MERITOR INC
Form 10-K
November 20, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 28, 2014
Commission file number 1-15983

MERITOR, INC.
(Exact name of registrant as specified in its charter)

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

Registrant’s telephone number, including area code: (248) 435-1000
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock, $1 Par Value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None
Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [X]   No [ ]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes [   ]   No [X]
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X]   No [   ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X]   No [   ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]
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 definitions of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý		Accelerated filer	¨
Non-accelerated filer	¨	(Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant on March 28, 2014 (the last business day of the most recently completed second fiscal quarter) was approximately $1,147,375,565

97,844,611 shares of the registrant's Common Stock, par value $1 per share, were outstanding on November 17, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the definitive Proxy Statement for the Annual Meeting of Shareowners of the registrant to be held on January 22, 2015 is incorporated by reference into Part III.

PART I

Item 1. Business.

Overview

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. Our principal products are axles, undercarriages, drivelines, brakes and braking systems.

Meritor was incorporated in Indiana in 2000 in connection with the merger of Meritor Automotive, Inc. and Arvin Industries, Inc. As used in this Annual Report on Form 10-K, the terms "company," "Meritor," "we," "us" and "our" include Meritor, its consolidated subsidiaries and its predecessors unless the context indicates otherwise.

Meritor serves a broad range of customers worldwide, including medium- and heavy-duty truck OEMs, specialty vehicle manufacturers, certain aftermarkets, and trailer producers. Our total sales from continuing operations in fiscal year 2014 were approximately $3.8 billion. Our ten largest customers accounted for approximately 76 percent of fiscal year 2014 sales from continuing operations. Sales from operations outside the United States (U.S.) accounted for approximately 61 percent of total sales from continuing operations in fiscal year 2014. Our continuing operations also participated in 5 unconsolidated joint ventures, which we accounted for under the equity method of accounting and that generated revenues of approximately $1.3 billion in fiscal year 2014.

The company's fiscal year ends on the Sunday nearest to September 30. Fiscal year 2014 ended on September 28, 2014, fiscal year 2013 ended on September 29, 2013 and fiscal year 2012 ended on September 30, 2012. All year and quarter references relate to our fiscal year and fiscal quarters unless otherwise stated. For ease of presentation, September 30 is utilized consistently throughout this report to represent the fiscal year end.

Whenever an item in this Annual Report on Form 10-K refers to information under specific captions in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations or Item 8. Financial Statements and Supplementary Data, the information is incorporated in that item by reference.

References in this Annual Report on Form 10-K to our belief that we are a leading supplier or the world's leading supplier, and other similar statements as to our relative market position are based principally on calculations we have made. These calculations are based on information we have collected, including company and industry sales data obtained from internal and available external sources as well as our estimates. In addition to such quantitative data, our statements are based on other competitive factors such as our technological capabilities, our engineering, research and development efforts, and our innovative solutions as well as the quality of our products and services, in each case relative to that of our competitors in the markets we address.

Sale of Mascot

On September 26, 2014, we completed the sale of our Mascot remanufacturing operations in Canada and the United States to an entity that will operate under the name Mascot Industries LLC. All other Meritor brake and trailer axle remanufacturing operations, as well as our distribution business, were not affected by the sale. Under the Mascot brand, we produced all makes remanufactured differentials, transmissions and steering gears. Genuine Meritor branded differentials and transmissions will continue to be available from Meritor. We incurred a loss on the sale of the Mascot business of $23 million, which includes severance and other disposal costs associated with the sale of the

Mascot business in fiscal year 2014. The financial statements and financial information included in this Form 10-K have been recast to reflect our Mascot business as discontinued operations.

Restructuring Actions - South America Labor Reduction

On August 15, 2014, we announced a labor headcount reduction plan to manage our cost structure in South America to address softening economic conditions. As part of these actions, we expect to eliminate approximately 190 hourly and 20 salaried positions and incurred $7 million of restructuring costs, primarily severance benefits, in the Commercial Truck & Industrial segment.

