

MERITOR INC
Form 10-Q
April 30, 2015
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 March 29, 2015
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	<input checked="" type="checkbox"/>	Accelerated filer
Non-accelerated filer		Smaller reporting company

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

Yes No

97,637,773 shares of Common Stock, \$1.00 par value, of Meritor, Inc. were outstanding on March 29, 2015.

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MERITOR, INC.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
	(Unaudited)			
Sales	\$864	\$954	\$1,743	\$1,854
Cost of sales	(749)	(836)	(1,513)	(1,631)
GROSS MARGIN	115	118	230	223
Selling, general and administrative	(57)	(66)	(122)	(125)
Restructuring costs	(3)	(2)	(6)	(3)
Other operating income (expense), net	—	—	1	(1)
OPERATING INCOME	55	50	103	94
Other income, net	2	—	4	—
Equity in earnings of affiliates	9	9	18	17
Interest expense, net	(21)	(48)	(40)	(75)
INCOME BEFORE INCOME TAXES	45	11	85	36
Provision for income taxes	(6)	(8)	(13)	(19)
INCOME FROM CONTINUING OPERATIONS	39	3	72	17
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	4	—	1	(1)
NET INCOME	43	3	73	16
Less: Net income attributable to noncontrolling interests	—	(2)	(1)	(4)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$43	\$1	\$72	\$12
NET INCOME ATTRIBUTABLE TO MERITOR, INC.				
Net income from continuing operations	\$39	\$1	\$71	\$13
Income (loss) from discontinued operations	4	—	1	(1)
Net income	\$43	\$1	\$72	\$12
BASIC EARNINGS (LOSS) PER SHARE				
Continuing operations	\$0.40	\$0.01	\$0.73	\$0.13
Discontinued operations	0.04	—	0.01	(0.01)
Basic earnings per share	\$0.44	\$0.01	\$0.74	\$0.12
DILUTED EARNINGS (LOSS) PER SHARE				
Continuing operations	\$0.38	\$0.01	\$0.70	\$0.13
Discontinued operations	0.04	—	0.01	(0.01)
Diluted earnings per share	\$0.42	\$0.01	\$0.71	\$0.12
Basic average common shares outstanding	97.9	97.6	97.9	97.5
Diluted average common shares outstanding	102.9	99.6	102.0	99.2

See notes to condensed consolidated financial statements.

Amounts for prior periods have been recast for discontinued operations.

MERITOR, INC.

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

	Three Months Ended March 31, 2015		Six Months Ended March 31, 2015		2014	
Net income	\$43	\$3	\$73	\$16		
Other comprehensive income (loss):						
Foreign currency translation adjustments:						
Attributable to Meritor, Inc.	(33	) 10	(67) —		
Attributable to noncontrolling interest	—	—	(1) —		
Other reclassification adjustment	—	—	1	—		
Pension and other postretirement benefit related adjustments	11	10	23	20		
Unrealized gain (loss) on investments and foreign exchange contracts	—	2	(1	) 2		
Other comprehensive income (loss), net of tax	(22	) 22	(45	) 22		
Total comprehensive income	21	25	28	38		
Less: Comprehensive income attributable to noncontrolling interest	—	(2	) —	(4)	
Comprehensive income attributable to Meritor, Inc.	\$21	\$23	\$28	\$34		

See notes to condensed consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

	March 31, 2015 (Unaudited)	September 30, 2014	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$207	\$247	
Receivables, trade and other, net	545	610	
Inventories	365	379	
Other current assets	55	56	
TOTAL CURRENT ASSETS	1,172	1,292	
NET PROPERTY	387	424	
GOODWILL	414	431	
OTHER ASSETS	344	355	
TOTAL ASSETS	\$2,317	\$2,502	
LIABILITIES AND EQUITY (DEFICIT)			
CURRENT LIABILITIES:			
Short-term debt	\$5	\$7	
Accounts and notes payable	618	680	
Other current liabilities	281	351	
TOTAL CURRENT LIABILITIES	904	1,038	
LONG-TERM DEBT	945	965	
RETIREMENT BENEFITS	737	775	
OTHER LIABILITIES	301	309	
TOTAL LIABILITIES	2,887	3,087	
COMMITMENTS AND CONTINGENCIES (See Note 19)			
EQUITY (DEFICIT):			
Common stock (March 31, 2015 and September 30, 2014, 97.6 and 97.8 shares issued and outstanding, respectively)	99	97	
Additional paid-in capital	920	918	
Accumulated deficit	(806)	(878))
Treasury stock, at cost (March 31, 2015 and September 30, 2014, 1.2 and 0.0 shares, respectively)	(16)	—)
Accumulated other comprehensive loss	(793)	(749))
Total deficit attributable to Meritor, Inc.	(596)	(612))
Noncontrolling interests	26	27	
TOTAL DEFICIT	(570)	(585))
TOTAL LIABILITIES AND DEFICIT	\$2,317	\$2,502	

See notes to condensed consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)

	Six Months Ended March 31,	
	2015	2014
	(Unaudited)	
OPERATING ACTIVITIES		
CASH PROVIDED BY OPERATING ACTIVITIES (See Note 9)	\$29	\$18
INVESTING ACTIVITIES		
Capital expenditures	(23	) (25
Net investing cash flows provided by discontinued operations	4	3
CASH USED FOR INVESTING ACTIVITIES	(19	) (22
FINANCING ACTIVITIES		
Repayment of notes and term loan	(16	) (308
Proceeds from debt issuance	—	225
Debt issuance costs	—	(9
Repurchase of common stock	(16) —
Other financing activities	(6	) 13
CASH USED FOR FINANCING ACTIVITIES	(38	) (79
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(12	) (2
CHANGE IN CASH AND CASH EQUIVALENTS	(40	) (85
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	247	318
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$207	\$233

See notes to condensed consolidated financial statements.

Amounts for prior periods have been recast for discontinued operations.

MERITOR, INC.

CONDENSED CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)

(In millions)

(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total Deficit Attributable to Meritor, Inc.	Noncontrolling Interests	Total
Beginning balance at September 30, 2014	\$97	\$918	\$ (878)	\$—	\$ (749)	\$ (612)	\$ 27	\$ (585)
Comprehensive income (loss)	—	—	72	—	(44)	28	—	28
Equity based compensation expense	—	5	—	—	—	5	—	5
Vesting of restricted stock	2	(2)	—	—	—	—	—	—
Repurchase of convertible notes	—	(2)	—	—	—	(2)	—	(2)
Repurchase of common stock	—	—	—	(16)	—	(16)	—	(16)
Noncontrolling interest dividend	—	—	—	—	—	—	(1)	(1)
Other equity adjustments	—	1	—	—	—	1	—	1
Ending Balance at March 31, 2015	\$99	\$920	\$ (806)	\$ (16)	\$ (793)	\$ (596)	\$ 26	\$ (570)
Beginning balance at September 30, 2013	\$97	\$914	\$ (1,127)	\$—	\$ (734)	\$ (850)	\$ 28	\$ (822)
Comprehensive income	—	—	12	—	22	34	4	38
Equity based compensation expense	—	3	—	—	—	3	—	3
Noncontrolling interest dividends	—	—	—	—	—	—	(1)	(1)
Ending Balance at March 31, 2014	\$97	\$917	\$ (1,115)	\$—	\$ (712)	\$ (813)	\$ 31	\$ (782)

See notes to condensed consolidated financial statements.

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MERITOR, INC.

NOTES TO CONDENSED 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, military, bus and coach, construction and other industrial OEMs and certain aftermarkets. The condensed consolidated financial statements are those of the company and its consolidated subsidiaries.

Certain businesses are reported in discontinued operations in the condensed consolidated statement of operations, statement of cash flows and related notes for all periods presented. In the fourth quarter of fiscal year 2014, the company exited its Mascot business, a remanufacturer and distributor of all makes differentials, transmissions and steering gears. The results of operations and cash flows of the company’s former Mascot business are presented in discontinued operations in the condensed consolidated statement of operations and condensed consolidated statement of cash flows, and prior period information has been recast to reflect this presentation. 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, 2014, as amended. The quarter end condensed balance sheet data was derived from audited financial statements but does not include all annual disclosures required by accounting principles generally accepted in the United States of America. The results of operations for the three and six months ended March 31, 2015, are not necessarily indicative of the results for the full year.

