	June 30, 2014	September 30, 2013
8.125 percent notes due 2015	\$84	\$84
10.625 percent notes due 2018 (net of issuance discount of \$3)	—	247
4.625 percent convertible notes due 2026 ⁽¹⁾	55	55
4.0 percent convertible notes due 2027 ⁽¹⁾	200	200
7.875 percent convertible notes due 2026 (net of issuance discount of \$21 and \$23, respectively) ⁽¹⁾	229	227
6.75 percent notes due 2021 ⁽²⁾	275	275
6.25 percent notes due 2024 ⁽²⁾	225	—
Term loan	—	45
Capital lease obligation	28	28
Export financing arrangements	32	18
Unamortized gain on interest rate swap termination	1	2
Unamortized discount on convertible notes	(38	) (43
Subtotal	1,091	1,138
Less: current maturities	(5	) (13
Long-term debt	\$1,086	\$1,125

⁽¹⁾ The 4.625 percent, 4.0 percent and 7.875 percent convertible notes contain a put and call feature, which allows for earlier redemption beginning in 2016, 2019 and 2020, respectively.

⁽²⁾ The 6.75 percent and 6.25 percent notes contain a call option, which allows for early redemption.

Revolving Credit Facility

On February 13, 2014, the company amended and restated its revolving credit facility. Pursuant to the revolving credit agreement as amended, the company has a \$499 million revolving credit facility, \$89 million of which matures in April 2017 for banks not electing to extend their commitments under the revolving credit facility, and \$410 million of which matures in February 2019. The availability under this facility is dependent upon various factors, including performance against certain financial covenants as highlighted below.

The availability under the revolving credit facility is subject to certain financial covenants based on (i) the ratio of the company's priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. The company is required to maintain a total priority-debt-to-EBITDA ratio, as defined in the agreement, of 2.25 to 1.00 as of the last day of the fiscal quarter throughout the term of the agreement. At June 30, 2014, the company was in compliance with all covenants under the revolving credit facility with a ratio of approximately 0.39x for the priority debt-to-EBITDA covenant.

Availability under the revolving credit facility is also subject to a collateral test, pursuant to which borrowings on the revolving credit facility cannot exceed 1.0x the collateral test value. The collateral test is performed on a quarterly basis. At June 30, 2014, the revolving credit facility was collateralized by approximately \$651 million of the company's assets, primarily consisting of eligible domestic U.S. accounts receivable, inventory, plant, property and equipment, intellectual property and the company's investment in all or a portion of certain of its wholly-owned subsidiaries.

Borrowings under the revolving credit facility are subject to interest based on quoted LIBOR rates plus a margin and a commitment fee on undrawn amounts, both of which are based upon the company's current corporate credit rating for senior secured facilities. At June 30, 2014, the margin over LIBOR rate was 350 basis points, and the commitment fee

was 50 basis points. Overnight revolving credit loans are at the prime rate plus a margin of 250 basis points. Certain of the company's subsidiaries, as defined in the revolving credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the notes outstanding under the company's indentures (see Note 23).

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No borrowings were outstanding under the revolving credit facility at June 30, 2014 and September 30, 2013. The amended and extended revolving credit facility includes \$100 million of availability for the issuance of letters of credit. At June 30, 2014 and September 30, 2013, there were no letters of credit outstanding under the revolving credit facility.

Term Loan

On February 13, 2014, the company repaid the outstanding balance on the term loan of \$41 million and recognized a \$2 million loss on the repayment associated with unamortized debt issuance costs.

Debt Securities

In February 2012, the company filed a shelf registration statement with the Securities and Exchange Commission, which was amended in November 2012, registering up to \$750 million of debt and/or equity securities that may be offered in one or more series on terms to be determined at the time of sale. The amount remaining at June 30, 2014 is \$250 million.

Issuance of Debt Securities - 2024 Notes

On February 13, 2014, the company completed an offering of debt securities consisting of the issuance of \$225 million of 10-year, 6.25 percent notes due February 15, 2024 (the "2024 Notes"). The offering and sale were made pursuant to the company's shelf registration statement. The 2024 Notes were issued under the company's indenture dated as of April 1, 1998, as supplemented. The 2024 Notes were issued at 100 percent of their principal amount. The proceeds from the sale of the 2024 Notes were \$225 million and were primarily used to redeem the company's previously outstanding \$250 million 10.625 percent notes due 2018.

The 2024 Notes mature on February 15, 2024 and bear interest at a fixed rate of 6.25 percent per annum. The company pays interest on the 2024 Notes semi-annually, in arrears, on February 15 and August 15 of each year. The 2024 Notes constitute senior unsecured obligations of the company and rank equally in right of payment with existing and future senior unsecured indebtedness, and effectively junior to existing and future secured indebtedness to the extent of the security therefor. The 2024 Notes are guaranteed on a senior unsecured basis by each of the company's subsidiaries from time to time guaranteeing its senior secured credit facility. The guarantees rank equally with existing and future senior unsecured indebtedness of the guarantors and will be effectively subordinated to all of the existing and future secured indebtedness of the guarantors, to the extent of the value of the assets securing such indebtedness. Prior to February 15, 2019, the company may redeem, at its option, from time to time, the 2024 Notes, in whole or in part, at a redemption price equal to 100 percent of the principal amount of the 2024 Notes to be redeemed plus an applicable premium (as defined in the indenture under which the 2024 Notes were issued) and any accrued and unpaid interest. On or after February 15, 2019, the company may redeem, at its option, from time to time, the 2024 Notes, in whole or in part, at the redemption prices (expressed as percentages of the principal amount of the 2024 Notes to be redeemed) set forth below, plus accrued and unpaid interest, if any, if redeemed during the 12-month period beginning on February 15 of the years indicated below:

Year	Redemption Price
2019	103.125%
2020	102.083%
2021	101.042%
2022 and thereafter	100.000%

Prior to February 15, 2017, the company also may redeem, at its option, from time to time, up to 35 percent of the aggregate principal amount of the 2024 Notes with the net cash proceeds of one or more public sales of the company's common stock at a redemption price equal to 106.25 percent of the principal amount, plus accrued and unpaid interest, if any, so long as at least 65 percent of the aggregate principal amount of 2024 Notes originally issued remains outstanding after each such redemption and notice of any such redemption is mailed within 90 days of any such sale

of common stock.

If a Change of Control (as defined in the indenture under which the 2024 Notes were issued) occurs, unless the company has exercised its right to redeem the 2024 Notes, each holder of 2024 Notes may require the company to repurchase some or all of such holder's 2024 Notes at a purchase price equal to 101 percent of the principal amount of the 2024 Notes to be repurchased, plus accrued and unpaid interest, if any.

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Issuance of Debt Securities - 2021 Notes

On May 31, 2013, the company completed an offering of debt securities consisting of the issuance of \$275 million of 8-year, 6.75 percent notes due June 15, 2021 (the "2021 Notes"). The offering and sale were made pursuant to the company's shelf registration statement. The 2021 Notes were issued under the company's indenture dated as of April 1, 1998, as supplemented. The 2021 Notes were issued at 100 percent of their principal amount. The proceeds from the sale of the 2021 Notes were \$275 million and were primarily used to complete a cash tender offer for \$167 million of the company's previously outstanding \$250 million 8.125 percent notes due 2015.

The 2021 Notes mature on June 15, 2021 and bear interest at a fixed rate of 6.75 percent per annum. The company pays interest on the 2021 Notes semi-annually, in arrears, on June 15 and December 15 of each year. The 2021 Notes constitute senior unsecured obligations of the company and rank equally in right of payment with existing and future senior unsecured indebtedness, and effectively junior to existing and future secured indebtedness to the extent of the security therefor. The 2021 Notes are guaranteed on a senior unsecured basis by each of the company's subsidiaries from time to time guaranteeing its senior secured credit facility. The guarantees rank equally with existing and future senior unsecured indebtedness of the guarantors and will be effectively subordinated to all of the existing and future secured indebtedness of the guarantors, to the extent of the value of the assets securing such indebtedness.

Prior to June 15, 2016, the company may redeem, at its option, from time to time, the 2021 Notes, in whole or in part, at a redemption price equal to the 100 percent of the principal amount of the 2021 Notes to be redeemed plus an applicable premium (as defined in the indenture under which the 2021 Notes were issued) and any accrued and unpaid interest. On or after June 15, 2016, the company may redeem, at its option, from time to time, the 2021 Notes, in whole or in part, at the redemption prices (expressed as percentages of the principal amount of the 2021 Notes to be redeemed) set forth below, plus accrued and unpaid interest, if any, if redeemed during the 12-month period beginning on June 15 of the years indicated below:

Year	Redemption Price
2016	105.063%
2017	103.375%
2018	101.688%
2019 and thereafter	100.000%

Prior to June 15, 2016, the company also may redeem, at its option, from time to time, up to 35 percent of the aggregate principal amount of the 2021 Notes with the net cash proceeds of one or more public sales of the company's common stock at a redemption price equal to 106.75 percent of the principal amount, plus accrued and unpaid interest, if any, so long as at least 65 percent of the aggregate principal amount of 2021 Notes originally issued remains outstanding after each such redemption and notice of any such redemption is mailed within 90 days of any such sale of common stock.

If a Change of Control (as defined in the indenture under which the 2021 Notes were issued) occurs, unless the company has exercised its right to redeem the 2021 Notes, each holder of 2021 Notes may require the company to repurchase some or all of such holder's 2021 Notes at a purchase price equal to 101 percent of the principal amount of the 2021 Notes to be repurchased, plus accrued and unpaid interest, if any.

Repurchase of Debt Securities

On March 15, 2014, the company exercised a call option on its 10.625 percent notes due March 15, 2018. The notes were redeemed at 105.313 percent of their principal amount. The repurchase of \$250 million of 10.625 percent notes was accounted for as an extinguishment of debt and, accordingly, the company recognized a net loss on debt extinguishment of \$19 million, which consist of \$6 million of unamortized discount and deferred issuance costs, and \$13 million of premium. The net loss on debt extinguishment is included in interest expense, net in the consolidated statement of operations.

On June 5, 2013, the company completed a cash tender offer for its 8.125 percent notes due September 15, 2015. The notes were repurchased at approximately 114 percent of their principal amount. The repurchase of \$167 million of 8.125 percent notes was accounted for as an extinguishment of debt and, accordingly, the company recognized a net loss on debt extinguishment of \$19 million, which is included in interest expense, net in the consolidated statement of operations.

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Capital Leases

On March 20, 2012, the company entered into an arrangement to finance equipment acquisitions for various U.S. locations. Under this arrangement, the company can request financing from GE Capital Commercial, Inc. (GE Capital) for progress payments for equipment under construction, not to exceed \$10 million at any point in time. The financing rate is equal to the 30-day LIBOR plus 475 basis points per annum. Under this arrangement, the company can also enter into lease arrangements with GE Capital for completed equipment. The lease term is 60 months and the lease interest rate is equal to the 5-year Swap Rate published by the Federal Reserve Board plus 564 basis points. As of June 30, 2014 and September 30, 2013, the company had \$14 million and \$15 million, respectively, outstanding under this capital lease arrangement. In addition, the company had another \$14 million and \$13 million, respectively, outstanding through other capital lease arrangements at June 30, 2014 and September 30, 2013.

Letter of Credit Facilities

On February 21, 2014, the company entered into an arrangement to amend and restate the letter of credit facility with Citicorp USA, Inc., as administrative agent and issuing bank, and the other lenders party thereto. Under the terms of this amended credit agreement, the company has the right to obtain the issuance, renewal, extension and increase of letters of credit up to an aggregate availability of \$30 million through December 19, 2015. From December 20, 2015 through March 19, 2019 the aggregate availability is \$25 million. This facility contains covenants and events of default generally similar to those existing in our public debt indentures. There were \$26 million and \$27 million of letters of credit outstanding under this facility at June 30, 2014 and September 30, 2013, respectively. In addition, the company had another \$9 million of letters of credit outstanding through other letter of credit facilities at June 30, 2014 and September 30, 2013.

Export financing arrangements

The company entered into a number of export financing arrangements through its Brazilian subsidiary during fiscal years 2013 and 2014. The export financing arrangements are issued under an incentive program of the Brazilian government to fund working capital for Brazilian companies in exportation programs. The arrangements bear interest at 5.5 percent and have maturity dates in 2016 and 2017. There were \$32 million and \$18 million outstanding under these arrangements at June 30, 2014 and September 30, 2013, respectively.

18. Financial Instruments

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

	June 30, 2014		September 30, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$303	\$303	\$318	\$318
Short-term debt	5	5	13	13
Long-term debt	1,086	1,351	1,125	1,266
Foreign exchange forward contracts (liability)	—	—	1	1
Short-term foreign currency option contracts	1	1	—	—
Long-term foreign currency option contracts	1	1	—	—

The following table reflects the offsetting of derivative assets and liabilities (in millions):

	June 30, 2014			September 30, 2013		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Reported	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Reported
Derivative Asset						
Foreign exchange forward contract	—	—	—	—	—	—

Derivative Liabilities

Foreign exchange forward contract	—	—	—	1	—	1
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Fair Value

The current FASB guidance provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical instruments (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 inputs use quoted prices in active markets for identical instruments.

Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar instruments in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related instrument.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Fair value of financial instruments by the valuation hierarchy at June 30, 2014 is as follows (in millions):

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$303	\$—	\$—
Short-term debt	—	—	5
Long-term debt	—	1,296	55
Short-term foreign currency option contracts	—	—	1
Long-term foreign currency option contracts	—	—	1

Cash and cash equivalents — All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. The carrying value approximates fair value because of the short maturity of these instruments. The company did not have any cash equivalents at June 30, 2014 or September 30, 2013.

Short- and Long-term debt — Fair values are based on transaction prices at public exchange for publicly traded debt. For debt instruments that are not publicly traded, fair values are based on interest rates that would be currently available to the company for issuance of similar types of debt instruments with similar terms and remaining maturities.

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

Foreign currency option contracts — The company uses foreign currency option contracts on expected future purchases tied to the Indian Rupee due to increasing foreign currency exchange risk. The contracts were entered into during April 2014 with effective dates beginning at the start of fiscal year 2015 and mature at the end of fiscal year 2016. The fair value of foreign currency option contracts is based on a third-party proprietary model which incorporates inputs at varying unobservable weights of quoted spot rates, market volatility, forward rates, and time element utilizing market rates with similar quality and maturity characteristics. Changes in fair value associated with these contracts are recorded in cost of sales in the consolidated statement of operations.

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19. Retirement Benefit Liabilities

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

	June 30, 2014	September 30, 2013
Retiree medical liability	\$504	\$513
Pension liability	386	396
Other	19	25
Subtotal	909	934
Less: current portion (included in compensation and benefits, Note 15)	(48	) (48
Retirement benefits	\$861	\$886

The components of net periodic pension and retiree medical expense included in continuing operations for the three months ended June 30 are as follows (in millions):

	2014		2013	
	Pension	Retiree Medical	Pension	Retiree Medical
Service cost	\$1	\$—	\$1	\$—
Interest cost	19	6	21	6
Assumed return on plan assets	(26	) —	(29) —
Amortization of prior service costs	—	(2	) —	(2
Recognized actuarial loss	6	6	7	7
Settlement charge	—	—	36	—
Total expense	\$—	\$10	\$36	\$11

The components of net periodic pension and retiree medical expense included in continuing operations for the nine months ended June 30 are as follows (in millions):

	2014		2013	
	Pension	Retiree Medical	Pension	Retiree Medical
Service cost	\$1	\$—	\$2	\$1
Interest cost	59	19	64	16
Assumed return on plan assets	(78	) —	(86) —
Amortization of prior service costs	—	(6	) —	(6
Recognized actuarial loss	18	17	20	20
Settlement charge	—	—	38	—
Total expense	\$—	\$30	\$38	\$31

Canadian Pension Plans Settlement: During the quarter ended June 30, 2013, the company settled five of its Canadian defined benefit pension plans via non-participating annuity contract purchases and lump-sum payments. These actions relieve the company of primary responsibility for the pension obligations associated with these plans and eliminate significant risks related to the obligation and assets used to effect the settlement. The company recognized a pre-tax settlement loss of \$36 million (\$27 million after-tax) associated with these actions in the third quarter of fiscal year 2013. This loss is primarily due to the recognition of previously unrecognized actuarial losses that were included in accumulated other comprehensive loss.