Equity in Earnings of ZF Meritor

In June 2014, ZF Meritor LLC, a joint venture between ZF Friedrichshafen AG and our subsidiary, Meritor Transmission LLC ("Meritor Transmission"), entered into a settlement agreement with Eaton Corporation relating to an antitrust lawsuit filed by ZF Meritor in 2006. Pursuant to the terms of the settlement agreement, Eaton agreed to pay $500 million to ZF Meritor. In July 2014, ZF Meritor received proceeds of $400 million, net of attorney's contingency fees. In July 2014, we received proceeds of $210 million representing our share based on our ownership interest in ZF Meritor and including a recovery of current and prior years' attorney expenses paid by Meritor. ZF Meritor and Meritor Transmission agreed to dismiss all pending antitrust litigation with Eaton. ZF Meritor does not have any operating activities. Our pre-tax share of the settlement was $210 million ($209 million after-tax), of which $190 million was recognized as equity in earnings of ZF Meritor and $20 million for the recovery of legal expenses from ZF Meritor was recognized as a reduction of selling, general and administrative expenses in the consolidated statement of operations. The proceeds from the settlement were used primarily to pre-fund mandatory pension contributions in our U.S. and U.K. pension plans.

Our Business

Our reporting segments are as follows:

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

See Note 23 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data for financial information by segment for continuing operations for each of the three years ended September 30, 2014, including information on sales and assets by geographic area. The heading "Products" below includes information on certain product sales for each of the three fiscal years ended September 30, 2014.

Business Strategies

We are currently a premier global supplier of a broad range of integrated systems, modules and components to OEMs and the aftermarket for the commercial vehicle, transportation and industrial sectors, and we believe we have market-leading positions as a leader in many of the markets we serve. We are working to enhance our leadership positions and capitalize on our existing customer, product and geographic strengths.

During fiscal year 2015, we expect a modest increase in production volumes in North America compared to the levels experienced in fiscal year 2014. We anticipate a significant decrease in production volumes in South America resulting from continued economic uncertainty. We expect production volumes in Europe to soften compared to the levels experienced in fiscal year 2014. Production volumes in China are expected to increase slightly 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. We are working to secure our participation in new military programs with various OEMs. However, failure to secure new military contracts could have a longer-term negative impact on our Commercial Truck and Industrial Segment. In addition, even if sales of our military programs do return to historical levels, the profitability on these sales could be lower than what we have recognized in recent periods.

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 contracts 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;
- 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 divesture or wind down of any portion of our businesses;
- Higher-than-planned price reductions to our customers;
- Potential price increases from our suppliers;
- Additional restructuring actions and the timing and recognition of restructuring charges, including any actions associated with the prolonged softness in markets in which we operate;
- Higher-than-planned warranty expenses, including the outcome of known or potential recall campaigns;
- Our ability to implement planned productivity, cost reduction, and other margin improvement initiatives;
- Uncertainties of asbestos claim litigation and the outcome of litigation with insurance companies regarding the scope of coverage and the long-term solvency of our insurance carriers; and
- Restrictive government actions by foreign countries (such as restrictions on transfer of funds and trade protection measures, including export duties, quotas and customs duties and tariffs).

Our specific business strategies are influenced by these industry factors and trends as well as by the recent global economic and financial crisis and are focused on leveraging our resources to continue to develop and produce competitive product offerings. We believe the following strategies will allow us to maintain a balanced portfolio of commercial truck, industrial and aftermarket businesses covering key global markets. See Item 1A. Risk Factors below for information on certain risks that could have an impact on our business, financial condition or results of operations in the future.

M2016 Strategy

In 2013, we launched M2016 - a three-year plan that we believe will drive value for our shareholders, customers and employees. It defines specific financial measures of success for improved EBITDA margin, reduced debt (including retirement liabilities) and increased revenue through organic growth. We expect that M2016 will be our roadmap from now until 2016.

To achieve the financial measures of success, the plan focuses on four priorities:

•Drive operational excellence
•Focus on customer value
•Reduce product cost
•Invest in a high-performing team

Drive Operational Excellence

The Operational Excellence area of M2016 highlights our focus on executing the Meritor Production System to achieve targeted improvements in safety, quality, delivery, cost and employee involvement.