The company’s fiscal year ends on the Sunday nearest September 30. The second quarter of fiscal years 2015 and 2014 ended on March 29, 2015 and March 30, 2014, 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 March 31 are used consistently throughout this report to represent the fiscal year end and second quarter end, respectively.

2. Earnings per Share

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Basic average common shares outstanding	97.9	97.6	97.9	97.5
Impact of stock options	0.1	—	0.1	—
Impact of restricted shares, restricted share units and performance share units	1.9	2.0	2.0	1.7
Impact of convertible notes	3.0	—	2.0	—
Diluted average common shares outstanding	102.9	99.6	102.0	99.2

On November 8, 2014, the Board of Directors approved a grant of performance 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 or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit is \$13.74, which was the company’s share price on the grant date of December 1, 2014.

The Board of Directors also approved a grant of 0.4 million restricted share units to these executives. The restricted share units vest at the earlier of three years from the date of grant or upon termination of employment with the company under certain circumstances. The fair value of each restricted share unit is \$13.74, which was the company's share price on the grant date of December 1, 2014.

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MERITOR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The actual number of performance share units that will vest depends upon the company's performance relative to the established performance metrics for the three-year performance period of October 1, 2014 to September 30, 2017, measured at the end of the performance period. The number of performance share units will depend on Adjusted EBITDA margin and Adjusted diluted earnings per share from continuing operations at the following weights: 75% associated with achieving an Adjusted EBITDA margin target and 25% associated with achieving an Adjusted diluted earnings per share from continuing operations target. The number of performance share units that vest will be between 0% and 200% of the grant date amount of 0.6 million shares.

On November 7, 2013, the Board of Directors approved a grant of performance 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 or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit is \$7.97, which was the company's share price on the grant date of December 1, 2013. The actual number of performance share units that will vest depends 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 performance share units will depend on meeting the established M2016 goals at the following weights: 50% associated with achieving an Adjusted EBITDA margin target, 25% associated with achieving a net debt including retirement benefit liabilities target, and 25% associated with achieving an incremental booked revenue target. The number of performance share units that vest will be between 0% and 200% of the grant date amount of 1.8 million units including incremental share units that were issued subsequent to the December 1, 2013 grant date. There were 1.0 million and 0.8 million shares related to these performance share units included in the diluted earnings per share calculation for the three and six months ended March 31, 2015, respectively, as certain payout thresholds were achieved in the second quarter of fiscal year 2015 relative to the Adjusted EBITDA, net debt reduction and incremental booked revenue targets. There were 0.6 million and 0.3 million shares related to these performance share units included in the diluted earnings per share calculation for the three and six months ended March 31, 2014, respectively, as certain payout thresholds were achieved in the second quarter of fiscal year 2014. For the three months ended March 31, 2015, the dilutive impact of previously issued restricted shares, restricted share units, and performance share units was 1.9 million, compared to 2.0 million units for the same period in the prior fiscal year. For the six months ended March 31, 2015, the dilutive impact of previously issued restricted shares, restricted share units, and performance share units was 2.0 million shares, compared to 1.7 million shares for the same period in the prior fiscal year. For the three and six months ended March 31, 2015, compensation cost related to restricted shares, restricted share units, and performance share units were \$3 million and \$5 million, respectively, compared to \$1 million for both the three and six months ended March 31, 2014.

For the three and six months ended March 31, 2014, options to purchase 0.8 million shares of common stock were excluded in 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 the three and six months ended March 31, 2015, 3.0 million and 2.0 million shares, respectively, were included in the computation of diluted earnings per share because the average stock price exceeded the conversion price for the 7.875 percent convertible notes due 2026. For the three and six months ended March 31, 2014, the company's convertible senior unsecured notes were excluded from the computation of diluted earnings per share, as the company's average stock price, during these periods was less than the conversion price.

3. New Accounting Standards

Accounting standards to be implemented

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The potential impact of this new guidance on its consolidated financial statements is dependent upon future business divestitures. Previous divestitures and amounts currently in discontinued operations will not be impacted.

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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 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.

In June 2014, the FASB issued ASU 2014-12, Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. That is the case when an employee is eligible to retire or otherwise terminate employment before the end of the period in which a performance target (for example, an initial public offering or a profitability target) could be achieved and still be eligible to vest in the award if and when the performance target is achieved. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2015 and interim periods within those annual periods. The company plans to implement this standard in the first quarter of the fiscal year beginning on October 1, 2016 and is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, ASU 2014-15 (1) provides a definition of the term substantial doubt, (2) requires an evaluation every reporting period including interim periods, (3) provides principles for considering the mitigating effect of management's plans, (4) requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) requires an express statement and other disclosures when substantial doubt is not alleviated, and (6) requires an assessment for a period of one year after the date that the financial statements are issued (or are available to be issued). The standard is required to be adopted by public business entities in annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The company plans to implement this standard in the fiscal year beginning October 1, 2016 and currently expects this new guidance to have no impact on the company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 changes the presentation of debt issuance costs in the balance sheet by requiring the debt issuance costs to be presented as a direct deduction from the related debt liability, rather than recorded as an asset. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2015, and interim periods within those annual periods and will need to be applied retrospectively. Early adoption is permitted. The company is currently evaluating the timing of implementation of this standard, with the latest implementation date in the first quarter of the fiscal year beginning October 1, 2016. Debt issuance costs as of March 31, 2015 and September 30, 2014, were \$27 million and \$30 million, respectively.

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MERITOR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

4. Discontinued Operations

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

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Sales	\$—	\$8	\$1	\$15
Income (loss) before income taxes	\$3	\$(4	\$—	\$(6
Benefit from income taxes	1	4	1	5
Income (loss) from discontinued operations attributable to Meritor, Inc.	\$4	\$—	\$1	\$(1

Total discontinued operations assets as of March 31, 2015 and September 30, 2014 were \$7 million and \$8 million, respectively, and total discontinued operations liabilities as of March 31, 2015 and September 30, 2014 were \$13 million and \$21 million, respectively.

Income from discontinued operations attributable to the company for the three and six months ended March 31, 2015 were primarily attributable to the settlement of indemnities on certain contingencies of previously divested businesses. Mascot Divestiture

In the fourth quarter of fiscal year 2014, the company disposed of its Mascot business which was part of the company's Aftermarket & Trailer segment. The results of operations and cash flows of the company's Mascot business are presented in discontinued operations in the condensed consolidated statements of operations and condensed consolidated statement of cash flows, and prior period information has been recast to reflect this presentation. Sales for the three and six months ended March 31, 2014, were related to the company's former Mascot business.

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. Given that the company's primary military program is winding down, failure to secure new military contracts could result in a significant decline in the projected cash flows of the Defense reporting unit, which could require the company to impair goodwill. The Defense reporting unit is included within the Commercial Truck & Industrial segment and has \$20 million of goodwill allocated to it.

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 are 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, 2014	\$261	\$170	\$431
Foreign currency translation	(9) (8) (17
Balance at March 31, 2015	\$252	\$162	\$414

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Restructuring Costs

At March 31, 2015 and September 30, 2014, \$12 million and \$11 million, respectively, of restructuring reserves, primarily related to unpaid employee termination benefits, remained in the consolidated balance sheet. The changes in restructuring reserves for the six months ended March 31, 2015 and 2014 are as follows (in millions):

	Employee Termination Benefits	Asset Impairment	Plant Shutdown & Other	Total	
Beginning balance at September 30, 2014	\$11	\$—	\$—	\$11	
Activity during the period:					
Charges to continuing operations	6	—	—	6	
Cash payments – continuing operations	(3) —	—	(3)
Other	(2) —	—	(2)
Total restructuring reserves at March 31, 2015	12	—	—	12	
Less: non-current restructuring reserves	(2) —	—	(2)
Restructuring reserves – current, at March 31, 2015	\$10	\$—	\$—	\$10	
Balance at September 30, 2013	\$12	\$—	\$—	\$12	
Activity during the period:					
Charges to continuing operations	3	—	—	3	
Cash payments – continuing operations	(4) —	—	(4)
Other	(1) —	—	(1)
Total restructuring reserves at March 31, 2014	10	—	—	10	
Less: non-current restructuring reserves	(3) —	—	(3)
Restructuring reserves – current, at March 31, 2014	\$7	\$—	\$—	\$7	

Closure of a Corporate Engineering Facility: In the second quarter of fiscal year 2015, the company notified 33 salaried and contract employees that their positions were being eliminated due to the planned closure of a corporate engineering facility. The company recorded severance expenses of \$1 million associated with this plan. The company expects to incur approximately \$2 million in lease termination and other exit costs in North America associated with this closure. Restructuring actions associated with this program are expected to be completed by the end of fiscal year 2015.