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U.S. Plan Lump-sum Actions: In June 2013, the company amended its U.S. Retirement Plan to allow all terminated vested participants with an accrued benefit of \$5,000 or less to receive a full lump-sum distribution of their benefit. The lump-sum amount was rolled into an individual retirement account for those participants that have an accrued benefit of \$1,000 to \$5,000 who do not make an affirmative election to receive their benefits. For those participants with an accrued benefit of less than \$1,000, the benefits were automatically distributed to the participant.

Additionally, in June 2013, the company announced a special election window to offer voluntary lump-sum pension payouts to eligible terminated vested participants with an accrued benefit in the U.S. Retirement Plan that, if accepted, would settle the company's obligation to them. The program provided participants with a one-time choice of electing to receive a lump-sum settlement of their remaining pension benefit. Lump-sum distributions under this election window were paid in September 2013.

20. Contingencies

Environmental

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

The company has been designated as a potentially responsible party at nine Superfund sites, excluding sites as to which the company's records disclose no involvement or as to which the company's liability has been finally determined. Management estimates the total reasonably possible costs the company could incur for the remediation of Superfund sites at June 30, 2014 to be approximately \$18 million, of which \$2 million is probable and recorded as a liability. Included in reasonably possible amounts are estimates for certain remediation actions that may be required if current actions are deemed inadequate by the regulators.

In addition to the Superfund sites, various other lawsuits, claims and proceedings have been asserted against the company, alleging violations of federal, state and local environmental protection requirements, or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. For these matters, management has estimated the total reasonably possible costs the company could incur at June 30, 2014 to be approximately \$38 million, of which \$17 million is probable and recorded as a liability.

Included in the company's environmental liabilities are costs for on-going operation, maintenance and monitoring at environmental sites in which remediation has been put into place. This liability is discounted using discount rates in the range of 0.25 to 3 percent and is approximately \$9 million at June 30, 2014. The undiscounted estimate of these costs is approximately \$10 million.

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

	Superfund Sites	Non-Superfund Sites	Total
Beginning balance at September 30, 2013	\$2	\$17	\$19
Payments and other	—	(4) (4
Accruals	—	4	4

Balance at June 30, 2014	\$2	\$17	\$19
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Environmental reserves are included in Other Current Liabilities (see Note 15) and Other Liabilities (see Note 16) in the consolidated balance sheet.

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

Asset Retirement Obligations

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

Asbestos

Maremont Corporation ("Maremont"), a subsidiary of Meritor, manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. Arvin Industries, Inc., a predecessor of the company, acquired Maremont in 1986. Maremont and many other companies are defendants in suits brought by individuals claiming personal injuries as a result of exposure to asbestos-containing products. Maremont had approximately 5,800 and 5,400 pending asbestos-related claims at June 30, 2014 and September 30, 2013, respectively. Although Maremont has been named in these cases, in the cases where actual injury has been alleged, very few claimants have established that a Maremont product caused their injuries. Plaintiffs' lawyers often sue dozens or even hundreds of defendants in individual lawsuits on behalf of hundreds or thousands of claimants, seeking damages against all named defendants irrespective of the disease or injury and irrespective of any causal connection with a particular product. For these reasons, Maremont does not consider the number of claims filed or the damages alleged to be a meaningful factor in determining its asbestos-related liability.

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

	June 30, 2014	September 30, 2013
Pending and future claims	\$73	\$73
Billed but unpaid claims	1	1
Asbestos-related liabilities	74	74
Asbestos-related insurance recoveries	58	58

A portion of the asbestos-related recoveries and reserves are included in Other Current Assets and Liabilities, with the majority of the amounts recorded in Other Assets and Liabilities (see Notes 11, 13, 15 and 16).

Pending and Future Claims: Maremont engages Bates White LLC (Bates White), a consulting firm with extensive experience estimating costs associated with asbestos litigation, to assist with determining the estimated cost of resolving pending and future asbestos-related claims that have been, and could reasonably be expected to be, filed against Maremont. Bates White prepares these cost estimates annually in September. Although it is not possible to estimate the full range of costs because of various uncertainties, Bates White advised Maremont that it would be

possible to determine an estimate of a reasonable forecast of the cost of the probable settlement and defense costs of resolving pending and future asbestos-related claims, based on historical data and certain assumptions with respect to events that may occur in the future.

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Bates White provided a reasonable and probable estimate that consisted of a range of equally likely possibilities of Maremont's obligation for asbestos personal injury claims over the next ten years of \$73 million to \$80 million. Management recognized a liability of \$73 million as of June 30, 2014 and September 30, 2013, as the probable liability for pending and future claims over the next ten years. The ultimate cost of resolving pending and future claims is estimated based on the history of claims and expenses for plaintiffs represented by law firms in jurisdictions with an established history with Maremont. Historically, Maremont has recognized incremental insurance receivables associated with recoveries expected for asbestos-related liabilities as the estimate of asbestos-related liabilities for pending and future claim changes. Maremont currently expects to exhaust the limits of its settled insurance coverage prior to the end of the ten-year forecasted liability period. Maremont believes it has additional insurance coverage; however, certain carriers have disputed coverage under policies they issued (see "Recoveries" below). Because no insurance receivable is currently recognized for these policies in dispute, Maremont recognized a \$9 million charge in the fourth quarter of fiscal year 2013 associated with its annual valuation of asbestos-related liabilities. If Maremont is unable to recognize recoveries from disputed policies, it is reasonably possible that the annual valuation could result in a charge to be recognized in the fourth quarter of fiscal year 2014.

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

- Pending and future claims were estimated for a ten-year period ending in fiscal year 2023. The ten-year assumption is considered appropriate as Maremont has reached certain longer-term agreements with key plaintiff law firms, and filings of mesothelioma claims have been relatively stable over the last few years;

- Maremont believes that the litigation environment may change significantly beyond ten years and that the reliability of estimates of future probable expenditures in connection with asbestos-related personal injury claims will likely decline for each year further in the future. As a result, estimating a probable liability beyond ten years is difficult and uncertain;

- Defense and processing costs for pending and future claims will be at the level consistent with Maremont's prior experience;

- Potential payments made to claimants from other sources, including other defendants and 524(g) trusts favorably impact the company's estimated liability in the future; and

- The ultimate indemnity cost of resolving nonmalignant claims with plaintiffs' law firms in jurisdictions without an established history with Maremont cannot be reasonably estimated.

Recoveries: Maremont has insurance that reimburses a substantial portion of the costs incurred defending against asbestos-related claims. The insurance receivable related to asbestos-related liabilities is \$58 million as of June 30, 2014 and September 30, 2013. The receivable at June 30, 2014 is for coverage provided by two insurance carriers based on coverage in place agreements. Maremont currently expects to exhaust the remaining limits provided by this coverage sometime in the next ten years. Maremont maintained insurance coverage with other insurance carriers that management believes covers indemnity and defense costs. Maremont has incurred liabilities allocable to these policies but has not yet billed these insurance carriers, and no receivable has been recorded for disputed policies. During fiscal year 2013, Maremont reinitiated a lawsuit against these carriers, seeking a declaration of its rights to insurance for asbestos claims and to facilitate an orderly and timely collection of insurance proceeds. The difference between the estimated liability and insurance receivable is primarily related to proceeds received from settled insurance policies and claims for which coverage under Maremont's insurance policies is in dispute with the insurer. Certain insurance policies have been settled in cash prior to the ultimate settlement of the related asbestos liabilities. Amounts received from insurance settlements generally reduce recorded insurance receivables.

The amounts recorded for the asbestos-related reserves and recoveries from insurance companies are based upon assumptions and estimates derived from currently known facts. All such estimates of liabilities and recoveries for asbestos-related claims are subject to considerable uncertainty because such liabilities and recoveries are influenced

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

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Rockwell International (Rockwell) — ArvinMeritor, Inc. (AM), a subsidiary of Meritor, along with many other companies, has also been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos used in certain components of Rockwell products many years ago. Liability for these claims was transferred at the time of the spin-off of the automotive business from Rockwell in 1997. At June 30, 2014 and September 30, 2013, there were approximately 2,800 and 2,600, respectively, pending active asbestos claims in lawsuits that name AM, together with many other companies, as defendants. A significant portion of the claims do not identify any of Rockwell's products or specify which of the claimants, if any, were exposed to asbestos attributable to Rockwell's products, and past experience has shown that the vast majority of the claimants will likely never identify any of Rockwell's products. Historically, AM has been dismissed from the vast majority of similar claims filed in the past with no payment to claimants. For those claimants who do show that they worked with Rockwell's products, management nevertheless believes it has meritorious defenses, in substantial part due to the integrity of the products involved and the lack of any impairing medical condition on the part of many claimants. For these reasons, the company does not consider the number of claims filed or the damages alleged to be a meaningful factor in determining asbestos-related liabilities.

The Rockwell legacy asbestos-related reserves and corresponding asbestos-related recoveries are summarized as follows (in millions):

	June 30, 2014	September 30, 2013
Pending and future claims	\$40	\$40
Asbestos-related insurance recoveries	13	13

The company engages Bates White to assist with determining whether it would be possible to estimate the cost of resolving pending and future Rockwell legacy asbestos-related claims that have been, and could reasonably be expected to be, filed against the company. As of September 30, 2013, Bates White provided a reasonable and probable estimate that consisted of a range of equally likely possibilities of Rockwell's obligation for asbestos personal injury claims over the next ten years of \$40 million to \$45 million. Management recognized a liability of \$40 million as of June 30, 2014 and September 30, 2013, as the probable liability for pending and future claims over the next ten years. The company is experiencing higher-than-expected defense costs in the first nine months of fiscal year 2014. Therefore, the next annual valuation at September 30, 2014 may result in an increased obligation estimate. The ultimate cost of resolving pending and future claims is estimated based on the history of claims and expenses for plaintiffs represented by law firms in jurisdictions with an established history with Rockwell.

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

Pending and future claims were estimated for a ten-year period ending in fiscal year 2023. The ten-year assumption is considered appropriate as Rockwell has reached certain longer-term agreements with key plaintiff law firms, and filings of mesothelioma claims have been relatively stable over the last few years;

The company believes that the litigation environment may change significantly beyond ten years and that the reliability of estimates of future probable expenditures in connection with asbestos-related personal injury claims will likely decline for each year further in the future. As a result, estimating a probable liability beyond ten years is difficult and uncertain;

Defense and processing costs for pending and future claims will be at the level consistent with the company's longer-term experience and will not have the significant volatility experienced in the recent years;

Potential payments made to claimants from other sources, including other defendants and 524(g) trusts favorably impact the company's estimated liability in the future; and

The ultimate indemnity cost of resolving nonmalignant claims with plaintiff's law firms in jurisdictions without an established history with Rockwell cannot be reasonably estimated.

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The insurance receivable related to asbestos-related liabilities is \$13 million at June 30, 2014 and September 30, 2013. Included in these amounts are insurance receivables of \$9 million at June 30, 2014 and September 30, 2013 that are associated with policies in dispute. Rockwell maintained insurance coverage that management believes covers indemnity and defense costs, over and above self-insurance retentions, for most of these claims. The company shares these policies with two other nonrelated companies. The three companies have collectively initiated claims against certain of these carriers to enforce the insurance policies, which are in various stages of the litigation process. Rockwell expects to recover some portion of defense and indemnity costs it has incurred to date, over and above self-insured retentions, and some portion of the costs for defending asbestos claims going forward. The amounts recognized for policies in dispute are based on consultation with advisors, status of settlement negotiations with certain insurers, expected rights of the nonrelated companies, and underlying analysis performed by management. The remaining un-disputed receivable recognized is related to coverage provided by one carrier based on an insurance agreement in place. If the assumptions with respect to the estimation period, nature of pending claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of liability for Rockwell asbestos-related claims, and the effect on the company, could differ materially from current estimates and, therefore, could have a material impact on the company's financial condition and results of operations.

Indemnifications

In December 2005, the company guaranteed a third party's obligation to reimburse another party for payment of health and prescription drug benefits to a group of retired employees. The retirees were former employees of a wholly-owned subsidiary of the company prior to it being acquired by the company. The wholly-owned subsidiary, which was part of the company's light vehicle aftermarket business, was sold by the company in fiscal year 2006. Prior to May 2009, except as set forth hereinafter, the third party met its obligations to reimburse the other party. In May 2009, the third party filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code requiring the company to recognize its obligations under the guarantee. The company recorded a \$28 million liability in fiscal year 2009 for this matter. At June 30, 2014 and September 30, 2013, the remaining estimated liability for this matter was approximately \$15 million and \$17 million, respectively.

The company has provided indemnifications in conjunction with certain transactions, primarily divestitures. These indemnities address a variety of matters, which may include environmental, tax, asbestos and employment-related matters, and the periods of indemnification vary in duration.

On January 3, 2011, the company completed the sale of its Body Systems business. The sale agreement contains certain customary representations, warranties and covenants of the seller and the purchaser. The agreement also includes provisions governing post-closing indemnities between the seller and the purchaser for losses arising from specified events. At June 30, 2014 and September 30, 2013 the company has recognized estimates for such indemnities, primarily related to income tax matters, of \$2 million and \$3 million, respectively. This amount is included in other liabilities in the accompanying condensed consolidated balance sheet.

In connection with the sale of its interest in Meritor Suspension Systems Company in October 2009, the company provided certain indemnifications to the buyer for its share of potential obligations related to pension funding shortfall, environmental and other contingencies, and valuation of certain accounts receivable and inventories. The company's estimated exposure under these indemnities at June 30, 2014 and September 30, 2013 is approximately \$8 million and \$11 million, respectively, and is included in other current liabilities and other liabilities in the condensed consolidated balance sheet.

The company is not aware of any other claims or other information that would give rise to material payments under such indemnifications.

Other

As a result of performing ongoing product conformance testing in the ordinary course of business, the company identified a non-safety related, potential product performance issue arising from a defective supplier component.

During fiscal year 2013, the company notified all major customers and initiated a sampling campaign. Management estimated the total costs the company could incur for a full campaign to be in the range of \$12 million to \$20 million, of which \$12 million was recorded as a specific warranty contingency reserve (see Note 15). In the fourth quarter of fiscal 2013, the company received \$5 million of non-cash cost recovery from the component supplier. As of June 30, 2014, no field failures were identified during the sampling campaign, and only minor defects were found in a small number of components tested. The company is currently working with customers to determine the appropriate next steps. If a full campaign is determined to be unnecessary, the estimated cost the company could incur for this non-safety related, potential product performance issue would be reduced significantly.

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The company is evaluating certain sale transactions to determine if value added tax was required to be remitted to certain tax jurisdictions for the tax years 2007 through 2012. The company's estimated reasonably possible exposure for this matter is \$6 million to \$9 million. The company recorded approximately \$6 million as its estimate of the probable liability at June 30, 2014 and September 30, 2013.