European Labor Reduction: During the second quarter of fiscal year 2015, the company initiated a European headcount reduction plan intended to reduce labor costs in response to continued soft markets in the region. The company plans to eliminate 21 hourly and 23 salaried positions and has recorded \$2 million of expected severance expenses in the Commercial Truck & Industrial segment in the second quarter of fiscal year 2015. The company plans to incur an additional \$1 million in severance costs by the end of the third quarter of fiscal year 2015.

M2016 Actions: The company continues to implement certain footprint actions as part of its M2016 strategy. In the first quarter of fiscal year 2015, the company recorded expected severance charges of \$3 million associated with the elimination of 51 hourly and 19 salaried positions in the Commercial Truck & Industrial segment associated with the consolidation of certain gearing and machining operations in North America.

South America Labor Reduction: During the fourth quarter of fiscal year 2014, the company initiated a South America headcount reduction plan intended to reduce labor costs in response to decreasing production volumes in the region. The company eliminated approximately 190 hourly and 20 salaried positions and incurred \$7 million of restructuring costs in the fourth quarter of fiscal year 2014, primarily severance benefits, in the Commercial Truck & Industrial segment.

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MERITOR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 six months of fiscal year 2015, the company had approximately \$36 million of net pre-tax income compared to a net pre-tax loss of \$34 million in the first six months of fiscal year 2014 in tax jurisdictions in which 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. If, in the future, the company is generating taxable income on a sustained basis in jurisdictions where it has recorded valuation allowances, the company's conclusion regarding the need for valuation allowances in these jurisdictions could change. This would result in a reversal of some or all of the valuation allowances.

8. Accounts Receivable Factoring and 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 terminates on June 28, 2015, the company can sell up to, at any point in time, €150 million (\$163 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the condensed consolidated balance sheet. The company had utilized €117 million (\$128 million) and €99 million (\$127 million) of this accounts receivable factoring facility as of March 31, 2015 and September 30, 2014, respectively.

U.S. Factoring Facility: The company has an arrangement to sell trade receivables from AB Volvo and its subsidiaries. Under this arrangement, which terminates on October 29, 2015, the company can sell up to, at any point in time, €65 million (\$71 million) of eligible trade receivables. In December 2014, the company amended this agreement to allow for the sale of trade receivables to exceed Nordea Bank's commitment at Nordea Bank's discretion. The receivables under this program are sold at face value and are excluded from the condensed consolidated balance sheet. The company had utilized €78 million (\$85 million) and €64 million (\$81 million) of this accounts receivable factoring facility as of March 31, 2015 and September 30, 2014, respectively. As of the end of the second quarter of fiscal year 2015, the company had utilized more than the committed eligible trade receivable amount of \$71 million based on approval from the bank.

The above facilities are backed by 364-day liquidity commitments from Nordea Bank which were renewed through September 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 expires in February 2018, the company can sell up to, at any point in time, €25 million (\$27 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the condensed consolidated balance sheet. The company had utilized €6 million (\$6 million) and €6 million (\$7 million) of this accounts receivable factoring facility as of March 31, 2015 and September 30, 2014, 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.

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 (\$33 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the condensed consolidated balance sheet. The company had utilized €16 million (\$18 million) and €8 million (\$10 million) of this accounts receivable factoring facility as of March 31, 2015 and September 30, 2014, 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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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 condensed consolidated balance sheet. The amount of factored receivables excluded from accounts receivable was \$17 million and \$19 million at March 31, 2015 and September 30, 2014, respectively.

Total costs associated with all of the off-balance sheet arrangements described above were \$1 million and \$2 million in the three months ended March 31, 2015 and 2014, respectively, and \$3 million and \$5 million in the six months ended March 31, 2015 and 2014, respectively, and are included in selling, general and administrative expenses in the condensed consolidated statement of operations.

On-balance sheet arrangements

The company has a \$100 million U.S. accounts receivables securitization facility. On October 15, 2014, the company entered into an amendment which extends the facility expiration date to October 15, 2017 and sets the maximum permitted priority-debt-to-EBITDA ratio as of the last day of each fiscal quarter under the facility at 2.25 to 1.00. This program is provided by PNC Bank, National Association, 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. accounts receivable 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 condensed consolidated balance sheet. At March 31, 2015 and September 30, 2014, no amounts, including letters of credit, were outstanding under this program. This program contains a cross-default to the revolving credit facility. At certain times during any given month, the company may sell eligible accounts receivable under this program to fund intra-month working capital needs. In such months, the company would then typically utilize the cash received from customers throughout the month to repay the borrowings under the program. Accordingly, during any given month, the company may borrow under this program in amounts exceeding the amounts shown as outstanding at fiscal quarter ends.

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9. Operating Cash Flow

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

	Six Months Ended March 31,	
	2015	2014
OPERATING ACTIVITIES		
Net income	\$73	\$16
Less: Income (loss) from discontinued operations, net of tax	1	(1)
Income from continuing operations	72	17
Adjustments to income from continuing operations to arrive at cash provided by operating activities:		
Depreciation and amortization	32	33
Restructuring costs	6	3
Loss on debt extinguishment	1	21
Equity in earnings of affiliates	(18	) (17)
Pension and retiree medical expense	14	20
Other adjustments to income from continuing operations	5	5
Dividends received from equity method investments	10	11
Pension and retiree medical contributions	(24	) (19)
Restructuring payments	(3	) (4)
Changes in off-balance sheet accounts receivable factoring	40	17
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations	(99	) (60)
Operating cash flows provided by continuing operations	36	27
Operating cash flows used for discontinued operations	(7	) (9)
CASH PROVIDED BY OPERATING ACTIVITIES	\$29	\$18

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):

	March 31,	September 30,
	2015	2014
Finished goods	\$142	\$146
Work in process	30	36
Raw materials, parts and supplies	193	197
Total	\$365	\$379

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11. Other Current Assets

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

	March 31, 2015	September 30, 2014
Current deferred income tax assets	\$18	\$21
Asbestos-related recoveries (see Note 19)	14	15
Deposits and collateral	2	4
Prepaid and other	21	16
Other current assets	\$55	\$56

12. Net Property

Net property is summarized as follows (in millions):

	March 31, 2015	September 30, 2014
Property at cost:		
Land and land improvements	\$32	\$34
Buildings	219	236
Machinery and equipment	860	906
Company-owned tooling	137	155
Construction in progress	49	66
Total	1,297	1,397
Less accumulated depreciation	(910)	(973)
Net property	\$387	\$424

13. Other Assets

Other assets are summarized as follows (in millions):

	March 31, 2015	September 30, 2014
Investments in non-consolidated joint ventures	\$101	\$106
Asbestos-related recoveries (see Note 19)	42	45
Unamortized debt issuance costs	27	30
Capitalized software costs, net	26	25
Non-current deferred income tax assets, net	17	15
Assets for uncertain tax positions	5	5
Prepaid pension costs	109	104
Other	17	25
Other assets	\$344	\$355

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 March 31, 2015 and September 30, 2014, the company's investment in the joint venture was \$41 million and \$43 million, respectively. This amount is included in investments in non-consolidated joint ventures in the table above.

14. Other Current Liabilities

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

	March 31, 2015	September 30, 2014
Compensation and benefits	\$111	\$146
Income taxes	9	8
Taxes other than income taxes	44	50
Accrued interest	15	15
Product warranties	23	27
Environmental reserves (see Note 19)	9	12
Restructuring (see Note 6)	10	9
Asbestos-related liabilities (see Note 19)	17	17
Indemnity obligations (see Note 19)	2	11
Other	41	56
Other current liabilities	\$281	\$351

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 relationships 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):

	Six Months Ended March 31,	
	2015	2014
Total product warranties – beginning of period	\$51	\$57
Accruals for product warranties	7	9
Payments	(9	) (12
Change in estimates and other	—	3
Total product warranties – end of period	49	57
Less: Non-current product warranties	(26) (33
Product warranties – current	\$23	\$24

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15. Other Liabilities

Other liabilities are summarized as follows (in millions):

	March 31, 2015	September 30, 2014
Asbestos-related liabilities (see Note 19)	\$105	\$105
Restructuring (see Note 6)	2	2
Non-current deferred income tax liabilities	103	103
Liabilities for uncertain tax positions	12	14
Product warranties (see Note 14)	26	24
Environmental (see Note 19)	7	7
Indemnity obligations (see Note 19)	14	17
Other	32	37
Other liabilities	\$301	\$309

16. Long-Term Debt

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

	March 31, 2015	September 30, 2014
4.625 percent convertible notes due 2026 ⁽¹⁾	55	55
4.0 percent convertible notes due 2027 ⁽¹⁾	147	162
7.875 percent convertible notes due 2026 (net of issuance discount of \$20 and \$21, respectively) ⁽¹⁾	230	229
6.75 percent notes due 2021 ⁽²⁾	275	275
6.25 percent notes due 2024 ⁽²⁾	225	225
Capital lease obligation	22	26
Export financing arrangements	22	31
Unamortized discount on convertible notes	(26	) (31
Subtotal	950	972
Less: current maturities	(5	) (7
Long-term debt	\$945	\$965

⁽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 senior secured 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 principally 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 or less as of the last day of each fiscal quarter throughout the term of the agreement.

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The 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 March 31, 2015, the revolving credit facility was collateralized by approximately \$622 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. At March 31, 2015, the margin over LIBOR rate was 325 basis points and the commitment fee was 50 basis points.

Overnight revolving credit loans are at the prime rate plus a margin of 225 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 22).

No borrowings were outstanding under the revolving credit facility at March 31, 2015 and September 30, 2014. The amended and extended revolving credit facility includes \$100 million of availability for the issuance of letters of credit. At March 31, 2015 and September 30, 2014, there were no letters of credit outstanding under the revolving credit facility.

Debt Securities

In December 2014, the company filed a shelf registration statement with the Securities and Exchange Commission, registering an unlimited amount of debt and/or equity securities that the company may offer in one or more offerings on terms to be determined at the time of sale. The December 2014 shelf registration statement superseded and replaced the shelf registration statement filed in February 2012, as amended.

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 principal amount 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 February 2012 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, together with cash on hand, were primarily used to repurchase the company's previously outstanding \$250 million 10.625 percent notes due 2018. The 2024 Notes 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
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2019	103.125%
2020	102.083%
2021	101.042%
2022 and thereafter	100.000%

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Prior to February 15, 2017, the company 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, provided that 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.

Repurchase of Debt Securities

In February 2015, the company repurchased \$15 million principal amount of the 4.0 percent convertible notes due February 15, 2027. The notes were purchased at a premium equal to 6 percent of their principal amount. The repurchase of the \$15 million principal amount of the company's 4.0 percent convertible notes was accounted for as an extinguishment of debt, and accordingly, the company recognized a net loss on debt extinguishment of \$1 million. The net loss on debt extinguishment is included in interest expense, net in the consolidated statement of operations. The repurchase was made under the company's equity and equity-linked repurchase authorization program.

On March 15, 2014, the company completed the redemption of its 10.625 percent notes due March 15, 2018. The notes were redeemed at a premium equal to 5.313 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 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.

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 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. The company had \$12 million and \$13 million outstanding under this capital lease arrangement as of March 31, 2015 and September 30, 2014, respectively. In addition, the company had another \$10 million and \$13 million outstanding through other capital lease arrangements at March 31, 2015 and September 30, 2014, respectively.

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 the company's public debt indentures. There were \$25 million of letters of credit outstanding under this facility at March 31, 2015 and September 30, 2014. In addition, the company had another \$6 million and \$9 million of letters of credit outstanding through other letter of credit facilities at March 31, 2015 and September 30, 2014, respectively.

Export financing arrangements

The company entered into a number of export financing arrangements through its Brazilian subsidiary during fiscal year 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 \$22 million and \$29 million outstanding under these arrangements at March 31, 2015 and September 30, 2014, respectively. In addition, the company had another \$2 million outstanding under a similar arrangement through its India subsidiary at September 30, 2014, which had no outstanding balance at March 31, 2015.

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Other

One of the company's 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, the company's 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 exceeds \$35 million per bank. As of March 31, 2015 and September 30, 2014, the company had \$20 million and \$32 million, respectively, outstanding under this program at more than one bank.

17. Financial Instruments

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

	March 31, 2015		September 30, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$207	\$207	\$247	\$247
Short-term debt	5	5	7	7
Long-term debt	945	1,131	965	1,143
Foreign exchange forward contracts (asset)	5	5	2	2
Short-term foreign currency option contracts (asset)	2	2	2	2
Long-term foreign currency option contracts (asset)	2	2	1	1

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

	March 31, 2015			September 30, 2014		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Reported	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Reported
Derivative Asset						
Foreign exchange forward contract	6	(1)	5	2	—	2
Derivative Liabilities						
Foreign exchange forward contract	1	(1)	—	—	—	—
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 priority 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.

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Fair value of financial instruments by the valuation hierarchy at March 31, 2015 is as follows (in millions):

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$207	\$—	\$—
Short-term debt	—	—	5
Long-term debt	—	1,093	38
Foreign exchange forward contracts (asset)	—	5	—
Short-term foreign currency option contracts (asset)	—	—	2
Long-term foreign currency option contracts (asset)	—	—	2

The table below provides a reconciliation of changes in fair value of the Level 3 financial assets and liabilities measured at fair value in the condensed consolidated balance sheet from September 30, 2014 to March 31, 2015. No transfers of assets between any of the Levels occurred during this period.

	Short-term foreign currency option contracts (asset)	Long-term foreign currency option contracts (asset)	Total
Fair Value as of September 30, 2014	\$2	\$1	\$3
Total unrealized gains (losses):			
Included in other income	—	—	—
Included in cost of sales	—	—	—
Total realized gains (losses):			
Included in other income	3	—	3
Included in cost of sales	3	—	3
Purchases, issuances, sales and settlements:			
Purchases	5	—	5
Settlements	(10	) (1	) (11
Transfer in and / or out of Level 3 ⁽¹⁾	—	—	—
Reclass between short-term and long-term	(1	) 2	1
Fair Value as of March 31, 2015	\$2	\$2	\$4

⁽¹⁾ Transfers as of the last day of the reporting period

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 March 31, 2015 or September 30, 2014.

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. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of changes in the fair value of the contracts is recorded in Accumulated Other Comprehensive Loss (AOCL) in the statement of shareowners' equity and is recognized in operating income when the underlying forecasted transaction impacts earnings.

Foreign currency option contracts — The company uses option contracts to mitigate foreign currency exposure on expected future Indian Rupee denominated purchases. The contracts were entered into during April 2014 with effective dates from the start of fiscal year 2015 through the end of fiscal year 2016. In February 2015, the company monetized its outstanding foreign currency option contracts and entered into a new series of foreign currency option contracts with effective dates from the start of the third quarter of fiscal year 2015 through the end of fiscal year 2017. In the second quarter of fiscal year 2015, the company recognized

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a net gain of \$3 million associated with the settlement and repurchase of the foreign currency option contracts. The fair value of the 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 utilizing market instruments with similar quality and maturity characteristics. The company did not elect hedge accounting for these derivatives. Changes in fair value associated with these contracts are recorded in cost of sales in the consolidated statement of operations.