In the fourth quarter of fiscal year 2013, the company identified additional sales transactions for which value added tax was required to be remitted. The company recorded a \$5 million liability primarily associated with tax years 2009 through 2013.

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

21. Accumulated Other Comprehensive Loss (AOCL)

AOCL and the changes in AOCL by components, net of tax are as follows (in millions):

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss, net of tax	Total
Balance at September 30, 2013	\$61	\$(792)	\$(3)	\$(734)
Other comprehensive income before reclassification	8	2	2	12
Amounts reclassified from accumulated other comprehensive loss - net of tax	—	29	—	29
Net current-period other comprehensive income	\$8	\$31	\$2	\$41
Balance at June 30, 2014	\$69	\$(761)	\$(1)	\$(693)
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Operations	
Employee Benefit Related Adjustment				
Prior service costs	\$(6)		(a)	
Actuarial losses	35		(a)	
	29		Total before tax	
	—		Tax (benefit) expense	
	29		Net of tax	
Total reclassifications for the period	\$29		Net of tax	

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension and retiree medical expense (see Note 19 for additional details).

22. Business Segment Information

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

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The company has two reportable segments at June 30, 2014, as follows:

The Commercial Truck & Industrial segment supplies drivetrain systems and components, including axles, drivelines and braking and suspension systems, primarily for medium- and heavy-duty trucks, military, construction, bus and coach, fire and emergency and other applications in North America, South America, Europe and Asia Pacific. This segment also includes the company's aftermarket businesses in Asia Pacific and South America; and The Aftermarket & Trailer segment supplies axles, brakes, drivelines, suspension parts and other replacement and remanufactured parts, including transmissions, to commercial vehicle aftermarket customers. This segment also supplies a wide variety of undercarriage products and systems for trailer applications in North America.

Segment EBITDA is defined as income (loss) from continuing operations before interest expense, income taxes, depreciation and amortization, non-controlling interests in consolidated joint ventures, loss on sale of receivables, restructuring costs and asset impairment charges. The company uses Segment EBITDA as the primary basis for the CODM to evaluate the performance of each of its reportable segments.

The accounting policies of the segments are the same as those applied in the Consolidated Financial Statements, except for the use of Segment EBITDA. The company may allocate certain common costs, primarily corporate functions, between the segments differently than the company would for stand alone financial information prepared in accordance with GAAP. These allocated costs include expenses for shared services such as information technology, finance, communications, legal and human resources. The company does not allocate interest expense and certain legacy and other corporate costs not directly associated with the Segments' EBITDA.

Segment information is summarized as follows (in millions):

	Commercial Truck & Industrial	Aftermarket & Trailer	Eliminations	Total
Three Months Ended June 30, 2014				
External Sales	\$733	\$253	\$—	\$986
Intersegment Sales	28	6	(34)) —
Total Sales	\$761	259	\$(34)	) \$986
Three Months Ended June 30, 2013				
External Sales	\$760	\$233	\$—	\$993
Intersegment Sales	24	5	(29)) —
Total Sales	\$784	238	\$(29)	) \$993
	Commercial Truck & Industrial	Aftermarket & Trailer	Eliminations	Total
Nine Months Ended June 30, 2014				
External Sales	\$2,172	\$683	\$—	\$2,855
Intersegment Sales	79	16	(95)) —
Total Sales	\$2,251	\$699	\$(95)	) \$2,855
Nine Months Ended June 30, 2013				
External Sales	\$2,143	\$649	\$—	\$2,792
Intersegment Sales	68	16	(84)) —
Total Sales	\$2,211	\$665	\$(84)) \$2,792

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	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Segment EBITDA:				
Commercial Truck & Industrial	\$55	\$67	\$165	\$138
Aftermarket & Trailer	26	25	67	60
Segment EBITDA	81	92	232	198
Unallocated legacy and corporate costs, net ⁽¹⁾	(1	) (5	) (4	) (7
Antitrust settlement with Eaton, net of tax ⁽²⁾	208	—	208	—
Interest expense, net	(22	) (45	) (97	) (99
Provision for income taxes	(11	) (1	) (30	) (18
Depreciation and amortization	(17	) (16	) (50	) (49
Noncontrolling interests	—	—	(4) —
Loss on sale of receivables	(2	) (2	) (7	) (5
Restructuring costs	—	(12	) (3	) (29
Specific warranty contingency	—	(12	) —	(12
Pension settlement loss	—	(36	) —	(36
Income (loss) from continuing operations attributable to Meritor, Inc.	\$236	\$(37	) \$245	\$(57

⁽¹⁾ Unallocated legacy and corporate costs, net represents items that are not directly related to our business segments and primarily include pension and medical costs associated with sold business and other legacy costs for environmental and product liability.

⁽²⁾ Associated with the company's share of the antitrust settlement with Eaton less legal expenses incurred in fiscal year 2014.

Segment Assets:	June 30, 2014	September 30, 2013
Commercial Truck & Industrial	\$2,027	\$1,822
Aftermarket & Trailer	512	485
Total segment assets	2,539	2,307
Corporate ⁽¹⁾	544	568
Less: Accounts receivable sold under off-balance sheet factoring programs ⁽²⁾	(273	) (305
Total assets	\$2,810	\$2,570

⁽¹⁾ Corporate assets consist primarily of cash, deferred income taxes and prepaid pension costs.

⁽²⁾ At June 30, 2014 and September 30, 2013 segment assets include \$273 million and \$305 million, respectively, of accounts receivable sold under off-balance sheet accounts receivable factoring programs (See Note 8). These sold receivables are included in segment assets as the CODM reviews segment assets inclusive of these balances.

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23. Supplemental Guarantor Condensed Consolidating Financial Statements

Article 3-10 of Regulation S-X (S-X Rule 3-10) requires that separate financial information for issuers and guarantors of registered securities be filed in certain circumstances. Certain of the company's 100% owned subsidiaries, as defined in the credit agreement (the Guarantors), irrevocably and unconditionally guarantee amounts outstanding under the senior secured revolving credit facility. Similar subsidiary guarantees were provided for the benefit of the holders of the notes outstanding under the company's indentures (see Note 17).

Article 5-04 of Regulation S-X (S-X Rule 5-04) requires that condensed financial information of the registrant (parent) be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

In lieu of providing separate audited financial statements for the parent and guarantors, the company has included the accompanying condensed consolidating financial statements as permitted by S-X Rules 3-10 and 5-04. These condensed consolidating financial statements are presented on the equity method. Under this method, the investments in subsidiaries are recorded at cost and adjusted for the parent's share of the subsidiary's cumulative results of operations, capital contributions and distribution and other equity changes. The Guarantors are combined in the condensed consolidated financial statements. Certain subsidiaries in China and India are restricted by law from transfer of cash by dividends, loans or advances to parent. As of June 30, 2014, the company's proportionate share of net assets restricted from transfer by law was \$54 million.

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MERITOR, INC.

CONSOLIDATING STATEMENT OF OPERATIONS

(In millions)

(Unaudited)

	Three Months Ended June 30, 2014				Consolidated	
	Parent	Guarantors	Non-Guarantors	Elims		
Sales						
External	\$—	\$ 385	\$ 601	\$—	\$ 986	
Subsidiaries	—	41	18	(59) —	
Total sales	—	426	619	(59	) 986
Cost of sales	(14) (360) (548) 59	(863)
GROSS MARGIN	(14	) 66	71	—	123
Selling, general and administrative	(28) (4) (22) —	(54)
Other operating expense	—	—	(1) —	(1)
OPERATING INCOME (LOSS)	(42	) 62	48	—	68
Other income (loss), net	13	(6	) (7) —	—	
Equity in earnings of ZF Meritor	—	190	—	—	190	
Equity in earnings of other affiliates	—	9	2	—	11	
Interest income (expense), net	(31) 11	(2) —	(22)
INCOME (LOSS) BEFORE INCOME TAXES	(60	) 266	41	—	247
Provision for income taxes	(1) (1) (9) —	(11)
Equity income from continuing operations of subsidiaries	297	28	—	(325) —	
INCOME FROM CONTINUING OPERATIONS	236	293	32	(325	) 236
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(2) (2) (2) 4	(2)
NET INCOME	234	291	30	(321	) 234
Less: Net income attributable to noncontrolling interests	—	—	—	—	—	
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$234	\$ 291	\$ 30	\$(321	) \$ 234

MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(In millions)

(Unaudited)

	Three Months Ended June 30, 2014				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income	\$234	\$291	\$30	\$(321)	) \$234
Other comprehensive income (loss)	19	(10)	) 19	(9)	) 19
Total comprehensive income	253	281	49	(330)	) 253
Less: Comprehensive income attributable to noncontrolling interests	—	—	—	—	—
Comprehensive income attributable to Meritor, Inc.	\$253	\$281	\$49	\$(330)) \$253

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MERITOR, INC.

CONSOLIDATING STATEMENT OF OPERATIONS

(In millions)

(Unaudited)

	Three Months Ended June 30, 2013				Consolidated
	Parent	Guarantors	Non-Guarantors	Elims	
Sales					
External	\$—	\$369	\$624	\$—	\$993
Subsidiaries	—	34	18	(52)) —
Total sales	—	403	642	(52)	) 993
Cost of sales	(14)	) (353)	) (569)	) 52	(884)
GROSS MARGIN	(14)	) 50	) 73	—	109
Selling, general and administrative	(27)	) (18)	) (22)	) —	(67)
Pension settlement loss	—	—	(36)	) —	(36)
Restructuring costs	—	(1)	) (11)	) —	(12)
OPERATING INCOME (LOSS)	(41)	) 31	) 4	—	(6)
Other income (loss), net	11	(5)	) (6)) —	—
Equity in earnings of affiliates	—	9	6	—	15
Interest income (expense), net	(52)	) 9	(2)	) —	(45)
INCOME (LOSS) BEFORE INCOME TAXES	(82)	) 44	) 2	—	(36)
Provision for income taxes	—	—	(1)	) —	(1)
Equity income from continuing operations of subsidiaries	45	—	—	(45)) —
INCOME (LOSS) FROM CONTINUING OPERATIONS	(37)	) 44	) 1	(45)	) (37)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(1)	) (1)	) (1)	) 2	(1)
NET INCOME (LOSS)	(38)	) 43	—	(43)	) (38)
Less: Net income attributable to noncontrolling interests	—	—	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	\$(38)	) \$43	\$—	\$(43)	) \$(38)

MERITOR, INC.
 CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
 (In millions)
 (Unaudited)

	Three Months Ended June 30, 2013				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income (loss)	\$(38)	\$43	\$—	\$(43)	\$(38)
Other comprehensive income (loss)	(2)	7	(14)	—	(9)
Total comprehensive income (loss)	(40)	50	(14)	(43)	(47)
Less: Comprehensive loss attributable to noncontrolling interests	—	—	1	—	1
Comprehensive income (loss) attributable to Meritor, Inc.	\$(40)	\$50	\$(13)	\$(43)	\$(46)

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MERITOR, INC.

CONSOLIDATING STATEMENT OF OPERATIONS

(In millions)

(Unaudited)

	Nine Months Ended June 30, 2014				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	\$—	\$1,051	\$1,804	\$—	\$2,855
Subsidiaries	—	108	48	(156)) —
Total sales	—	1,159	1,852	(156)	) 2,855
Cost of sales	(40)	) (992)	) (1,637)	) 156	(2,513)
GROSS MARGIN	(40)	) 167	215	—	342
Selling, general and administrative	(68)	) (49)	) (62)	) —	(179)
Restructuring costs	(1)	) —	(2)	) —	(3)
Other operating expense	—	(1)	) (1)	) —	(2)
OPERATING INCOME (LOSS)	(109)	) 117	150	—	158
Other income (loss), net	52	(14)	) (38)) —	—
Equity in earnings of ZF Meritor	—	190	—	—	190
Equity in earnings of other affiliates	—	21	7	—	28
Interest income (expense), net	(119)	) 28	(6)	) —	(97)
INCOME (LOSS) BEFORE INCOME TAXES	(176)	) 342	113	—	279
Provision for income taxes	(1)	) (3)	) (26)	) —	(30)
Equity income from continuing operations of subsidiaries	422	72	—	(494)) —
INCOME FROM CONTINUING OPERATIONS	245	411	87	(494)	) 249
INCOME FROM DISCONTINUED OPERATIONS, net of tax	1	1	1	(2)	) 1
NET INCOME	246	412	88	(496)	) 250
Less: Net income attributable to noncontrolling interests	—	—	(4)	) —	(4)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$246	\$412	\$84	\$(496)	) \$246

MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(In millions)

(Unaudited)

	Nine Months Ended June 30, 2014				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income	\$246	\$412	\$88	\$(496)	) \$ 250
Other comprehensive income	41	—	19	(19)	) 41
Total comprehensive income	287	412	107	(515)	) 291
Less: Comprehensive income attributable to noncontrolling interests	—	—	(4)) —	(4)
Comprehensive income attributable to Meritor, Inc.	\$287	\$412	\$103	\$(515)) \$ 287

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MERITOR, INC.

CONSOLIDATING STATEMENT OF OPERATIONS

(In millions)

(Unaudited)

	Nine Months Ended June 30, 2013				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	\$—	\$1,078	\$1,714	\$—	\$2,792
Subsidiaries	—	101	55	(156)) —
Total sales	—	1,179	1,769	(156)	) 2,792
Cost of sales	(40)	) (1,033)	) (1,588)	) 156	(2,505)
GROSS MARGIN	(40)	) 146	181	—	287
Selling, general and administrative	(71)	) (59)	) (64)	) —	(194)
Pension settlement loss	—	—	(36)	) —	(36)
Restructuring costs	(3)	) (7)	) (19)	) —	(29)
Other operating expense	(2)	) —	—	—	(2)
OPERATING INCOME (LOSS)	(116)	) 80	62	—	26
Other income (loss), net	46	(18)	) (28)) —	—
Equity in earnings of affiliates	—	19	15	—	34
Interest income (expense), net	(121)	) 25	(3)	) —	(99)
INCOME (LOSS) BEFORE INCOME TAXES	(191)	) 106	46	—	(39)
Provision for income taxes	—	(3)	) (15)	) —	(18)
Equity income from continuing operations of subsidiaries	134	19	—	(153)) —
INCOME (LOSS) FROM CONTINUING OPERATIONS	(57)	) 122	31	(153)	) (57)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(6)	) (5)	) (5)	) 10	(6)
NET INCOME (LOSS)	(63)	) 117	26	(143)	) (63)
Less: Net income attributable to noncontrolling interests	—	—	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	\$(63)	) \$117	\$26	\$(143)	) \$(63)

MERITOR, INC.
 CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
 (In millions)
 (Unaudited)

	Nine Months Ended June 30, 2013				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income (loss)	\$(63)	\$117	\$26	\$(143)	\$(63)
Other comprehensive income (loss)	(1)	6	(17)	—	(12)
Total comprehensive income (loss)	(64)	123	9	(143)	(75)
Less: Comprehensive income attributable to noncontrolling interests	—	—	—	—	—
Comprehensive income (loss) attributable to Meritor, Inc.	\$(64)	\$123	\$9	\$(143)	\$(75)

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MERITOR, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

(In millions)

(Unaudited)