The company generally does not hedge against its foreign currency exposure related to translations to U.S. dollars of financial results denominated in foreign currencies. In November 2014, the company entered into a series of foreign currency option contracts with a total notional amount of \$48 million to reduce volatility in the translation of Brazilian Real earnings to U.S. dollars. These foreign currency option contracts do not qualify for a hedge accounting election but are expected to mitigate foreign currency translation exposure of Brazilian Real earnings to U.S. dollars. In the second quarter of fiscal year 2015, the company monetized these outstanding foreign currency option contracts and entered into a new series of foreign currency option contracts with effective dates from the start of the third quarter of fiscal year 2015 through the end of fiscal year 2015. In the second quarter of fiscal year 2015, the company recognized a net gain of \$3 million associated with the settlement and repurchase of these foreign currency option contracts. The fair value of the 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 utilizing market instruments with similar quality and maturity characteristics. Changes in fair value associated with these contracts are recorded in other income (expense), net, in the consolidated statement of operations.

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18. Retirement Benefit Liabilities

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

	March 31, 2015	September 30, 2014
Retiree medical liability	\$468	\$479
Pension liability	297	323
Other	15	16
Subtotal	780	818
Less: current portion (included in compensation and benefits, Note 14)	(43	) (43
Retirement benefits	\$737	\$775

The components of net periodic pension and retiree medical expense included in continuing operations for the three months ended March 31 are as follows (in millions):

	2015		2014	
	Pension	Retiree Medical	Pension	Retiree Medical
Interest cost	18	5	20	7
Assumed return on plan assets	(28	) —	(26) —
Amortization of prior service costs	—	—	—	(2
Recognized actuarial loss	7	5	6	5
Total expense (income)	\$(3	) \$10	\$—	\$10

The components of net periodic pension and retiree medical expense included in continuing operations for the six months ended March 31 are as follows (in millions):

	2015		2014	
	Pension	Retiree Medical	Pension	Retiree Medical
Interest cost	36	10	40	13
Assumed return on plan assets	(56	) —	(52) —
Amortization of prior service costs	—	—	—	(4
Recognized actuarial loss	14	10	12	11
Total expense	\$(6	) \$20	\$—	\$20

19. Contingencies

Environmental

Federal, state and local requirements relating to the discharge of substances into the environment, the disposal of hazardous wastes and other activities affecting the environment have, and will continue to have, an impact on the 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.

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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 March 31, 2015 to be approximately \$17 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 March 31, 2015 to be approximately \$32 million, of which \$14 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 0.50 to 2.50 percent and is approximately \$8 million at March 31, 2015. The undiscounted estimate of these costs is approximately \$9 million.

The 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, 2014	\$2	\$17	\$19
Payments and other	—	(3	) (3
Accruals	—	—	—
Balance at March 31, 2015	\$2	\$14	\$16

Environmental reserves are included in Other Current Liabilities (see Note 14) and Other Liabilities (see Note 15) in the condensed consolidated balance sheet.

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.

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 5,600 and 5,700 pending asbestos-related claims at March 31, 2015 and September 30, 2014, 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, 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, the total number of claims filed is not necessarily the most meaningful factor in determining Maremont's asbestos-related liability.

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

	March 31, 2015	September 30, 2014
Pending and future claims	\$73	\$73
Billed but unpaid claims	2	3
Asbestos-related liabilities	\$75	\$76
Asbestos-related insurance recoveries	\$45	\$49

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, 14 and 15).

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.

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 \$105 million. Management recognized a liability of \$73 million as of March 31, 2015 and September 30, 2014 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. However, 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).

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 2024;

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

- On a per claim basis, 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 Maremont'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 \$45 million and \$49 million as of March 31, 2015 and September 30, 2014, respectively. The receivable is for coverage provided by one insurance carrier based on a coverage in place agreement. 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 these 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 exhaustion of settled insurance coverage within the forecasted period and proceeds from settled insurance policies. 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.

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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, the 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.

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. Rockwell had approximately 3,000 and 2,800 pending active asbestos claims in lawsuits that name AM, together with many other companies, as defendants at March 31, 2015 and September 30, 2014, respectively.

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.

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

	March 31, 2015	September 30, 2014
Pending and future claims	\$48	\$48
Billed but unpaid claims	2	2
Asbestos-related liabilities	\$50	\$50
Asbestos-related insurance recoveries	\$11	\$11

Pending and Future Claims: 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. Bates White prepares these cost estimates annually in September. As of September 30, 2014, 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 \$48 million to \$62 million. Management recognized a liability for the pending and future claims over the next ten years of \$48 million as of March 31, 2015 and September 30, 2014. 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.

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Assumptions: 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 2024;

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

• On a per claim basis, defense and processing costs for pending and future claims will be at the level consistent with the company'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 plaintiff's law firms in jurisdictions without an established history with Rockwell cannot be reasonably estimated.

Recoveries: The insurance receivable related to asbestos-related liabilities is \$11 million as of each of March 31, 2015 and September 30, 2014. Included in these amounts are insurance receivables of \$8 million as of each of March 31, 2015 and September 30, 2014 that are associated with policies in dispute. Rockwell has insurance coverage that management believes covers indemnity and defense costs, over and above self-insurance retentions, for most of these claims. The company has initiated claims against certain of these carriers to enforce the insurance policies, which are in various stages of the litigation process. The company 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 and underlying analysis performed by management. The remaining receivable recognized is related to coverage provided by one carrier based on a coverage-in-place insurance arrangement. If the assumptions with respect to the estimation period, the nature of pending claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of liability for 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

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.

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 March 31, 2015 and September 30, 2014, the remaining estimated liability for this matter was approximately \$13 million and \$14 million, respectively.

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 September 30, 2014, the company had an accrual of \$6 million for such indemnities, of which \$2 million was for a contingency-related income tax matter, which was included in other liabilities in the accompanying

condensed consolidated balance sheet. In the second quarter of fiscal year 2015, the company settled all remaining matters related to the Body Systems business and recorded a net gain, after tax in discontinued operations of \$6 million.

In connection with the sale of its interest in MSSC 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 March 31, 2015 and September 30, 2014 is approximately \$2 million and \$5 million, respectively, and is included in other current liabilities and other liabilities in the condensed consolidated balance sheet.

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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. In the fourth quarter of fiscal year 2013, the company received \$5 million of non-cash cost recovery from the component supplier. During the second half of fiscal year 2014, the company worked with customers to determine the appropriate next steps. As of September 30, 2014, no field failures were identified during the sampling campaign, and only minor defects were found in a small number of components tested. As a result, in the fourth quarter of fiscal year 2014, the company determined a full campaign to be unnecessary and moved to a fix-as-find approach with an extended warranty, thereby reducing the accrual significantly. As of March 31, 2015 and September 30, 2014, the estimated cost the company could incur for this non-safety related, potential product performance issue was \$3 million.

The company identified certain sales transactions for which value added tax was required to be remitted to certain tax jurisdictions for tax years 2008 through 2014. At March 31, 2015 and September 30, 2014, the company's estimates of the probable liability were \$9 million and \$11 million, respectively. The decrease in the probable liability is primarily due to the translation effect of foreign exchange rates.

In addition, various lawsuits, claims and proceedings, other than those specifically disclosed in the condensed 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.

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20. Shareowners' Equity

Equity and Equity-Linked Repurchase Authorization

In June 2014, the company's Board of Directors authorized the repurchase of up to \$210 million of its equity and equity-linked securities (including convertible debt securities), subject to the achievement of its M2016 net debt reduction target and compliance with legal and regulatory requirements and its debt covenants. In September 2014, the company's Board authorized the repurchase of up to \$40 million of its equity or equity-linked securities (including convertible debt securities) under the \$210 million authorization that may be made annually without regard to achievement of the M2016 net debt reduction target. These authorizations have no stated expiration.

The equity and equity-linked securities repurchases are subject to prevailing market conditions and other considerations. Under the program, the company repurchased 1.2 million shares of its common stock for \$16 million during the second quarter of fiscal year 2015 through open market transactions. Also, in the second quarter of fiscal year 2015, the company repurchased \$15 million principal amount of its 4.0 percent convertible notes due 2027 for \$16 million (see Note 16). The amount remaining available for repurchases under the authorization is \$179 million at March 31, 2015.

Accumulated Other Comprehensive Loss (AOCL)

The components of AOCL and the changes in AOCL by components, net of tax, for three months ended March 31, 2015 and 2014 are as follows (in millions):

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss, net of tax	Total
Balance at December 31, 2014	\$8	\$(777)	\$(2)	\$(771)
Other comprehensive loss before reclassification	(33)	(1)	—	(34)
Amounts reclassified from accumulated other comprehensive loss - net of tax	—	12	—	12
Net current-period other comprehensive income (loss)	\$(33)	\$11	\$—	\$(22)
Balance at March 31, 2015	\$(25)	\$(766)	\$(2)	\$(793)
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				
Actuarial losses	\$12		(a)	
	12		Total before tax	
	—		Tax (benefit) expense	
Total reclassifications for the period	\$12		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 18 for additional details).

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss, net of tax	Total
Balance at December 31, 2013	\$51	\$(782)	\$(3)	\$(734)
Other comprehensive income before reclassification	10	2	2	14
	—	8	—	8

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Amounts reclassified from accumulated other comprehensive
income - net of tax

Net current-period other comprehensive income	\$10	\$10	\$2	\$22
Balance at March 31, 2014	\$61	\$(772) \$(1) \$(712)

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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	\$(2	) (b)
Actuarial losses	11	(b)
	9	Total before tax
	(1	) Tax benefit
	8	Net of tax
Total reclassifications for the period	\$8	Net of tax

(b) These accumulated other comprehensive income components are included in the computation of net periodic pension and retiree medical expense (see Note 18 for additional details).

The components of AOCL and the changes in AOCL by components, net of tax, for six months ended March 31, 2015 and 2014 are as follows (in millions):

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss, net of tax	Total
Balance at September 30, 2014	\$41	\$(789	) \$(1	) \$(749
Other comprehensive loss before reclassification	(67	) (1	) (1	) (69
Amounts reclassified from accumulated other comprehensive loss - net of tax	1	24	—	25
Net current-period other comprehensive income (loss)	\$(66	) \$23	\$(1	) \$(44
Balance at March 31, 2015	\$(25	) \$(766	) \$(2	) \$(793
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				
Actuarial losses	\$24		(a)	
	24		Total before tax	
	—		Tax (benefit) expense	
	24		Net of tax	
Foreign Currency Translation Related Adjustment				
Other reclassification adjustment	\$1		(b)	
	1		Total before tax	
	—		Tax (benefit) expense	
	1		Net of tax	
Total reclassifications for the period	\$25		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 18 for additional details).
- (b) These accumulated other comprehensive income components are included in the computation of loss from discontinued operations (see Note 4).

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	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	—	2	2	4
Amounts reclassified from accumulated other comprehensive income - net of tax	—	18	—	18
Net current-period other comprehensive income	\$—	\$20	\$2	\$22
Balance at March 31, 2014	\$61	\$(772)	\$(1)	\$(712)
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	\$(4	)	(b)	
Actuarial losses	23		(b)	
	19		Total before tax	
	(1	)	Tax benefit	
	18		Net of tax	
Total reclassifications for the period	\$18		Net of tax	

(b) These accumulated other comprehensive income components are included in the computation of net periodic pension and retiree medical expense (see Note 18 for additional details).

21. Business Segment Information

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

The company has two reportable segments at March 31, 2015, 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 parts to commercial vehicle and industrial 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 expense 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. Amounts related to prior quarters have been recast to reflect Mascot in discontinued operations (see Note 4).

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Segment information is summarized as follows (in millions):

	Commercial Truck & Industrial	Aftermarket & Trailer	Eliminations	Total
Three Months Ended March 31, 2015				
External Sales	\$660	\$204	\$—	\$864
Intersegment Sales	21	8	(29)) —
Total Sales	\$681	\$212	\$(29)	) \$864
Three Months Ended March 31, 2014				
External Sales	\$736	\$218	\$—	\$954
Intersegment Sales	27	7	(34)) —
Total Sales	\$763	\$225	\$(34)	) \$954
Six Months Ended March 31, 2015				
External Sales	\$1,338	\$405	\$—	\$1,743
Intersegment Sales	46	15	(61)) —
Total Sales	\$1,384	\$420	\$(61)	) \$1,743
Six Months Ended March 31, 2014				
External Sales	\$1,439	\$415	\$—	\$1,854
Intersegment Sales	51	12	(63)) —
Total Sales	\$1,490	\$427	\$(63)) \$1,854

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	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014 ⁽²⁾	2015	2014 ⁽²⁾
Segment EBITDA:				
Commercial Truck & Industrial	\$57	\$57	\$113	\$110
Aftermarket & Trailer	30	24	55	45
Segment EBITDA	87	81	168	155
Unallocated legacy and corporate costs, net ⁽¹⁾	—	(1	) (2	) (3
Interest expense, net	(21	) (48	) (40	) (75
Provision for income taxes	(6	) (8	) (13	) (19
Depreciation and amortization	(17	) (17	) (32	) (33
Noncontrolling interests	—	(2	) (1	) (4
Loss on sale of receivables	(1	) (2	) (3	) (5
Restructuring costs	(3	) (2	) (6	) (3
Income from continuing operations attributable to Meritor, Inc.	\$39	\$1	\$71	\$13

⁽¹⁾ Unallocated legacy and corporate costs, net represents items that are not directly related to the company's business segments. These costs primarily include asbestos-related charges, pension and retiree medical costs associated with sold businesses and other legacy costs for environmental and product liability.

⁽²⁾ Amounts for prior periods have been recast for discontinued operations.

Segment Assets:	March 31, 2015	September 30, 2014
Commercial Truck & Industrial	\$1,657	\$1,755
Aftermarket & Trailer	441	458
Total segment assets	2,098	2,213
Corporate ⁽¹⁾	473	533
Less: Accounts receivable sold under off-balance sheet factoring programs ⁽²⁾	(254	) (244
Total assets	\$2,317	\$2,502

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

⁽²⁾ At March 31, 2015 and September 30, 2014, segment assets include \$254 million and \$244 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.

22. 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 16).

Schedule I of 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.

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MERITOR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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, which exceeded 25 percent of consolidated net assets of Parent as of September 30, 2014. As of March 31, 2015, the company's proportionate share of net assets restricted from transfer by law was \$31 million.

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MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(In millions)

(Unaudited)

	Three Months Ended March 31, 2015					
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated	
Sales						
External	\$—	\$418	\$446	\$—	\$ 864	
Subsidiaries	—	31	17	(48) —	
Total sales	—	449	463	(48	) 864	
Cost of sales	(10	) (380	) (407	) 48	(749)
GROSS MARGIN	(10	) 69	56	—	115)
Selling, general and administrative	(16	) (26	) (15	) —	(57)
Restructuring costs	(1	) —	(2	) —	(3)
Other operating income	—	—	—	—	—)
OPERATING INCOME (LOSS)	(27	) 43	39	—	55)
Other income, net	37	(9	) (26	) —	2)
Equity in earnings of affiliates	—	8	1	—	9)
Interest income (expense), net	(29	) 6	2	—	(21)
INCOME (LOSS) BEFORE INCOME TAXES	(19	) 48	16	—	45)
Provision for income taxes	(1	) —	(5	) —	(6)
Equity income from continuing operations of subsidiaries	59	8	—	(67) —)
INCOME FROM CONTINUING OPERATIONS	39	56	11	(67	) 39)
INCOME FROM DISCONTINUED OPERATIONS, net of tax	4	5	3	(8	) 4)
NET INCOME	43	61	14	(75	) 43)
Less: Net income attributable to noncontrolling interests	—	—	—	—	—)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$43	\$61	\$14	\$(75	) \$43)

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

	Three Months Ended March 31, 2015				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income	\$43	\$61	\$14	\$(75)	) \$43
Other comprehensive income (loss)	(22)	) (65)	) 27	38	(22)
Total comprehensive income (loss)	21	(4)	) 41	(37)	) 21
Less: Comprehensive income attributable to noncontrolling interests	—	—	—	—	—
Comprehensive income (loss) attributable to Meritor, Inc.	\$21	\$ (4)) \$41	\$(37)) \$21

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MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(In millions)

(Unaudited)