	June 30, 2014				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	\$43	\$7	\$253	\$—	\$ 303
Receivables trade and other, net	1	44	599	—	644
Inventories	—	171	270	—	441
Other current assets	6	17	33	—	56
TOTAL CURRENT ASSETS	50	239	1,155	—	1,444
NET PROPERTY	11	145	255	—	411
GOODWILL	—	278	161	—	439
OTHER ASSETS	76	331	109	—	516
INVESTMENTS IN SUBSIDIARIES	2,165	219	—	(2,384)	—
TOTAL ASSETS	\$2,302	\$1,212	\$1,680	\$(2,384)	\$ 2,810
CURRENT LIABILITIES:					
Short-term debt	\$—	\$4	\$1	\$—	\$ 5
Accounts and notes payable	53	215	447	—	715
Other current liabilities	117	73	161	—	351
TOTAL CURRENT LIABILITIES	170	292	609	—	1,071
LONG-TERM DEBT	1,032	11	43	—	1,086
RETIREMENT BENEFITS	751	—	110	—	861
INTERCOMPANY PAYABLE (RECEIVABLE)	843	(1,522)	679	—	—
OTHER LIABILITIES	64	200	55	—	319
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	(558)	2,231	153	(2,384)	(558)
NONCONTROLLING INTERESTS	—	—	31	—	31
TOTAL LIABILITIES AND EQUITY (DEFICIT)	\$2,302	\$1,212	\$1,680	\$(2,384)	\$ 2,810

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MERITOR, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

(In millions)

(Unaudited)

	September 30, 2013				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	\$144	\$6	\$168	\$—	\$ 318
Receivables trade and other, net	1	24	571	—	596
Inventories	—	164	250	—	414
Other current assets	4	17	35	—	56
TOTAL CURRENT ASSETS	149	211	1,024	—	1,384
NET PROPERTY	10	145	262	—	417
GOODWILL	—	277	157	—	434
OTHER ASSETS	77	134	124	—	335
INVESTMENTS IN SUBSIDIARIES	1,718	109	—	(1,827)	—
TOTAL ASSETS	\$1,954	\$876	\$1,567	\$(1,827)	\$ 2,570
CURRENT LIABILITIES:					
Short-term debt	\$5	\$7	\$1	\$—	\$ 13
Accounts and notes payable	51	199	444	—	694
Other current liabilities	95	76	168	—	339
TOTAL CURRENT LIABILITIES	151	282	613	—	1,046
LONG-TERM DEBT	1,088	8	29	—	1,125
RETIREMENT BENEFITS	775	—	111	—	886
INTERCOMPANY PAYABLE (RECEIVABLE)	723	(1,412)	689	—	—
OTHER LIABILITIES	67	204	64	—	335
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	(850)	1,794	33	(1,827)	(850)
NONCONTROLLING INTERESTS	—	—	28	—	28
TOTAL LIABILITIES AND EQUITY (DEFICIT)	\$1,954	\$876	\$1,567	\$(1,827)	\$ 2,570

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MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended June 30, 2014				Consolidated
	Parent	Guarantors	Non-Guarantors	Elims	
CASH FLOWS PROVIDED BY (USED FOR)					
OPERATING ACTIVITIES	\$ (5)	\$ 20	\$ 88	\$ —	\$ 103
INVESTING ACTIVITIES					
Capital expenditures	(2)	(17)	(20)	—	(39)
Net investing cash flows provided by discontinued operations	—	—	3	—	3
CASH USED FOR INVESTING ACTIVITIES	(2)	(17)	(17)	—	(36)
FINANCING ACTIVITIES					
Repayment of notes and term loan	(308)	—	—	—	(308)
Proceeds from debt issuance	225	—	—	—	225
Debt issuance costs	(9)	—	—	—	(9)
Intercompany advances	(2)	—	2	—	—
Other financing activities	—	(2)	12	—	10
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(94)	(2)	14	—	(82)
EFFECT OF CHANGES IN FOREIGN CURRENCY					
EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	—	—	—
CHANGE IN CASH AND CASH EQUIVALENTS	(101)	1	85	—	(15)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	144	6	168	—	318
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 43	\$ 7	\$ 253	\$ —	\$ 303

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MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended June 30, 2013				Consolidated
	Parent	Guarantors	Non-Guarantors	Elims	
CASH FLOWS PROVIDED BY (USED FOR)					
OPERATING ACTIVITIES	\$ (9)	\$ 9	\$ (73)	\$ —	\$ (73)
INVESTING ACTIVITIES					
Capital expenditures	(2)	(12)	(17)	—	(31)
Other investing activities	—	1	—	—	1
Net investing cash flows provided by discontinued operations	—	3	3	—	6
CASH USED FOR INVESTING ACTIVITIES	(2)	(8)	(14)	—	(24)
FINANCING ACTIVITIES					
Repayments of notes and term loan	(427)	—	—	—	(427)
Proceeds from debt issuance	500	—	—	—	500
Debt issuance costs	(12)	—	—	—	(12)
Intercompany advances	5	—	(5)	—	—
Other financing activities	—	1	9	—	10
CASH PROVIDED BY FINANCING ACTIVITIES	66	1	4	—	71
EFFECT OF CHANGES IN FOREIGN CURRENCY					
EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	(3)	—	(3)
CHANGE IN CASH AND CASH EQUIVALENTS	55	2	(86)	—	(29)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	91	3	163	—	257
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 146	\$ 5	\$ 77	\$ —	\$ 228

Basis of Presentation

Certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. As of June 30, 2014 and September 30, 2013, parent only obligations included \$780 million and \$805 million of pension and retiree medical benefits, respectively, (see Note 19). All debt is debt of the parent other than \$59 million and \$45 million at June 30, 2014 and September 30, 2013, respectively, (see Note 17) and is primarily related to capital lease obligations and lines of credit. Cash dividends paid to the parent by subsidiaries and investments accounted for by the equity method were \$5 million and \$54 million for the nine months ended June 30, 2014 and 2013, respectively.

MERITOR, INC.

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

OVERVIEW

Meritor, Inc. (the "company", "our", "we" or "Meritor"), headquartered in Troy, Michigan, is a premier global supplier of a broad range of integrated systems, modules and components to original equipment manufacturers ("OEMs") and the aftermarket for the commercial vehicle, transportation and industrial sectors. The company serves commercial truck, trailer, military, bus and coach, construction, and other industrial OEMs and certain aftermarkets. Meritor common stock is traded on the New York Stock Exchange under the ticker symbol MTOR.

3rd Quarter Fiscal Year 2014 results

Our sales for the third quarter of fiscal year 2014 were \$986 million, a slight decrease compared to \$993 million in the prior year. The decrease was primarily due to lower commercial truck production in South America and the continued step down in the company's revenue from the Family of Medium Tactical Vehicles (FMTV) program. The decrease in revenue was partially offset by an increase in North America commercial truck production and higher revenue from our Aftermarket & Trailer segment. Net income from continuing operations attributable to the company in the third quarter of fiscal year 2014 was \$236 million, or \$2.33 per diluted share, compared to a loss from continuing operations of \$37 million, or \$0.38 per diluted share, in the prior year. Net income attributable to the company for the third quarter of fiscal year 2014 was \$234 million compared to a net loss of \$38 million in the prior year. In the third quarter of fiscal year 2014, we recognized \$209 million (after-tax) as our share of the proceeds recognized by our joint venture, ZF Meritor LLC ("ZF Meritor") associated with the antitrust settlement with Eaton Corporation ("Eaton"). Our net loss from continuing operations and net loss for the third quarter ended June 30, 2013 included a \$36 million Canadian pension settlement loss (\$27 million, after-tax) and a \$19 million loss on debt extinguishment.

Adjusted EBITDA (see Non-GAAP Financial Measures below) for the third quarter of fiscal year 2014 was \$80 million compared to \$87 million in the prior year. Our Adjusted EBITDA margin in the third quarter of fiscal year 2014 was 8.1 percent compared to 8.8 percent in the same period a year ago. Total Adjusted EBITDA and Adjusted EBITDA margin decreased compared to the prior year primarily due to lower revenue and the unfavorable mix impact of lower sales in South America and our defense business year-over-year.

Cash flows provided by operating activities was \$85 million in the third quarter of fiscal year 2014 compared to \$36 million in the third quarter of the prior fiscal year. This improvement is primarily due to lower pension contributions and lower cash taxes.

Equity in Earnings of ZF Meritor

In June 2014, ZF Meritor, a joint venture between ZF Friedrichshafen AG, and Meritor Transmission LLC ("Meritor Transmission"), entered into a settlement agreement with Eaton relating to an antitrust lawsuit filed in 2006. Pursuant to the terms of the settlement agreement, Eaton agreed to pay \$500 million to ZF Meritor. In July 2014, ZF Meritor received proceeds of \$400 million net of attorney's contingency fees. In July 2014, we received proceeds of \$210 million representing our share based on our ownership interest in ZF Meritor including a recovery of current and prior years attorney expenses paid by Meritor. ZF Meritor and Meritor Transmission have agreed to dismiss all pending antitrust litigation with Eaton. ZF Meritor does not have any operating activity or assets other than the receivable related to the settlement with Eaton.

Our pre-tax share of the settlement was \$210 million (\$209 million after-tax), of which \$190 million was recognized as equity in earnings of ZF Meritor and \$20 million for the recovery of legal expenses from ZF Meritor was recognized as a reduction of selling, general and administrative expenses in the consolidated statement of operations. We plan to use the proceeds from the settlement to primarily pre-fund mandatory pension contributions in our U.S. and U.K. pension plans.

MERITOR, INC.

Trends and Uncertainties

Production Volumes

The following table reflects estimated commercial truck production volumes for selected original equipment markets for the three months ended June 30, 2014 and 2013 based on available sources and management's estimates.

	Three Months Ended June 30,		Percent	
	2014	2013	Change	
Estimated Commercial Truck production (in thousands)				
North America, Heavy-Duty Trucks	74	67	10	%
North America, Medium-Duty Trucks	59	54	9	%
Western Europe, Heavy- and Medium-Duty Trucks	91	95	(4)%
South America, Heavy- and Medium-Duty Trucks	42	53	(21)%

During fiscal year 2014, production volumes in North America increased compared to the levels experienced in fiscal year 2013 and we expect this to continue through the end of the fiscal year. We also expect production volumes in North America to be higher in the second half of fiscal year 2014 compared to the first half. Production volumes in South America decreased in the third quarter of fiscal year 2014 on a year-over-year basis resulting from continued economic uncertainty during fiscal year 2014, which we expect to continue through the end of the fiscal year. We are evaluating plans to manage our cost structure in South America to address the softening conditions.

In line with our expectations, in the first quarter of fiscal year 2014, production volumes in Europe ramped up in advance of the new commercial truck emission standard requirements. Although we expect volumes to be up year-over-year, we anticipate a decline in production for the last nine months of the year on a year-over-year basis. Production volumes in China are expected to increase slightly during fiscal year 2014 compared to low levels experienced in fiscal year 2013. We expect the market in India to be down another 5% in fiscal year 2014 given the current economic climate. There is no certainty as to if and when these volumes in the Asia-Pacific region will return to the levels previously experienced.

Sales for our primary military program were at their peak during the third quarter of fiscal year 2012 and began to wind down beginning in fiscal year 2013. The program is scheduled to terminate in 2015. We are working to secure our participation in new military programs with various OEMs. However, failure to secure new military contracts could have a longer-term negative impact on our Commercial Truck and Industrial Segment. In addition, even if sales of our military programs do return to historical levels, the profitability on these sales could be lower than what we have recognized in recent periods.

Other

We are currently in negotiations with Volvo (our largest global customer) regarding our contract covering axle supply in Europe and South America which is scheduled to expire in October 2014. In July 2014, we signed a non-binding memorandum of understanding with Volvo, agreeing to extend the Europe and South America axle supply agreement seven years through October 2021. We also agreed to extend our axle and driveline supply agreement in North America (which was scheduled to expire in fiscal year 2015) four years through 2019. We expect to execute the new long term agreements with Volvo prior to the expiration of the current contract, which is in October 2014.

We are performing a strategic review of certain remanufacturing product lines within our aftermarket business. Strategies that are being considered include retaining all of the operations as well as certain exit strategies that could result in a loss on disposal if an exit plan were adopted.

Industry-Wide Issues

Our business continues to address a number of other challenging industry-wide issues including the following:

• Uncertainty around the global market outlook;

- Volatility in price and availability of steel, components and other commodities;

• Disruptions in the financial markets and their impact on the availability and cost of credit;

MERITOR, INC.

Higher energy and transportation costs;
Impact of currency exchange rate volatility;
Consolidation and globalization of OEMs and their suppliers; and
Significant pension and retiree medical health care costs.

Other

Other significant factors that could affect our results and liquidity in fiscal year 2014 and beyond include:

Significant contract awards or losses of existing contracts or failure to negotiate acceptable terms in contract renewals (including, without limitation, negotiations with our largest customer, Volvo, which are ongoing regarding our contract with Volvo covering axle supply in Europe, South America and Australia, which is scheduled to expire in October 2014);

Failure to obtain new business;

Failure to secure new military contracts as our primary military program winds down;

Ability to manage possible adverse effects on our European operations, or financing arrangements related thereto, in the event one or more countries exit the European monetary union;

Ability to work with our customers to manage rapidly changing production volumes;

Ability to recover and timing of recovery of steel price and other cost increases from our customers;

Any unplanned extended shutdowns or production interruptions by us, our customers or our suppliers;

A significant deterioration or slowdown in economic activity in the key markets in which we operate;

Higher-than-planned price reductions to our customers;

Potential price increases from our suppliers;

Additional restructuring actions and the timing and recognition of restructuring charges;

Higher-than-planned warranty expenses, including the outcome of known or potential recall campaigns;

Our ability to implement planned productivity, cost reduction, and other margin improvement initiatives;

Uncertainties of asbestos claim litigation and the outcome of litigation with insurance companies regarding the scope of coverage and the long-term solvency of our insurance carriers; and

Restrictive government actions by foreign countries (such as restrictions on transfer of funds and trade protection measures, including export duties and quotas and customs duties and tariffs).

NON-GAAP FINANCIAL MEASURES

In addition to the results reported in accordance with accounting principles generally accepted in the United States (GAAP), we have provided information regarding non-GAAP financial measures. These non-GAAP financial measures include Adjusted income (loss) from continuing operations, Adjusted diluted earnings (loss) per share from continuing operations, Adjusted EBITDA, Adjusted EBITDA margin, and Free cash flow.

Adjusted income (loss) from continuing operations and Adjusted diluted earnings (loss) per share from continuing operations are defined as reported income or loss from continuing operations and reported diluted earnings or loss per share from continuing operations before restructuring expenses, asset impairment charges and other special items as determined by management. Adjusted EBITDA is defined as income (loss) from continuing operations before interest, income taxes, depreciation and amortization, non-controlling interests in consolidated joint ventures, loss on sale of receivables, restructuring expenses, asset impairment charges and other special items as determined by management. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by consolidated sales. Free cash flow is defined as cash flows provided by (used for) operating activities less capital expenditures.

MERITOR, INC.

Management believes Adjusted EBITDA and Adjusted income (loss) from continuing operations are meaningful measures of performance as they are commonly utilized by management and investors to analyze ongoing operating performance and entity valuation. Management and the investment community commonly use Adjusted EBITDA and Adjusted EBITDA margin, together with other measures, to measure operating performance in our industry. Further, management uses Adjusted EBITDA for planning and forecasting future periods. In addition, we use Segment EBITDA as the primary basis to evaluate the performance of each of our reportable segments. Management believes that Free cash flow is useful in analyzing our ability to service and repay debt.

Adjusted income (loss) from continuing operations and Adjusted diluted earnings (loss) per share from continuing operations and Adjusted EBITDA should not be considered a substitute for the reported results prepared in accordance with GAAP and should not be considered as an alternative to net income as an indicator of our operating performance or to cash flows as a measure of liquidity. Free cash flow should not be considered a substitute for cash provided by (used for) operating activities, or other cash flow statement data prepared in accordance with GAAP, or as a measure of financial position or liquidity. In addition, these non-GAAP cash flow measures do not reflect cash used to service debt or cash received from the divestitures of businesses or sales of other assets and thus do not reflect funds available for investment or other discretionary uses. These non-GAAP financial measures, as determined and presented by the company, may not be comparable to related or similarly titled measures reported by other companies. Set forth below are reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with GAAP.

Adjusted income (loss) from continuing operations and Adjusted diluted earnings (loss) per share are reconciled to income (loss) from continuing operations and diluted earnings (loss) per share below (in millions, except per share amounts).

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Adjusted income (loss) from continuing operations	\$28	\$33	\$61	\$28
Antitrust settlement with Eaton, net of tax ⁽¹⁾	208	—	208	—
Loss on debt extinguishment	—	(19	) (21	) (19
Restructuring costs, net of tax	—	(12	) (3	) (27
Specific warranty contingency	—	(12	) —	(12
Pension settlement loss, net of tax	—	(27	) —	(27
Income (loss) from continuing operations	\$236	\$(37	) \$245	\$(57
Adjusted diluted earnings (loss) per share from continuing operations	\$0.28	\$0.34	\$0.62	\$0.29
Impact of adjustments on diluted earnings (loss) per share	2.05	(0.72	) 1.85	(0.87
Diluted earnings (loss) per share from continuing operations	\$2.33	\$(0.38	) \$2.47	\$(0.58

⁽¹⁾ Non-GAAP adjustment associated with our share of the antitrust settlement with Eaton less legal expenses incurred in fiscal year 2014.

Free cash flow is reconciled to cash flows used for operating activities below (in millions).

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Cash provided by (used) for operating activities	\$85	\$36	\$103	\$(73
Capital expenditures	(14	) (8	) (39	) (31
Free cash flow	71	28	64	(104

Adjusted EBITDA is reconciled to net income attributable to Meritor, Inc. in "Results of Operations" below.

MERITOR, INC.

Results of Operations

The following is a summary of our financial results is (in millions, except per share amounts):

	Three Months Ended		Nine Months Ended June 30,	
	June 30, 2014	2013	2014	2013
SALES:				
Commercial Truck & Industrial	\$761	\$784	\$2,251	\$2,211
Aftermarket & Trailer	259	238	699	665
Intersegment Sales	(34)	(29)	(95)	(84)
SALES	\$986	\$993	\$2,855	\$2,792
SEGMENT EBITDA:				
Commercial Truck & Industrial	\$55	\$67	\$165	\$138
Aftermarket & Trailer	26	25	67	60
SEGMENT EBITDA	81	92	232	198
Unallocated legacy and corporate costs, net ⁽¹⁾	(1)	(5)	(4)	(7)
ADJUSTED EBITDA	80	87	228	191
Interest expense, net	(22)	(45)	(97)	(99)
Provision for income taxes	(11)	(1)	(30)	(18)
Depreciation and amortization	(17)	(16)	(50)	(49)
Noncontrolling interests	—	—	(4)	—
Loss on sale of receivables	(2)	(2)	(7)	(5)
Restructuring costs	—	(12)	(3)	(29)
Antitrust settlement with Eaton, net of tax ⁽²⁾	208	—	208	—
Specific warranty contingency, net of supplier recovery	—	(12)	—	(12)
Pension settlement loss	—	(36)	—	(36)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS, attributable to Meritor, Inc.	\$236	\$(37)	\$245	\$(57)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax, attributable to Meritor, Inc.	(2)	(1)	1	(6)
NET INCOME (LOSS) attributable to Meritor, Inc.	\$234	\$(38)	\$246	\$(63)
DILUTED EARNINGS (LOSS) PER SHARE attributable to Meritor, Inc.				
Continuing operations	\$2.33	\$(0.38)	\$2.47	\$(0.58)
Discontinued operations	(0.02)	(0.01)	0.01	(0.07)
Diluted earnings (loss) per share	\$2.31	\$(0.39)	\$2.48	\$(0.65)
DILUTED AVERAGE COMMON SHARES OUTSTANDING	101.1	97.2	99.1	97.0

Unallocated legacy and corporate costs, net represent items that are not directly related to our business segments.

⁽¹⁾ These costs primarily include pension and retiree medical costs associated with recently sold businesses and other legacy costs for environmental and product liability.

⁽²⁾ Non-GAAP adjustment associated with our share of the antitrust settlement with Eaton less legal expenses incurred in fiscal year 2014.

MERITOR, INC.

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Sales

The following table reflects total company and business segment sales for the three months ended June 30, 2014 and 2013. The reconciliation is intended to reflect the trend in business segment sales and to illustrate the impact that changes in foreign currency exchange rates, volumes and other factors had on sales. Business segment sales include intersegment sales (in millions).

	Three months Ended		Dollar Change Due To				
	June 30,		Dollar	%	Currency	Volume /	
	2014	2013	Change	Change		Other	
Sales:							
Commercial Truck & Industrial	\$761	\$784	\$(23	) (3	)%	\$(4	) \$(19
Aftermarket & Trailer	259	238	21	9	%	2	19
Intersegment Sales	(34	) (29	) (5	) (17	)%	(5) —
TOTAL SALES	\$986	\$993	\$(7	) (1	)%	\$(7) \$—

Commercial Truck & Industrial sales were \$761 million in the third quarter of fiscal year 2014, down 3 percent compared to the third quarter of fiscal year 2013. The decrease was primarily due to lower commercial truck production in South America and lower defense revenue, partially offset by higher commercial truck sales in North America.

Aftermarket & Trailer sales were \$259 million in the third quarter of fiscal year 2014, up 9 percent compared to the third quarter of fiscal year 2013. The increase was primarily due to higher revenue across all parts of the segment.

Cost of Sales and Gross Profit

Cost of sales primarily represents materials, labor and overhead production costs associated with the company's products and production facilities. Cost of sales for the three months ended June 30, 2014 was \$863 million compared to \$884 million in the prior year, representing a decrease of 2 percent. Total cost of sales was approximately 88 percent and 89 percent of sales for the three month periods ended June 30, 2014 and 2013, respectively.

The following table summarizes significant factors contributing to the changes in costs of sales during the third quarter of fiscal year 2014 compared to the same quarter in the prior year (in millions):

Three months ended June 30, 2013	Cost of Sales	\$884
Volume, mix and other, net		(19
Foreign exchange		(2
Three months ended June 30, 2014	Cost of Sales	\$863

Changes in the components of cost of sales year over year are summarized as follows (in millions):

	Change in Cost of Sales	
Higher material costs		\$11
Lower labor and overhead costs		(17
Other, net		(15
Total change in costs of sales		\$(21

Material costs represent the majority of our cost of sales and include raw materials, composed primarily of steel and purchased components. Material costs for the three months ended June 30, 2014 increased \$11 million compared to the same period in the prior year primarily due to the unfavorable mix impact of higher revenue in North America and lower revenue in South America and our defense business year-over-year. In addition, lower cost from material cost performance programs partially offset the unfavorable mix impact.

MERITOR, INC.

Labor and overhead costs decreased \$17 million compared to the same period in the prior year primarily as a result of savings from labor cost reduction programs and lower revenue.

Other, net decreased by \$15 million compared to the same period in the prior year. The decrease was primarily due to the \$12 million specific warranty contingency charge related to a non-safety, product performance issue recognized during the the third quarter of fiscal year 2013.

Gross margin for the three months ended June 30, 2014 was \$123 million compared to \$109 million in the same period last year. Gross margin, as a percentage of sales, was 12.5 percent and 11.0 percent for the three months ended June 30, 2014 and 2013, respectively. This improvement in gross margin percentage was primarily due to a \$12 million specific warranty contingency charge related to a non-safety, product performance issue recorded in the prior year.

Other Income Statement Items

Selling, general and administrative expenses for the three months ended June 30, 2014 and 2013 are summarized as follows (in millions):

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013		Increase (Decrease)	
	Amount	% of sales	Amount	% of sales		
SG&A						
Loss on sale of receivables	\$(2)	(0.2)%	\$(2)	(0.2)%	\$—	0 pts
Short and long-term variable compensation	(11)	(1.1)%	(7)	(0.7)%	4	0.4 pts
Legal fee recovery from the Eaton settlement	20	2.0 %	—	— %	(20)	(2.0) pts
Executive severance	—	— %	(4)	(0.4)%	(4)	(0.4) pts
All other SG&A	(61)	(6.2)%	(54)	(5.4)%	7	0.8 pts
Total SG&A	\$(54)	(5.5)%	\$(67)	(6.7)%	\$(13)	(1.2) pts

In the third quarter of fiscal year 2014, as a result of the settlement with Eaton, ZF Meritor agreed to reimburse the company \$20 million for the recovery of current and prior period legal expenses. We recognized the recovery in SG&A as the historical incurrence of these costs was included in SG&A in the consolidated statement of operations in prior periods. All other SG&A represents normal selling, general and administrative expense and increased year over year primarily due to an increase in asbestos-related legal expenses.

Pension settlement loss of \$36 million was recognized during the third quarter of fiscal year 2013. The loss is associated with the settlement of certain Canadian pension plans.

Restructuring costs of \$12 million were recorded during the three months ended June 30, 2013. These costs primarily related to employee severance and lease termination costs related to our Commercial Truck & Industrial segment.

Operating income (loss) for the third quarter of fiscal year 2014 was \$68 million, compared to an operating loss of \$6 million in the prior year. Key items affecting operating income (loss) are discussed above.

Equity in earnings of ZF Meritor was \$190 million in the third quarter of fiscal year 2014 related to our share of the earnings on the antitrust settlement with Eaton.

Equity in earnings of other affiliates was \$11 million in the third quarter of fiscal year 2014, compared to \$15 million in the same period in the prior year. The decrease was primarily due to the sale of our ownership interest in the Suspensys joint venture in the fourth quarter of fiscal year 2013.

Interest expense, net for the third quarter of fiscal year 2014 was \$22 million, compared to \$45 million in the prior year. During the third quarter ended June 30, 2013, we repurchased \$167 million of the \$250 million 8.125% notes due 2015. We recognized a \$19 million loss on debt extinguishment associated with the repurchase. The remainder of the decrease in interest expense was due to the redemption of the 10.625% notes due 2018 and the issuance of 6.25% notes due 2024 in the second quarter of fiscal year 2014.

Provision for income taxes was \$11 million in the third quarter of fiscal year 2014 compared to \$1 million in the same period in the prior year. The increase to tax expense was primarily attributable to a \$9 million tax benefit received on the Canadian pension settlement charge in the prior year.

MERITOR, INC.

Income (Loss) from continuing operations (before noncontrolling interests) for the third quarter of fiscal year 2014 was \$236 million compared to a loss of \$37 million in the prior year. The reasons for the improvement are discussed above.

Loss from discontinued operations, net of tax was \$2 million for the three months ended June 30, 2014 compared to \$1 million in the same period in the prior year. Loss for discontinued operations for the three months ended June 30, 2014 and 2013 were primarily due to environmental remediation costs.

Net income (loss) attributable to Meritor, Inc. was \$234 million for the third quarter of fiscal year 2014 compared to a loss of \$38 million in the third quarter of fiscal year 2013. The various factors affecting net income (loss) are discussed above.

Segment EBITDA and EBITDA Margins

Segment EBITDA is defined as income (loss) from continuing operations before interest expense, income taxes, depreciation and amortization, noncontrolling interests in consolidated joint ventures, loss on sale of receivables, restructuring expense, and asset impairment charges. We use Segment EBITDA as the primary basis for the CODM to evaluate the performance of each of our reportable segments.

The following table reflects Segment EBITDA and Segment EBITDA margins for the three months ended June 30, 2014 and 2013 (dollars in millions).

	Segment EBITDA			Segment EBITDA Margins		
	June 30, 2014	2013	\$ Change	June 30, 2014	2013	Change
Commercial Truck & Industrial	\$55	\$67	\$(12)	7.2	% 8.5	% (1.3) pts
Aftermarket & Trailer	26	25	1	10.0	% 10.5	% (0.5) pts
Segment EBITDA	\$81	\$92	\$(11)	8.2	% 9.3	% (1.1) pts

Significant items impacting year-over-year Segment EBITDA include the following:

	Commercial Truck & Industrial	Aftermarket & Trailer	TOTAL
Segment EBITDA– Quarter ended June 30, 2013	\$67	\$25	\$92
Lower earnings from other affiliates	(2)	(2)	(4)
Foreign exchange - transaction and translation	(5)	1	(4)
Volume, mix, pricing and other, net	(5)	2	(3)
Segment EBITDA – Quarter ended June 30, 2014	\$55	\$26	\$81

Commercial Truck & Industrial Segment EBITDA was \$55 million in the third quarter of fiscal year 2014, down \$12 million compared to the same period in the prior year. Segment EBITDA margin decreased to 7.2 percent compared to 8.5 percent in the prior year. Lower revenue and the unfavorable mix impact of lower sales in South America and our defense business drove the lower Segment EBITDA and Segment EBITDA margin year-over-year.

Aftermarket & Trailer Segment EBITDA was \$26 million in the third quarter of fiscal year 2014 and \$25 million in the third quarter of fiscal year 2013. Segment EBITDA margin decreased to 10.0 percent compared to 10.5 percent in the prior year. The loss of earnings associated with the company's ownership interest in Suspensys, which was sold in the fourth quarter of fiscal year 2013, offset the benefit of higher revenue.

MERITOR, INC.

Nine Months Ended June 30, 2014 Compared to Nine Months Ended June 30, 2013

Sales

The following table reflects total company and business segment sales for the nine months ended June 30, 2014 and 2013. The reconciliation is intended to reflect the trend in business segment sales and to illustrate the impact that changes in foreign currency exchange rates, volumes and other factors had on sales. Business segment sales include intersegment sales (in millions).

	Nine Months Ended		Dollar Change Due To			
	June 30,		Dollar	%	Currency	Volume /
	2014	2013	Change	Change		Other
Sales:						
Commercial Truck & Industrial	\$2,251	\$2,211	\$40	2	% \$(40	) \$80
Aftermarket & Trailer	699	665	34	5	% 5	29
Intersegment Sales	(95	) (84	) (11	) (13	)% (10	) (1
TOTAL SALES	\$2,855	\$2,792	\$63	2	% \$(45	) \$108

Commercial Truck & Industrial sales were \$2,251 million in the first nine months of fiscal year 2014, up 2 percent compared to the first nine months of fiscal year 2013, reflecting higher production primarily in our North America truck market partially offset by the step-down in our FMTV program. North American industry-wide production volumes for heavy-duty trucks increased 10% percent in the third quarter of fiscal year 2014 as compared to the same period a year ago. In addition, we experienced higher sales in Europe year to date primarily driven by sales in advance of Europe's implementation of the new commercial truck emission standards in January 2014. Although sales in South America increased slightly in the first six months compared to the prior year, they declined in the third quarter of fiscal year 2014 compared to the prior year due to macro-economic conditions in the region and are down slightly year to date. Furthermore, the effects of foreign currency exchange rates, primarily the Brazilian real, decreased sales by \$40 million compared to the first nine months of fiscal year 2013, as the U.S. dollar strengthened compared to the prior year beginning in the fourth quarter of fiscal year 2013.

Aftermarket & Trailer sales were \$699 million in the first nine months of fiscal year 2014, up 5 percent compared to the first nine months of fiscal year 2013. The increase was primarily due to higher revenue across all parts of the segment.

Cost of Sales and Gross Profit

Cost of sales primarily represents materials, labor and overhead production costs associated with the company's products and production facilities. Cost of sales for the nine months ended June 30, 2014 was \$2,513 million compared to \$2,505 million in the prior year. The slight increase in costs of sales is primarily due to higher sales volumes which is discussed above. Total cost of sales was approximately 88 percent and 90 percent of sales for the nine month periods ended June 30, 2014 and 2013, respectively.