	Three Months Ended March 31, 2014					
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated	
Sales						
External	\$—	\$ 348	\$ 606	\$—	\$ 954	
Subsidiaries	—	33	15	(48) —	
Total sales	—	381	621	(48	) 954
Cost of sales	(13) (326) (545) 48	(836)
GROSS MARGIN	(13	) 55	76	—	118
Selling, general and administrative	(23) (22) (21) —	(66)
Restructuring costs	(1) —	(1) —	(2)
OPERATING INCOME (LOSS)	(37	) 33	54	—	50
Other income (loss), net	39	(8	) (31) —	—	
Equity in earnings of affiliates	—	6	3	—	9	
Interest income (expense), net	(54) 8	(2) —	(48)
INCOME (LOSS) BEFORE INCOME TAXES	(52	) 39	24	—	11
Provision for income taxes	—	1	(9) —	(8)
Equity income from continuing operations of subsidiaries	53	10	—	(63) —	
INCOME FROM CONTINUING OPERATIONS	1	50	15	(63	) 3
INCOME FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	—	—	
NET INCOME	1	50	15	(63	) 3
Less: Net income attributable to noncontrolling interests	—	—	(2) —	(2)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$ 1	\$ 50	\$ 13	\$(63	) \$ 1

MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(In millions)

(Unaudited)

	Three Months Ended March 31, 2014				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income	\$1	\$50	\$15	\$(63)	) \$3
Other comprehensive income	22	5	11	(16)	) 22
Total comprehensive income	23	55	26	(79)	) 25
Less: Comprehensive income attributable to noncontrolling interests	—	—	(2)) —	(2)
Comprehensive income attributable to Meritor, Inc.	\$23	\$55	\$24	\$(79)) \$23

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MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(In millions)

(Unaudited)

	Six Months Ended March 31, 2015				Consolidated	
	Parent	Guarantors	Non-Guarantors	Elims		
Sales						
External	\$—	\$ 821	\$ 922	\$—	\$ 1,743	
Subsidiaries	—	61	33	(94) —	
Total sales	—	882	955	(94	) 1,743
Cost of sales	(24) (751) (832) 94	(1,513)
GROSS MARGIN	(24	) 131	123	—	230
Selling, general and administrative	(34) (54) (34) —	(122)
Restructuring costs	(1) (3) (2) —	(6)
Other operating income	—	—	1	—	1	
OPERATING INCOME (LOSS)	(59	) 74	88	—	103
Other income, net	37	(9	) (24	) —	4
Equity in earnings of affiliates	—	15	3	—	18	
Interest income (expense), net	(58) 13	5	—	(40)
INCOME (LOSS) BEFORE INCOME TAXES	(80	) 93	72	—	85
Provision for income taxes	(1) —	(12) —	(13)
Equity income from continuing operations of subsidiaries	152	53	—	(205) —	
INCOME FROM CONTINUING OPERATIONS	71	146	60	(205	) 72
INCOME FROM DISCONTINUED OPERATIONS, net of tax	1	2	—	(2	) 1
NET INCOME	72	148	60	(207	) 73
Less: Net income attributable to noncontrolling interests	—	—	(1) —	(1)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$ 72	\$ 148	\$ 59	\$ (207	) \$ 72

MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(In millions)

(Unaudited)

	Six Months Ended March 31, 2015				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income	\$72	\$148	\$60	\$(207)	) \$73
Other comprehensive income (loss)	(44)	) (92)	) 18	73	(45)
Total comprehensive income	28	56	78	(134)	) 28
Less: Comprehensive income attributable to noncontrolling interests	—	—	—	—	—
Comprehensive income attributable to Meritor, Inc.	\$28	\$56	\$78	\$(134)) \$28

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MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(In millions)

(Unaudited)

	Six Months Ended March 31, 2014				Consolidated	
	Parent	Guarantors	Non-Guarantors	Elims		
Sales						
External	\$—	\$ 657	\$ 1,197	\$—	\$ 1,854	
Subsidiaries	—	66	29	(95) —	
Total sales	—	723	1,226	(95	) 1,854
Cost of sales	(26) (623) (1,077) 95	(1,631)
GROSS MARGIN	(26	) 100	149	—	223
Selling, general and administrative	(40) (45) (40) —	(125)
Restructuring costs	(1) —	(2) —	(3)
Other operating expense	—	(1) —	—	(1)
OPERATING INCOME (LOSS)	(67	) 54	107	—	94
Other income (loss), net	39	(8	) (31) —	—	
Equity in earnings of affiliates	—	12	5	—	17	
Interest income (expense), net	(88) 17	(4) —	(75)
INCOME (LOSS) BEFORE INCOME TAXES	(116	) 75	77	—	36
Provision for income taxes	—	(1) (18) —	(19)
Equity income from continuing operations of subsidiaries	129	48	—	(177) —	
INCOME FROM CONTINUING OPERATIONS	13	122	59	(177	) 17
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(1) (1) (1) 2	(1)
NET INCOME	12	121	58	(175	) 16
Less: Net income attributable to noncontrolling interests	—	—	(4) —	(4)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$ 12	\$ 121	\$ 54	\$ (175	) \$ 12

MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(In millions)

(Unaudited)

	Six Months Ended March 31, 2014				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income	\$ 12	\$ 121	\$ 58	\$(175)	\$ 16
Other comprehensive income	22	10	—	(10)	22
Total comprehensive income	34	131	58	(185)	38
Less: Comprehensive income attributable to noncontrolling interests	—	—	(4)	—	(4)
Comprehensive income attributable to Meritor, Inc.	\$ 34	\$ 131	\$ 54	\$(185)	\$ 34

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MERITOR, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

(In millions)

(Unaudited)

	March 31, 2015				Consolidated
	Parent	Guarantors	Non-Guarantors	Elims	
CURRENT ASSETS:					
Cash and cash equivalents	\$99	\$4	\$104	\$—	\$ 207
Receivables trade and other, net	1	43	501	—	545
Inventories	—	164	201	—	365
Other current assets	9	18	28	—	55
TOTAL CURRENT ASSETS	109	229	834	—	1,172
NET PROPERTY	13	153	221	—	387
GOODWILL	—	278	136	—	414
OTHER ASSETS	76	125	143	—	344
INVESTMENTS IN SUBSIDIARIES	2,230	341	—	(2,571)	—
TOTAL ASSETS	\$2,428	\$1,126	\$1,334	\$(2,571)	\$ 2,317
CURRENT LIABILITIES:					
Short-term debt	\$1	\$3	\$1	\$—	\$ 5
Accounts and notes payable	48	227	343	—	618
Other current liabilities	98	65	118	—	281
TOTAL CURRENT LIABILITIES	147	295	462	—	904
LONG-TERM DEBT	907	9	29	—	945
RETIREMENT BENEFITS	636	—	101	—	737
INTERCOMPANY PAYABLE (RECEIVABLE)	1,287	(1,705)	418	—	—
OTHER LIABILITIES	47	211	43	—	301
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	(596)	2,316	255	(2,571)	(596)
NONCONTROLLING INTERESTS	—	—	26	—	26
TOTAL LIABILITIES AND EQUITY (DEFICIT)	\$2,428	\$1,126	\$1,334	\$(2,571)	\$ 2,317

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MERITOR, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

(In millions)

(Unaudited)

	September 30, 2014				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	\$71	\$5	\$171	\$—	\$ 247
Receivables trade and other, net	1	45	564	—	610
Inventories	—	151	228	—	379
Other current assets	9	18	29	—	56
TOTAL CURRENT ASSETS	81	219	992	—	1,292
NET PROPERTY	13	158	253	—	424
GOODWILL	—	277	154	—	431
OTHER ASSETS	75	128	152	—	355
INVESTMENTS IN SUBSIDIARIES	2,185	267	—	(2,452)	—
TOTAL ASSETS	\$2,354	\$1,049	\$1,551	\$(2,452)	\$ 2,502
CURRENT LIABILITIES:					
Short-term debt	\$1	\$3	\$3	\$—	\$ 7
Accounts and notes payable	46	230	404	—	680
Other current liabilities	97	87	167	—	351
TOTAL CURRENT LIABILITIES	144	320	574	—	1,038
LONG-TERM DEBT	916	10	39	—	965
RETIREMENT BENEFITS	656	—	119	—	775
INTERCOMPANY PAYABLE (RECEIVABLE)	1,198	(1,736)	538	—	—
OTHER LIABILITIES	52	208	49	—	309
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	(612)	2,247	205	(2,452)	(612)
NONCONTROLLING INTERESTS	—	—	27	—	27
TOTAL LIABILITIES AND EQUITY (DEFICIT)	\$2,354	\$1,049	\$1,551	\$(2,452)	\$ 2,502

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MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended March 31, 2015				Consolidated	
	Parent	Guarantors	Non-Guarantors	Elims		
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	\$7	\$10	\$12	\$—	\$ 29	
INVESTING ACTIVITIES						
Capital expenditures	(1) (10) (12) —	(23)
Net investing cash flows provided by discontinued operations	—	1	3	—	4	
CASH USED FOR INVESTING ACTIVITIES	(1) (9) (9) —	(19)
FINANCING ACTIVITIES						
Repayment of notes and term loan	(16) —	—	—	(16)
Repurchase of common stock	(16)			(16)
Intercompany advances	54	—	(54) —	—	
Other financing activities	—	(2) (4) —	(6)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	22	(2) (58) —	(38)
EFFECT OF CHANGES IN FOREIGN CURRENCY						
EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	(12) —	(12)
CHANGE IN CASH AND CASH EQUIVALENTS	28	(1) (67) —	(40)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	71	5	171	—	247	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$99	\$4	\$104	\$—	\$ 207	

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MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended March 31, 2014				Consolidated
	Parent	Guarantors	Non-Guarantors	Elims	
CASH FLOWS PROVIDED BY (USED FOR)					
OPERATING ACTIVITIES	\$(30)	\$8	\$40	\$—	\$ 18
INVESTING ACTIVITIES					
Capital expenditures	(2)	(11)	(12)	—	(25)
Net investing cash flows provided by discontinued operations	—	—	3	—	3
CASH USED FOR INVESTING ACTIVITIES	(2)	(11)	(9)	—	(22)
FINANCING ACTIVITIES					
Repayment term loan	(308)	—	—	—	(308)
Proceeds from debt issuance	225	—	—	—	225
Debt issuance costs	(9)	—	—	—	(9)
Intercompany advances	92	—	(92)	—	—
Other financing activities	—	—	13	—	13
CASH USED FOR FINANCING ACTIVITIES	—	—	(79)	—	(79)
EFFECT OF CHANGES IN FOREIGN CURRENCY					
EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	(2)	—	(2)
CHANGE IN CASH AND CASH EQUIVALENTS	(32)	(3)	(50)	—	(85)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	144	6	168	—	318
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 112	\$ 3	\$ 118	\$—	\$ 233

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 March 31, 2015 and September 30, 2014, Parent-only obligations included \$662 million and \$684 million of pension and retiree medical benefits, respectively, (see Note 18). All debt is debt of the Parent other than \$42 million and \$55 million at March 31, 2015 and September 30, 2014, respectively (see Note 16), 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 \$37 million and \$5 million for the six months ended March 31, 2015 and 2014, respectively.

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MERITOR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

23. Subsequent Events

On April 14, 2015, the company notified approximately 40 hourly and salaried employees that their positions were being eliminated due to the planned closure of a North America manufacturing facility. The company expects to incur \$3 million in costs associated with this restructuring action. Restructuring actions associated with this plan are expected to be completed by the end of fiscal year 2015.

On April 29, 2015, a restructuring plan to further reduce headcount in South America was approved by the local union. This restructuring plan is in response to the current economic environment in South America which has weakened in 2015. With this restructuring plan the company expects to eliminate up to 233 hourly and 21 salary positions and incur \$9 million in employee separation costs in the Commercial Truck & Industrial segment.

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.

2nd Quarter Fiscal Year 2015 results

Our sales for the second quarter of fiscal year 2015 were \$864 million, a decrease compared to \$954 million in the same period in the prior fiscal year. Our sales decrease was primarily impacted by the unfavorable translation effect of the weaker Euro and Brazilian Real versus the U.S. dollar. Sales were also negatively impacted by lower production in South America and China and lower revenue from our Defense business. The decrease in sales was partially offset by higher sales in North America, as Class 8 truck market production continued to strengthen.

Net income attributable to the company for the second quarter of fiscal year 2015 was \$43 million compared to \$1 million in the same period in the prior fiscal year. Net income from continuing operations attributable to the company for the second quarter of fiscal year 2015 was \$39 million, or \$0.38 per diluted share, compared to \$1 million, or \$0.01 per diluted share, in the same period in the prior fiscal year. In the second quarter of fiscal year 2014, we recognized a \$21 million loss on debt extinguishment primarily related to the repurchase of our 10.625 percent notes due 2018.

Adjusted EBITDA (see Non-GAAP Financial Measures below) for the second quarter of fiscal year 2015 was \$87 million compared to \$80 million in the same period in the prior fiscal year. Our Adjusted EBITDA margin in the second quarter of fiscal year 2015 was 10.1 percent compared to 8.4 percent in the same period a year ago. Despite lower revenue, Adjusted EBITDA and Adjusted EBITDA margin increased compared to the prior fiscal year primarily due to material, labor and burden performance and incremental pricing, which more than offset the unfavorable impact of foreign currency losses net of foreign currency option gains.

Cash flow provided by operating activities was \$38 million in the second quarter of fiscal year 2015 compared to \$22 million in the same period last year. This improvement is primarily due to increased earnings from operations and lower working capital requirements related primarily to factoring programs.

Equity and Equity-Linked Repurchase Authorization

Under our equity and equity-linked repurchase program, in the second quarter of fiscal year 2015, we repurchased 1.2 million shares of our common stock for \$16 million and we repurchased \$15 million principal amount of our 4.0 percent convertible notes due 2027 for \$16 million pursuant to the equity repurchase program described in the "Liquidity" section below.

Discontinued Operations

In the fourth quarter of fiscal year 2014, we exited our former Mascot business, a remanufacturer and distributor of all makes differentials, transmissions and steering gears. The results of operations and cash flows of our former Mascot business are presented in discontinued operations in the condensed consolidated statement of operations, and condensed consolidated statement of cash flows, and prior period information has been recast to reflect this presentation.

MERITOR, INC.

Trends and Uncertainties

Production Volumes

The following table reflects estimated commercial truck production volumes for selected original equipment (OE) markets for the three and six months ended March 31, 2015 and 2014 based on available sources and management's estimates.

	Three Months			Percent Change	Six Months			Percent Change
	Ended March 31,		2014		Ended March 31,		2014	
	2015	2014			2015	2014		
Estimated Commercial Truck production (in thousands)								
North America, Heavy-Duty Trucks	79	67	18	%	156	127	23	%
North America, Medium-Duty Trucks	57	51	12	%	115	102	13	%
Western Europe, Heavy- and Medium-Duty Trucks	95	92	3	%	194	221	(12))%
South America, Heavy- and Medium-Duty Trucks	23	43	(47)	)%	52	85	(39))%

During fiscal year 2015, we expect an increase in production volumes in North America compared to the levels experienced in fiscal year 2014. We expect production volumes in Western Europe to weaken compared to the levels experienced in fiscal year 2014. We anticipate a significant decrease in production volumes in South America resulting from the difficult economic climate. Production volumes in China are expected to decrease during fiscal year 2015 compared to levels experienced in fiscal year 2014. We expect the market in India to be up in fiscal year 2015 due to an improving economic climate.

Sales for our primary military program were at their peak during the third quarter of fiscal year 2012 and began to decline in fiscal year 2013. The program is expected to continue to wind down in 2015, although a relatively modest level of production may continue beyond 2015. We are working to secure our participation in new military programs with various OEMs. However, 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.

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;

- Volatile energy and increasing 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 2015 and beyond include:

• Significant contract awards or losses of existing business or failure to negotiate acceptable terms in contract renewals;

• 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;

MERITOR, INC.

- ◆ 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;
- ◆ Any costs associated with the divestiture or wind down of any portion of our businesses;
- ◆ Higher-than-planned price reductions to our customers;
- ◆ Potential price increases from our suppliers;