The following table summarizes significant factors contributing to the changes in costs of sales during the first nine months of fiscal year 2014 compared to the same period in the prior year (in millions):

Nine months ended June 30, 2013	Cost of Sales	\$2,505
Volume, mix and other, net		38
Foreign exchange		(30
Nine months ended June 30, 2014		) \$2,513

Changes in the components of cost of sales year over year are summarized as follows (in millions):

	Change in Cost of	
	Sales	
Higher material costs		\$30
Lower labor and overhead costs		(2
Other, net		) (20

Total change in costs of sales

\$8

53

MERITOR, INC.

Material costs represent the majority of our cost of sales and include raw materials, composed primarily of steel and purchased components. Material costs for the nine months ended June 30, 2014 increased \$30 million compared to the same period in the prior year primarily as a result of higher volume partially offset by cost savings as part of our material cost performance programs.

Labor and overhead costs decreased by \$2 million compared to the same period in the prior year primarily as a result of savings associated with the labor cost reduction programs.

Other, net decreased by \$20 million compared to the same period in the prior year. The decrease was primarily due to the \$12 million specific warranty contingency charge related to a non-safety, product performance issue recognized during the third quarter of fiscal year 2013.

Gross margin for the nine months ended June 30, 2014 was \$342 million compared to \$287 million in the same period last year. Gross margin, as a percentage of sales, was 12.0 percent and 10.3 percent for the nine months ended June 30, 2014 and 2013, respectively. This improvement in gross margin percentage was primarily driven by net material, labor and burden cost reductions and the \$12 million specific warranty contingency charge related to a non-safety, product performance issue recorded in the prior year.

Other Income Statement Items

Selling, general and administrative expenses for the nine months ended June 30, 2014 and 2013 are summarized as follows (in millions):

	Nine Months Ended June 30, 2014		Nine Months Ended June 30, 2013		Increase (Decrease)	
	Amount	% of sales	Amount	% of sales		
SG&A						
Loss on sale of receivables	\$(7)	(0.3)%	\$(5)	(0.2)%	\$2	0.1 pts
Short and long-term variable compensation	(25)	(0.9)%	(18)	(0.6)%	7	0.3 pts
Legal fee recovery from the Eaton settlement	20	0.7 %	—	— %	(20)	(0.7) pts
Executive severance	—	— %	(4)	(0.1)%	(4)	(0.1) pts
Long-term liability reduction	5	0.2 %	—	— %	(5)	(0.2) pts
All other SG&A	(172)	(6.0)%	(167)	(6.0)%	5	0 pts
Total SG&A	\$(179)	(6.3)%	\$(194)	(6.9)%	\$(15)	(0.6) pts

In the third quarter of fiscal year 2014, as a result of the settlement with Eaton, ZF Meritor agreed to reimburse the company \$20 million for the recovery of current and prior period legal expenses. We recognized the recovery in SG&A, as the historical incurrence of these costs were included in SG&A in the consolidated statement of operations in prior periods. All other SG&A represents normal selling, general and administrative expense and remained relatively flat year-over-year as a percentage of sales.

In the first quarter of fiscal year 2014, we executed a change to our long-term disability benefit plan reducing the duration for which we provide medical and dental benefits to individuals on long-term disability to be more consistent with market practices. This resulted in a \$5 million reduction in the liability associated with these benefits.

Pension settlement loss of \$36 million was recognized during the third quarter of fiscal year 2013. The loss is associated with the settlement of certain Canadian pension plans.

Restructuring costs of \$3 million were recorded during the nine months ended June 30, 2014 compared to \$29 million a year ago. Our Commercial Truck & Industrial segment recognized the majority of the restructuring costs in the first nine months of fiscal year 2014 primarily related to employee severance costs. Our Commercial Truck & Industrial segment recognized \$20 million of restructuring costs in the first nine months of fiscal year 2013 primarily related to employee severance costs and a lease termination. Our Aftermarket & Trailer segment recognized \$6 million of restructuring costs during the first nine months of fiscal year 2013 primarily related to the employee severance costs. In addition, we recognized \$3 million of restructuring costs at our corporate location associated with our segment reorganization in 2013.

Operating income for the first nine months of fiscal year 2014 was \$158 million, compared to \$26 million in the prior year. Key items impacting operating income are discussed above.

Equity in earnings of ZF Meritor was \$190 million in the first nine months of fiscal year 2014 related to our share of the earnings on the antitrust settlement with Eaton.

MERITOR, INC.

Equity in earnings of other affiliates was \$28 million in the first nine months of fiscal year 2014, compared to \$34 million in the same period in the prior year. The decrease was primarily due to the sale of our ownership interest in the Suspensys joint venture in the fourth quarter of fiscal year 2013.

Interest expense, net for the first nine months of fiscal year 2014 was \$97 million, compared to \$99 million in the prior year. During the second quarter ended March 31, 2014, we exercised a call option to redeem \$250 million of our 10.625% notes due 2018 at a premium of 5.313 percent of the principal amount. We recognized a \$19 million loss on extinguishment associated with the redemption which consisted of \$6 million of unamortized discount and deferred issuance costs and \$13 million of premium. We also repaid the outstanding term loan balance of \$41 million during the same period and recognized a \$2 million loss on the repayment associated with unamortized debt issuance costs. During the first quarter of fiscal year 2013, which ended December 31, 2012, we repurchased approximately \$245 million of \$300 million principal amount of our 4.625% notes due 2026. We recognized a \$5 million loss on debt extinguishment associated with the repurchase. During the third quarter ended June 30, 2013, we repurchased \$167 million of the \$250 million 8.125% notes due 2015. We recognized a \$19 million loss on debt extinguishment associated with the repurchase.

Excluding the impact of the debt extinguishments, interest expense increased during the first nine months of fiscal year 2014 due to additional interest costs associated with the debt securities issued during fiscal year 2013.

Provision for income taxes was \$30 million in the first nine months of fiscal year 2014 compared to \$18 million in the first nine months of fiscal year 2013. The increase to tax expense for the nine months ended June 30, 2014 was primarily attributable to a \$9 million tax benefit received on the Canadian pension settlement charge in the prior year. Income from continuing operations (before noncontrolling interests) for the first nine months of fiscal year 2014 was \$249 million compared to a loss of \$57 million, in the prior year. The reasons for the improvement are discussed above.

Income (loss) from discontinued operations, net of tax was a gain of \$1 million in the first nine months of fiscal year 2014, compared to a loss of \$6 million in the same period a year ago. Income from discontinued operations for the nine months ended June 30, 2014 primarily related to tax benefits for previously divested businesses. Loss from discontinued operations for the nine months ended June 30, 2013 related to environmental remediation costs.

Net income (loss) attributable to Meritor, Inc. was \$246 million for the first nine months of fiscal year 2014 compared to a loss of \$63 million in the first nine months of fiscal year 2013. Various factors impacting net income are previously discussed.

Segment EBITDA and EBITDA Margins

The following table reflects Segment EBITDA and Segment EBITDA margins for the nine months ended June 30, 2014 and 2013 (dollars in millions).

	Segment EBITDA			Segment EBITDA Margins		
	June 30, 2014	2013	\$ Change	June 30, 2014	2013	Change
Commercial Truck & Industrial	\$165	\$138	\$27	7.3	% 6.2	% 1.1 pts
Aftermarket & Trailer	67	60	7	9.6	% 9.0	% 0.6 pts
Segment EBITDA	\$232	\$198	\$34	8.1	% 7.1	% 1.0 pts

Significant items impacting year-over-year Segment EBITDA include the following:

	Commercial Truck & Industrial	Aftermarket & Trailer	TOTAL
Segment EBITDA– Nine months ended June 30, 2013	\$138	\$60	\$198
Lower earnings from other affiliates	(1	) (5	) (6
Foreign exchange - transaction and translation	(15	) 3	(12
Volume, mix, pricing and other, net	43	9	52
Segment EBITDA – Nine months ended June 30, 2014	\$165	\$67	\$232

MERITOR, INC.

Commercial Truck & Industrial Segment EBITDA was \$165 million in the first nine months of fiscal year 2014, up \$27 million compared to the same period in the prior year. Segment EBITDA margin increased to 7.3 percent compared to 6.2 percent in the prior year. The increase in Segment EBITDA and EBITDA margin reflects higher commercial vehicle sales in North America and Europe and reductions in material and other costs, which more than offset the impact of the step down in our defense business revenue and the unfavorable impact of the depreciation of the Brazilian reais.

Aftermarket & Trailer Segment EBITDA was \$67 million in the first nine months of fiscal year 2014, up \$7 million compared to the same period in the prior year. Segment EBITDA margin increased to 9.6 percent compared to 9.0 percent in the prior year. The increase in Segment EBITDA margin was primarily due to higher sales of our core aftermarket products, pricing actions, and lower material and other costs, which more than offset the loss of earnings associated with the divestiture of our 50 percent interest in Suspensys during the fourth quarter of fiscal year 2013.

Financial Condition

Cash Flows (in millions)

	Nine Months Ended June 30,	
	2014	2013
OPERATING CASH FLOWS		
Income (loss) from continuing operations	\$249	\$(57)
Depreciation and amortization	50	49
Restructuring costs	3	29
Loss on debt extinguishment	21	24
Equity in earnings of ZF Meritor	(190) —
Equity in earnings of other affiliates	(28	) (34)
Pension and retiree medical expense	30	69
Dividends received from equity method investments	28	14
Pension and retiree medical contributions	(31	) (88)
Restructuring payments	(6	) (17)
Increase in working capital	(9	) (128)
Changes in off-balance sheet accounts receivable factoring	(27	) 46
Other, net	20	34
Cash flows provided by (used for) continuing operations	110	(59)
Cash flows used for discontinued operations	(7	) (14)
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	103	(73)

Cash provided by operating activities for the first nine months of fiscal year 2014 was \$103 million compared to cash used for operating activities of \$73 million in the same period of fiscal year 2013. The improvement is primarily due to lower pension contributions and lower working capital during fiscal year 2014.

	Nine Months Ended June 30,	
	2014	2013
INVESTING CASH FLOWS		
Capital expenditures	\$(39	) \$(31)
Other investing activities	—	1
Net investing cash flows provided by discontinued operations	3	6
CASH USED FOR INVESTING ACTIVITIES	\$(36	) \$(24)

Cash used for investing activities was \$36 million in the first nine months of fiscal year 2014 compared to \$24 million in the same period a year ago primarily as a result of more cash used for capital expenditures during fiscal year 2014.

MERITOR, INC.

	Nine Months Ended June 30,	
	2014	2013
FINANCING CASH FLOWS		
Repayment of notes and term loan	(308	) (427
Proceeds from debt issuance	225	500
Debt issuance costs	(9	) (12
Other financing activities	10	10
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	\$(82	) \$71

Cash used for financing activities was \$82 million for the first nine months of fiscal year 2014 compared to cash provided by financing activities of \$71 million for the same period a year ago. In the second quarter of fiscal year 2014, we issued \$225 million of 6.25 percent senior unsecured notes due in 2024. Net proceeds from the issuance of these notes were used along with available cash to retire the \$250 million of 10.625 percent notes due in 2018 at a premium of \$13 million. The outstanding term loan balance of \$45 million was paid in the first six months of fiscal year 2014.

In the nine months ended June 30, 2013, we issued debt securities generating aggregate proceeds of \$500 million. We used the proceeds to repurchase \$167 million of our \$250 million 8.125% notes due in 2015 and to retire a portion of our outstanding 4.625% convertible senior notes due 2026 as well as for general corporate purposes.

Liquidity

Our outstanding debt, net of discounts where applicable, is summarized as follows (in millions).

	June 30,	September 30,
	2014	2013
Fixed-rate debt securities	\$584	\$606
Fixed-rate convertible notes	484	482
Term loan	—	45
Other borrowings	60	46
Unamortized gain on interest rate swap termination	1	2
Unamortized discount on convertible notes	(38	) (43
Total debt	\$1,091	\$1,138

Overview – Our principal operating and capital requirements are for working capital needs, capital expenditure requirements, debt service requirements, funding of pension and retiree medical costs, restructuring and product development programs. We expect fiscal year 2014 capital expenditures for our business segments to be in the range of \$65 million to \$75 million.

We generally fund our operating and capital needs with cash on hand, cash flow from operations, our various accounts receivable securitization and factoring arrangements and availability under our revolving credit facility. Cash in excess of local operating needs is generally used to reduce amounts outstanding, if any, under our revolving credit facility or U.S. accounts receivable securitization program. Our ability to access additional capital in the long term will depend on availability of capital markets and pricing on commercially reasonable terms as well as our credit profile at the time we are seeking funds. We continuously evaluate our capital structure to ensure the most appropriate and optimal structure and may, from time to time, retire, repurchase, exchange or redeem outstanding indebtedness, issue new equity or debt securities or enter into new lending arrangements if conditions warrant.

In February 2012, we filed a shelf registration statement with the Securities and Exchange Commission, which was amended in November 2012, registering up to \$750 million of debt and/or equity securities that may be offered in one or more series on terms to be determined at the time of sale. The amount remaining at June 30, 2014 is \$250 million.

We believe our current financing arrangements provide us with the financial flexibility required to maintain our operations and fund future growth, including actions required to improve our market share and further diversify our global operations, through the term of our revolving credit facility, which matures in February 2019.

MERITOR, INC.

Sources of liquidity as of June 30, 2014, in addition to cash on hand, are as follows:

	Total Facility Size	Unused as of 06/30/14	Current Expiration
On-balance sheet arrangements:			
Revolving credit facility ⁽¹⁾	\$499	\$499	February 2019 ⁽¹⁾
Committed U.S. accounts receivable securitization ⁽²⁾	100	100	June 2016
Total on-balance sheet arrangements	599	599	
Off-balance sheet arrangements:			
Swedish Factoring Facility ⁽²⁾	204	64	June 2015
U.S. Factoring Facility ⁽²⁾	89	6	October 2015
U.K. Factoring Facility ⁽²⁾	34	23	February 2018
Italy Factoring Facility ⁽²⁾	41	25	June 2017
Other uncommitted factoring facilities ⁽²⁾	27	4	Various
Letter of credit facility	30	4	March 2019
Total off-balance sheet arrangements	425	126	
Total available sources	\$1,024	\$725	

The availability under the revolving credit facility is subject to a collateral test and a priority debt-to-EBITDA ratio covenant as discussed under “Revolving Credit Facility” below. On February 13, 2014, we entered into an agreement ⁽¹⁾ to amend and extend the revolving credit facility through February 2019. See further discussion below under “Revolving Credit Facility”.

⁽²⁾ Availability subject to adequate eligible accounts receivable available for sale.

Cash and Liquidity Needs – Our cash and liquidity needs have been affected by the level, variability and timing of our customers’ worldwide vehicle production and other factors outside of our control. At June 30, 2014, we had \$303 million in cash and cash equivalents.

Our availability under the revolving credit facility is subject to a collateral test and a priority debt-to-EBITDA ratio covenant, as defined in the agreement, which may limit our borrowings under the agreement as of each quarter end. As long as we are in compliance with those covenants as of the quarter end, we have full availability (up to the amount of collateral under the collateral test) under the revolving credit facility every other day during the quarter. Our future liquidity is subject to a number of factors, including access to adequate funding under our revolving credit facility, access to other borrowing arrangements such as factoring or securitization facilities, vehicle production schedules and customer demand. Even taking into account these and other factors, management expects to have sufficient liquidity to fund our operating requirements through the term of our revolving credit facility. At June 30, 2014, the company was in compliance with all covenants under its credit agreement (see Note 17).

Debt Repurchase Program - On January 23, 2014, the Offering Committee of our Board of Directors approved a repurchase program for up to \$100 million of any of our public debt securities (including without limitation convertible debt securities) from time to time through open market purchases or privately negotiated transactions or otherwise, until December 15, 2014.

MERITOR, INC.

Issuance of 2024 Notes - On February 13, 2014, we completed a public offering of debt securities consisting of the issuance of \$225 million 10-year, 6.25 percent notes due February 15, 2024 (the "2024 Notes"). The 2024 Notes were offered and sold pursuant to our shelf registration statement. The proceeds from the sale of the 2024 Notes, net of fees, were \$221 million and, together with cash on hand, were used to repurchase \$250 million of the company's outstanding 10.625 percent notes due 2018. The 2024 Notes constitute senior unsecured obligations of the company and rank equally in right of payment with its existing and future senior unsecured indebtedness, and effectively junior to existing and future secured indebtedness to the extent of the security therefor. They are guaranteed on a senior unsecured basis by each of the company's subsidiaries from time to time guaranteeing the senior secured credit facility. Prior to February 15, 2017, the company may redeem up to 35 percent of the aggregate principal amount of the 2024 Notes issued on the initial issue date with the net cash proceeds of certain public sales of common stock at a redemption price equal to 106.25 percent of the principal amount of the 2024 Notes to be redeemed, plus accrued and unpaid interest, if any, on the 2024 Notes to be redeemed so long as at least 65 percent of the aggregate principal amount of 2024 Notes originally issued remains outstanding after each such redemption and notice of any such redemption is mailed within 90 days of any such sale of common stock. Prior to February 15, 2019, the company may redeem up to 100 percent of the aggregate principal amount of the 2024 Notes issued on the initial issue date at a redemption price equal to the sum of 100% of principal amount of the 2024 Notes to be redeemed, plus the applicable premium as of the redemption date on the 2024 Notes to be redeemed, plus accrued and unpaid interest, if any. On or after February 15, 2019, 2020, 2021, and 2022 the company has the option to redeem the 2024 Notes, in whole or in part, at the redemption price of 103.125 percent, 102.083 percent, 101.042 percent, and 100.000 percent, respectively.

If a Change of Control (as defined in the indenture under which the 2024 Notes were issued) occurs, unless the company has exercised its right to redeem the securities, each holder of the 2024 Notes may require the company to repurchase some or all of such holder's securities at a purchase price equal to 101 percent of the principal amount, plus accrued and unpaid interest.

Issuance of 2021 Notes - On May 31, 2013, we completed a public offering of debt securities consisting of the issuance of \$275 million 8-year, 6.75 percent notes due June 15, 2021 (the "2021 Notes"). The 2021 Notes were offered and sold pursuant to our shelf registration statement. The proceeds from the sale of the notes, net of fees, were \$269 million and were primarily used to repurchase \$167 million of the company's outstanding \$250 million 8.125 percent notes due 2015. The 2021 Notes constitute senior unsecured obligations of the company and rank equally in right of payment with its existing and future senior unsecured indebtedness, and effectively junior to existing and future secured indebtedness to the extent of the security therefor. They are guaranteed on a senior unsecured basis by each of the company's subsidiaries from time to time guaranteeing the senior secured credit facility. Prior to June 15, 2016, the company may redeem up to 35 percent of the aggregate principal amount of the 2021 Notes issued on the initial issue date with the net cash proceeds of certain public sales of common stock at a redemption price equal to 106.75 percent of the principal amount of the 2021 Notes to be redeemed, plus accrued and unpaid interest, if any, on the 2021 Notes to be redeemed. On or after June 15, 2016, 2017, 2018, and 2019 the company has the option to redeem the 2021 Notes, in whole or in part, at the redemption price of 105.063 percent, 103.375 percent, 101.688 percent, and 100.000 percent, respectively.

If a Change of Control (as defined in the indenture under which the 2021 Notes were issued) occurs, unless the company has exercised its right to redeem the securities, each holder of the 2021 Notes may require the company to repurchase some or all of such holder's securities at a purchase price equal to 101 percent of the principal amount, plus accrued and unpaid interest.

Redemption of 2018 Notes - On March 15, 2014, we exercised a call option on our 10.625 percent notes due March 15, 2018. These notes were redeemed at 105.313 percent of their principal amount. The repurchase of our \$250 million 10.625 percent notes was accounted for as an extinguishment of debt and, accordingly, we recognized a net loss on debt extinguishment of \$19 million, which consisted of \$6 million of unamortized discount and deferred issuance costs, and \$13 million of premium. The net loss on debt extinguishment is included in interest expense, net in the consolidated statement of operations.

Repurchase of 2015 Notes - On June 5, 2013, we completed the cash tender offer for our 8.125 percent notes due September 15, 2015. These notes were repurchased at approximately 114 percent of their principal amount. The repurchase of \$167 million of 8.125 percent notes was accounted for as an extinguishment of debt and, accordingly, we recognized a net loss on debt extinguishment of \$19 million, which is included in interest expense, net in the consolidated statement of operations.

Revolving Credit Facility – On February 13, 2014, we amended and restated our revolving credit facility. Pursuant to the revolving credit agreement as amended, we have a \$499 million revolving credit facility, \$89 million of which matures in April 2017 for banks not electing to extend their commitments under the revolving credit facility existing at December 31, 2013 and the remaining \$410 million of which matures in February 2019. The availability under this facility is dependent upon various factors, including principally performance against certain financial covenants.

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No borrowings were outstanding under the revolving credit facility at June 30, 2014 and September 30, 2013. The amended and extended revolving credit facility includes \$100 million of availability for the issuance of letters of credit. No letters of credit were outstanding on June 30, 2014 and September 30, 2013. At certain times during any given month, we could draw on our revolving credit facility to fund intra-month working capital needs. In such months, we would then typically utilize the cash we receive from our customers throughout the month to repay borrowing under the facility. Accordingly, during any given month, we may draw down on this facility in amounts exceeding the amounts shown as outstanding at fiscal quarter ends.

The availability under the revolving credit facility is subject to certain financial covenants based on (i) the ratio of our priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. We are required to maintain a total priority-debt-to-EBITDA ratio, as defined in the agreement, of 2.25 to 1.00 throughout the term of the agreement. At June 30, 2014, we were in compliance with all covenants under the revolving credit facility with a ratio of approximately 0.39x for the priority debt-to-EBITDA covenant.

Availability under the revolving credit facility is also subject to a collateral test, pursuant to which borrowings on the revolving credit facility cannot exceed 1.0x the collateral test value. The collateral test is performed on a quarterly basis. At June 30, 2014, the revolving credit facility was collateralized by approximately \$651 million of the company's assets, primarily consisting of eligible domestic U.S. accounts receivable, inventory, plant, property and equipment, intellectual property and the company's investment in all or a portion of certain of its wholly-owned subsidiaries.

Borrowings under the revolving credit facility are subject to interest based on quoted LIBOR rates plus a margin, and a commitment fee on undrawn amounts, both of which are based upon our current corporate credit rating for the senior secured facilities. At June 30, 2014, the margin over LIBOR rate was 350 basis points, and the commitment fee was 50 basis points. Overnight revolving credit loans are at the prime rate plus a margin of 250 basis points.

Certain of the company's subsidiaries, as defined in the revolving credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the publicly-held notes outstanding under the company's indentures (see Note 17 to the consolidated financial statements).

Term Loan – On February 13, 2014 we also repaid the outstanding balance on the term loan of \$41 million and recognized a \$2 million loss on the repayment associated with unamortized debt issuance cost.

U.S. Securitization Program – We have a \$100 million U.S. accounts receivables securitization facility. On June 21, 2013 the company entered into a one-year extension of the facility expiration date to June 18, 2016. On October 11, 2013, the company entered into an amendment whereby Market Street Funding, LLC assigned its purchase commitment to PNC Bank, National Association (PNC). This program is provided by PNC, as Administrator and Purchaser, and the other Purchasers and Purchaser Agents from time to time (participating lenders), which are party to the agreement. Under this program, we have the ability to sell an undivided percentage ownership interest in substantially all of our trade receivables (excluding the receivables due from AB Volvo and subsidiaries eligible for sale under the U.S. Factoring Facility) of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation (ARC), a wholly-owned, special purpose subsidiary. ARC funds these purchases with borrowings from participating lenders under a loan agreement. This program also includes a letter of credit facility pursuant to which ARC may request the issuance of letters of credit issued for our U.S. subsidiaries (originators) or their designees, which when issued will constitute a utilization of the facility for the amount of letters of credit issued. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the consolidated balance sheet. At both June 30, 2014 and September 30, 2013, no amounts, including letters of credit, were outstanding under this program. This program contains a financial covenant related to our priority-debt-to-EBITDA ratio, which is 2.00 to 1.00 as of the last day of the fiscal quarter throughout the remaining term of the agreement. In addition, this securitization program contains a cross default to our revolving credit facility. At certain times during any given month, we may sell eligible accounts receivable under this program to fund

intra-month working capital needs. In such months, we would then typically utilize the cash we receive from our customers throughout the month to repay the borrowings under the program. Accordingly, during any given month, we may borrow under this program in amounts exceeding the amounts shown as outstanding at fiscal quarter ends.

Capital Leases – On March 20, 2012, we entered into an arrangement to finance equipment acquisitions at our various U.S. locations. Under this arrangement, we can request financing from GE Capital Commercial, Inc. (GE Capital) for progress payments for equipment under construction, not to exceed \$10 million at any point in time. The financing rate is equal to the 30-day LIBOR plus 475 basis points per annum. Under this arrangement, we can also enter into lease arrangements with GE Capital for completed equipment. The lease term is 60 months and the lease interest rate is equal to the 5-year Swap Rate published by the Federal Reserve Board plus 564 basis points. As of June 30, 2014 and September 30, 2013, we had \$14 million and \$15 million, respectively, outstanding under this capital lease arrangement. In addition, we had another \$14 million and \$13 million, respectively, outstanding through other capital lease arrangements at June 30, 2014 and September 30, 2013.

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Export financing arrangements - We entered into a number of export financing arrangements through our Brazilian subsidiary during fiscal years 2013 and 2014. The export financing arrangements are issued under an incentive program of the Brazilian government to fund working capital for Brazilian companies in exportation programs. The arrangements bear interest at 5.5 percent and have maturity dates in 2016 and 2017. There were \$32 million and \$18 million outstanding under these arrangements at June 30, 2014 and September 30, 2013, respectively.

Other – One of our consolidated joint ventures in China participates in a bills of exchange program to settle its obligations with its trade suppliers. These programs are common in China and generally require the participation of local banks. Under these programs, our joint venture issues notes payable through the participating banks to its trade suppliers. If the issued notes payable remain unpaid on their respective due dates, this could constitute an event of default under the company's revolving credit facility if the defaulted amount were to exceed \$35 million per bank. As of June 30, 2014 and September 30, 2013, we had \$38 million and \$21 million, respectively, outstanding under this program at more than one bank. As of June 30, 2014 and September 30, 2013, amounts outstanding did not exceed \$35 million per bank.

Credit Ratings – At June 30, 2014, Standard & Poor's corporate credit rating, senior secured credit rating, and senior unsecured credit rating for our company are B, BB- and B-, respectively. Moody's Investors Service corporate credit rating, senior secured credit rating, and senior unsecured credit rating for our company are B2, Ba2 and B3, respectively. Any lowering of our credit ratings could increase our cost of future borrowings and could reduce our access to capital markets and result in lower trading prices for our securities.

Off-Balance Sheet Arrangements

Accounts Receivable Factoring Arrangements – We participate in accounts receivable factoring programs with total amounts utilized at June 30, 2014, of approximately \$273 million, of which \$223 million was attributable to committed factoring facilities involving the sale of AB Volvo accounts receivables. The remaining amount of \$50 million was related to factoring by certain of our European subsidiaries under uncommitted factoring facilities with financial institutions. The receivables under these programs are sold at face value and are excluded from the consolidated balance sheet. Total facility size, unused amounts and expiration dates for each of these programs are shown in the table above under "Overview."

The Swedish and U.S. factoring facilities are backed by 364-day liquidity commitments from Nordea Bank which were renewed through May 2015. Commitments under all of our factoring facilities are subject to standard terms and conditions for these types of arrangements (including, in case of the U.K. and Italy agreements, a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the respective programs).

Letter of Credit Facilities – On February 21, 2014 we amended and restated our credit facility with Citicorp USA, Inc., as administrative agent and issuing bank, and the other lenders party thereto. Under the terms of this amended credit agreement, we have the right to obtain the issuance, renewal, extension and increase of letters of credit up to an aggregate availability of \$30 million through December 19, 2015. From December 20, 2015 through March 19, 2019 the aggregate availability is \$25 million. This facility contains covenants and events of default generally similar to those existing in our public debt indentures. At June 30, 2014 and September 30, 2013, we had \$26 million and \$27 million, respectively, of letters of credit outstanding under this facility. In addition, we had another \$9 million of letters of credit outstanding through other letter of credit facilities at each of June 30, 2014 and September 30, 2013.

Contingencies

Contingencies related to environmental, asbestos and other matters are discussed in Note 20 of the Notes to Condensed Consolidated Financial Statements.

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New Accounting Pronouncements

Accounting standards implemented during fiscal year 2014

In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU 2013-01 clarifies which instruments and transactions are subject to the offsetting disclosure requirements established by ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. We adopted this guidance at the beginning of our first quarter of fiscal year 2014 within Note 18.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires that reclassification adjustments for items that are reclassified from accumulated other comprehensive income to net income be presented on the financial statements or in a note to the financial statements. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. We adopted this guidance at the beginning of our first quarter of fiscal year 2014 within Note 21.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 eliminates the option of presenting unrecognized tax benefits as a liability or as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward. An unrecognized tax benefit, or portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 with early adoption permitted. We adopted this guidance at the beginning of our first quarter of fiscal year 2014. The adoption of ASU 2013-11 did not effect our consolidated statement of financial position, results of operations, or cash flows.

Accounting standards to be implemented

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. A strategic shift could include a disposal of: (1) a major geographical area of operations; (2) a major line of business; and (3) a major equity method investment. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. We plan to implement this standard in the first quarter of our fiscal year beginning October 1, 2015 and are currently evaluating the potential impact of this new guidance on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 merges revenue recognition standards of the FASB and IASB. The FASB and IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would: (1) remove inconsistencies and weaknesses in revenue requirements; (2) provide a more robust framework for addressing revenue issues; (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) provide more useful information to users of financial statements through improved disclosure requirements; and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2016, and interim periods within those annual periods. We plan to implement this standard in the first quarter of our fiscal year beginning October 1, 2017 and are currently evaluating the potential impact of this new guidance on our consolidated financial statements.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain global market risks, including foreign currency exchange risk and interest rate risk associated with our debt.

As a result of our substantial international operations, we are exposed to foreign currency risks that arise from our normal business operations, including in connection with our transactions that are denominated in foreign currencies. In addition, we translate sales and financial results denominated in foreign currencies into U.S. dollars for purposes of our consolidated financial statements. As a result, appreciation of the U.S. dollar against these foreign currencies generally will have a negative impact on our reported revenues and operating income while depreciation of the U.S. dollar against these foreign currencies will generally have a positive effect on reported revenues and operating income. For the third quarter of fiscal year 2014, our reported financial results were adversely affected by the appreciation of the U.S. dollar against the change in foreign currencies relative to the prior year.

We use foreign currency forward contracts to minimize the earnings exposures arising from foreign currency exchange risk on foreign currency purchases and sales. Gains and losses on the underlying foreign currency exposures are partially offset with gains and losses on the foreign currency forward contracts. Under this cash flow hedging program, we designate the foreign currency contracts (the contracts) as cash flow hedges of underlying foreign currency forecasted purchases and sales. The effective portion of changes in the fair value of the contracts is recorded in Accumulated Other Comprehensive Loss (AOCL) in the statement of shareholders' equity and is recognized in operating income when the underlying forecasted transaction impacts earnings. The contracts generally mature within 12 months.

Due to increasing foreign currency exchange risk associated with purchasing economics limited to the Indian Rupee, we entered into foreign currency option contracts on expected future purchases tied to the Indian Rupee. The contracts were entered into during April 2014 with effective dates beginning at the start of fiscal year 2015 through the end of fiscal year 2016. Changes in fair value associated with these contracts will be recorded in cost of sales.

We generally have not hedged against our foreign currency exposure related to translations to U.S. dollars of our financial results denominated in foreign currencies. However, in the fourth quarter of fiscal years 2011 and 2010, due to the volatility of the Brazilian Real as compared to the U.S. dollar, we entered into foreign currency option contracts to reduce volatility in the translation of Brazilian real earnings to U.S. dollars. Gains and losses on these option contracts were recorded in other income (expense), net, in the consolidated statement of operations, generally reducing the exposure to translation volatility during a full-year period. There were no option contracts outstanding at June 30, 2014.

Interest rate risk relates to the gain/increase or loss/decrease we could incur in our debt balances and interest expense associated with changes in interest rates. To manage this risk, we enter into interest rate swaps from time to time to economically convert portions of our fixed-rate debt into floating rate exposure, ensuring that the sensitivity of the economic value of debt falls within our corporate risk tolerances. It is our policy not to enter into derivative instruments for speculative purposes, and therefore, we hold no derivative instruments for trading purposes. In the fourth quarter of fiscal year 2012, we entered into a four-year interest rate swap arrangement whereby we converted the variable interest rate on our term-loan expressed as LIBOR-rate into a variable interest rate based on U.S. federal funds rate. In February 2014, we repaid the outstanding balance on the term loan and then subsequently terminated the interest rate swap arrangement.

Included below is a sensitivity analysis to measure the potential gain (loss) in the fair value of financial instruments with exposure to market risk. The model assumes a 10 percent hypothetical change (increase or decrease) in exchange rates and instantaneous, parallel shifts of 50 basis points in interest rates.

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Market Risk

	Assuming a 10% Increase in Rates	Assuming a 10% Decrease in Rates	Increase (Decrease) in
Foreign Currency Sensitivity:			
Forward contracts in USD	\$ (0.5)	\$ 0.5	Fair Value
Forward contracts in Euro	(0.9)	0.9	Fair Value
Foreign currency denominated debt ⁽¹⁾	4.4	(4.4)	Fair Value
Foreign currency option contracts in USD	(0.7)	3.1	Fair Value
Foreign currency option contracts in Euro	(0.6)	2.2	Fair Value
	Assuming a 50 BPS Increase in Rates	Assuming a 50 BPS Decrease in Rates	Increase (Decrease) in
Interest Rate Sensitivity:			
Debt - fixed rate ⁽²⁾	\$ (46.8)	\$ 49.2	Fair Value
Debt – variable rate	—	—	Cash flow
Interest rate swaps	—	—	Fair Value

Includes only the risk related to the derivative instruments and does not include the risk related to the underlying (1) exposure. The analysis assumes overall derivative instruments and debt levels remain unchanged for each hypothetical scenario.

At June 30, 2014, a 10% decrease in quoted currency exchange rates would result in a potential loss of approximately \$4 million in foreign currency denominated debt.

(2) At June 30, 2014, the fair value of outstanding debt was approximately \$1,356 million. A 50 basis points decrease in quoted interest rates would result in an increase in the fair value of fixed rate debt by approximately \$49 million.

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Item 4. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the “Exchange Act”), management, with the participation of the chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of June 30, 2014, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and to ensure that information required to be disclosed by us in the reports we file or submit is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the company’s internal control over financial reporting that occurred during the quarter ended June 30, 2014 that materially affected, or are reasonably likely to materially affect, the company’s internal control over financial reporting.

In connection with the rule, the company continues to review and document its disclosure controls and procedures, including the company’s internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and ensuring that the company’s systems evolve with the business.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Except as set forth below and as set forth in this Quarterly Report under Note 20 “Contingencies,” there have been no material developments in legal proceedings involving the company or its subsidiaries since those reported in the company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

On October 5, 2006, Meritor Transmission LLC and ZF Meritor LLC, a joint venture between a Meritor, Inc. subsidiary and ZF Friedrichshafen AG, filed a lawsuit against Eaton Corporation in the United States District Court for the District of Delaware, alleging that Eaton had engaged in exclusionary, anticompetitive conduct in the markets for heavy-duty truck transmissions, in violation of the U.S. antitrust laws, and seeking an injunction prohibiting Eaton from engaging in such anticompetitive conduct and monetary damages. On October 8, 2009, the jury found that Eaton engaged in conduct that violated the Sherman and Clayton antitrust acts in the sale and marketing of heavy-duty truck transmissions. The jury did not address the amount of damages. The district court denied Eaton’s motion to overturn the jury verdict on March 10, 2011, awarded ZF Meritor zero dollars in damages on August 4, 2011, and issued a limited injunction, stayed pending appeal, against Eaton on August 19, 2011. The jury verdict, the district court’s October 20, 2009 entry of judgment on the verdict, and other district court orders became the subject of consolidated appeals before the Third Circuit Court of Appeals. On June 26, 2012, the Third Circuit heard oral argument on the appeals. On September 28, 2012, the Third Circuit issued an opinion affirming that sufficient evidence supported the jury’s finding that Eaton had engaged in anticompetitive conduct that injured Meritor Transmission and ZF Meritor. Further, the Circuit Court reversed the district court’s order denying Meritor Transmission and ZF Meritor the opportunity to present certain evidence concerning damages and remanded the case to the district court for further proceedings on damages. On October 26, 2012, the Third Circuit denied an Eaton petition for rehearing on the appeals. On February 25, 2013, Eaton petitioned the United States Supreme Court for a writ of certiorari seeking review of the Third Circuit’s judgment. The Supreme Court denied Eaton’s petition on April 29, 2013. After remand to the district court, the parties filed additional pretrial motions. The Court denied Eaton’s renewed motion to exclude ZF Meritor and Meritor Transmission’s damages expert and set a trial date for the damages phase of trial for June 23, 2014 in Wilmington, Delaware. On April 22, 2014, Eaton filed a motion for partial summary judgment regarding Plaintiffs’ damages calculations. The Court denied that motion on June 5, 2014. On June 20, 2014, Meritor Transmission and Meritor ZF reached a settlement with Eaton, whereby Eaton agreed to pay \$500 million to ZF Meritor in exchange for dismissal of the lawsuit. On July 16, 2014, Meritor received its share of the proceeds, in the amount of \$210 million, which included reimbursement of \$20 million of legal expenses incurred by Meritor in pursuing the legal proceedings.

On July 10, 2014, Sistemas Automotrices de Mexico, S.A. de C.V. (“Sisamex”) filed a complaint against Meritor Heavy Vehicle Systems, LLC (“Meritor”) in the Northern District of Illinois (“Sisamex Action”) (14 Civ. 5289), seeking, among other relief, a declaration of Sisamex’s exclusive right to manufacture certain products and the components thereof for sale in Mexico. Sisamex is a Mexican joint venture company the shareholders of which are Meritor and Quimmco, S.A. de C.V. (“Quimmco”). The Sisamex Action was assigned to Judge Rebecca R. Pallmeyer. On July 13, 2014, Meritor filed a complaint against Sisamex and Quimmco in the Northern District of Illinois (“Meritor Action”) (14 Civ. 5319), seeking, among other relief, a declaration that Sisamex may not manufacture without Meritor’s consent the components at issue in the Sisamex Action and that Sisamex must instead purchase those components from Meritor. The Meritor Action was assigned to Judge Charles P. Kocoras. On July 17, 2014, Sisamex filed an amended complaint to correct a typographical error in its original complaint. On July 23, 2014, the parties to the Sisamex Action and Meritor Action filed a joint motion before Judge Pallmeyer seeking an order that the two Actions are related and that therefore the second-filed action (the Meritor Action) be reassigned from Judge Kocoras to Judge Pallmeyer.

Item 1A. Risk Factors

There have been no material changes in risk factors involving the company or its subsidiaries from those previously disclosed in the company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2014.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer repurchases

The independent trustee of our 401(k) plans purchases shares in the open market to fund investments by employees in our common stock, one of the investment options available under such plans, and any matching contributions in company stock we provide under certain of such plans. In addition, our stock incentive plans permit payment of an option exercise price by means of cashless exercise through a broker and permit the satisfaction of the minimum statutory tax obligations upon exercise of options and the vesting of restricted stock units through stock withholding. However, the company does not believe such purchases or transactions are issuer repurchases for the purposes of this Item 2 of Part II of this Report on Form 10-Q. In addition, our stock incentive plans also permit the satisfaction of tax obligations upon the vesting of restricted stock through stock withholding. There were no shares withheld in the third quarter of fiscal 2014.

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Item 5. Other Information

Cautionary Statement

This Quarterly Report on Form 10-Q contains statements relating to future results of the company (including certain projections and business trends) that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as “believe,” “expect,” “anticipate,” “estimate,” “should,” “are likely to be,” “will” and similar expressions. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to reduced production for certain military programs and our ability to secure new military programs as our primary military programs wind down by design through 2015; reliance on major original equipment manufacturer (“OEM”) customers and possible negative outcomes from contract negotiations with our major customers, including failure to negotiate acceptable terms in contract renewal negotiations and our ability to obtain new customers; the outcome of actual and potential product liability, warranty and recall claims; our ability to successfully manage rapidly changing volumes in the commercial truck markets and work with our customers to adjust their demands in view of rapid changes in production levels; global economic and market cycles and conditions; availability and sharply rising costs of raw materials, including steel, and our ability to manage or recover such costs; our ability to manage possible adverse effects on our European operations, or financing arrangements related thereto, in the event one or more countries exit the European monetary union; risks inherent in operating abroad (including foreign currency exchange rates, implications of foreign regulations relating to pensions and potential disruption of production and supply due to terrorist attacks or acts of aggression); rising costs of pension and other postretirement benefits; the ability to achieve the expected benefits of restructuring actions; the demand for commercial and specialty vehicles for which we supply products; whether our liquidity will be affected by declining vehicle productions in the future; OEM program delays; demand for and market acceptance of new and existing products; successful development of new products; labor relations of our company, our suppliers and customers, including potential disruptions in supply of parts to our facilities or demand for our products due to work stoppages; the financial condition of our suppliers and customers, including potential bankruptcies; possible adverse effects of any future suspension of normal trade credit terms by our suppliers; potential difficulties competing with companies that have avoided their existing contracts in bankruptcy and reorganization proceedings; potential impairment of long-lived assets, including goodwill; potential adjustment of the value of deferred tax assets; competitive product and pricing pressures; the amount of our debt; our ability to continue to comply with covenants in our financing agreements; our ability to access capital markets; credit ratings of our debt; the outcome of existing and any future legal proceedings, including any litigation with respect to environmental or asbestos-related matters; and possible changes in accounting rules; as well as other substantial costs, risks and uncertainties, including but not limited to those detailed herein and from time to time in other filings of the company with the SEC. See also the following portions of our Annual Report on Form 10-K for the year ended September 30, 2013: Item 1. Business, “Customers; Sales and Marketing”; “Competition”; “Raw Materials and Supplies”; “Employees”; “Environmental Matters”; “International Operations”; and “Seasonality; Cyclicity”; Item 1A. Risk Factors; Item 3. Legal Proceedings; and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. These forward-looking statements are made only as of the date hereof, and the company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law.

Renewal of Swedish Factoring Facility. On June 27, 2014, the Receivables Purchase Agreement dated as of June 28, 2011 (the “Swedish Factoring Facility”) between a subsidiary of the company, Meritor HVS AB, and an affiliate of Nordea Bank AB known as Viking Asset Purchaser No 7 IC, an incorporated cell of Viking Global Finance ICC, an incorporated cell of a company incorporated under the laws of Jersey, as purchaser (“Viking”), and Citicorp Trustee Company Limited, as programme trustee (“Citicorp”), was renewed for an additional one-year term ending June 28, 2015. Except as so amended, the Swedish Factoring Facility continues to be as described in the company’s Current Reports on Form 8-K previously filed with the SEC.

Renewal of US Factoring Facility. On June 27, 2014, the Renewables Purchase Agreement dated as of October 29, 2010 (the “US Factoring Facility”) between Meritor Aftermarket USA, LLC, Meritor Heavy Vehicle Braking Systems

(U.S.A.), LLC and Meritor Heavy Vehicle Systems, LLC, subsidiaries of the Company, and Viking and Citicorp, was extended for an additional one-year term ending October 29, 2015. Except as so amended, the US Factoring Facility continues to be as described in the company's Current Reports on Form 8-K previously filed with the SEC.

MERITOR, INC.

Item 6. Exhibits

- 3-a Restated Articles of Incorporation of Meritor, filed as Exhibit 4.01 to Meritor's Registration Statement on Form S-4, as amended (Registration Statement No. 333-36448) ("Form S-4"), is incorporated by reference.
- 3-a-1 Articles of Amendment of Restated Articles of Incorporation of Meritor filed as exhibit 3-a-1 to Meritor's Quarterly Report on Form 10-Q for the quarterly period ended April 3, 2011, is incorporated by reference.
- 3-b By-laws of Meritor, filed as Exhibit 3 to Meritor's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2003 (File No. 1-15983), is incorporated by reference.
- 10-a Extension Letter dated June 27, 2014 relating to Receivables Purchase Agreement dated as of June 28, 2011 among Meritor HVS AB as sellers, Viking Asset Purchaser No 7 IC and Citicorp Trustee Company Limited.**
- 10-b Amendment No. 2 dated September 28, 2011 to the Receivables Purchase Agreement dated as of October 29, 2010, as amended, between Meritor Aftermarket USA, LLC, Meritor Heavy Vehicle Braking Systems (U.S.A.), LLC, Meritor Heavy Vehicle Systems, LLC, as sellers, Viking Asset Purchaser No 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee.**
- 10-b-1 Amendment No. 5 dated June 27, 2014 to the Receivables Purchase Agreement dated as of October 29, 2010, as amended, between Meritor Aftermarket USA, LLC, Meritor Heavy Vehicle Braking Systems (U.S.A.), LLC, Meritor Heavy Vehicle Systems, LLC, as sellers, Viking Asset Purchaser No 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee.**
- 12 Computation of ratio of earnings to fixed charges**
- 23 Consent of Bates White LLC**
- 31-a Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act**
- 31-b Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act**
- 32-a Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350**
- 32-b Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350**
- 101.INS XBRL INSTANCE DOCUMENT
- 101.SCH XBRL TAXONOMY EXTENSION SCHEMA
- 101.PRE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE
- 101.LAB XBRL TAXONOMY EXTENSION LABEL LINKBASE
- 101.CAL XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
- 101.DEF XBRL TAXONOMY EXTENSION DEFINITION LINKBASE

** Filed herewith.

MERITOR, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERITOR, INC.

Date: August 1, 2014

By: /s/ Sandra J. Quick
Sandra J. Quick
Senior Vice President, General Counsel, and
Secretary
(For the registrant)

Date: August 1, 2014

By: /s/ Kevin A. Nowlan
Kevin A. Nowlan
Senior Vice President and Chief Financial Officer