We have a history of driving continuous improvement. We implemented Performance Plus, a long-term profit improvement and cost reduction initiative, in fiscal year 2007 to improve operational performance and increase cash flow, earnings and shareowner value. As part of Performance Plus, we implemented the Meritor Production System, a lean manufacturing initiative that guides our pursuit of operational excellence.

The Meritor Production System integrates several of our previous performance improvement initiatives into a set of actions that focuses on improving systems, processes, behaviors and capabilities primarily associated with five core metrics:

•Safety - Total case rate is a measure of the rate of recordable workplace injuries normalized per 100 employees per year. We have initiated safety programs throughout our global operations to protect our employees with a target to further reduce total case rate by 2016.

•Quality - We are driving toward further reducing our customer quality rate measured by parts per million (PPM) by the end of of 2016 through focusing on design for manufacturing, supplier development, Six Sigma, training and new technologies.

•Cost - We are targeting further net improvement each year for labor and burden cost reduction. Major areas of attention include driving better equipment utilization, reducing changeover time, eliminating waste, improving shift and asset utilization, and investing in equipment to improve cycle time and flexibility.

•People - We encourage every employee to submit at least three suggestions. In North America, we implemented approximately $1 million in improvements in fiscal year 2014 based on employee input.

•Delivery - In fiscal year 2014, we met our OE delivery performance goal while managing a volume increase in North America.

Throughout our company, continuous improvement teams work to improve workplace safety, improve design and quality, implement cost savings ideas, increase productivity and efficiency, and streamline operations. Maintaining a continuous improvement culture is important to improving our business operations and operating results.

As part of Operational Excellence, we are also focused on optimizing our manufacturing footprint to drive additional cost savings. As part of Performance Plus, we transformed Meritor to leverage our strength in the commercial vehicle and industrial businesses through the sale of our light vehicle businesses.

We reached a settlement with Eaton regarding the antitrust suit. The proceeds from the settlement were used to pre-fund mandatory pension contributions in the United States and United Kingdom, accelerating our timing to achieve our M2016 net debt reduction target.

Focus on Customer Value

We have established three main goals for improving customer value as part of our M2016 plan. Our first goal is to introduce new products and win new business to drive profitable growth. Second, we are working closely with our customers to achieve the Meritor Value Proposition. Finally, we plan to meet or exceed global customer expectations in terms of quality, delivery, innovation and customer service.

Growing Profitably - Our goal is to drive growth from new customers, new programs and/or new products. For more than 100 years, our products have evolved to meet the changing needs of our customers in all major regions of the world. As technology has advanced, we have designed products that are more fuel efficient, lighter weight, safer, and more durable and reliable. The Meritor brand is well established globally and represents a wide portfolio of high-quality products for many vocations.

Building upon the strength of our core technologies, we intend to expand our presence globally and continue our growth in complementary product lines. Our strategy involves continuing to capitalize on our geographic diversity and product line capability through our strong, global customer relationships and our substantial aftermarket presence. Through implementation of a technology roadmap, complementary technologies such as electronics, controls and mechatronics are being applied to traditional product lines to provide enhanced performance and expanded vehicle content as demonstrated with the launch in fiscal year 2013 of SmartFlow™ Central Tire Inflation System (CTIS) and DriveCommand™ Drivetrain Control (DTC). These systems deliver customized tire pressure and drivetrain management to keep military vehicles moving through various terrains and extreme conditions.

As industry trends continue to lean toward an increasing amount of equipment for environmental and safety-related regulatory provisions, OEM select suppliers based not only on the cost and quality of their products but also on their ability to meet stringent environmental and safety requirements and to service and support the customer after the sale. We use our technological and market expertise to develop and engineer products that address mobility, safety, regulatory and environmental concerns.

To address safety, we have implemented a strategy of focusing on products and technologies that enhance overall vehicle braking performance. As part of this strategy, we are focusing on the integration of braking and stability products and suspension products as well as the development of electronic control capabilities. Through MeritorWabco, our joint venture with WABCO Holdings, Inc., we offer electronic braking systems that integrate anti-lock braking systems technology, automatic traction control, collision avoidance systems and other key vehicle control system components to improve braking performance and meet all required stopping distances for commercial vehicles.

Achieving the Meritor Value Proposition - We are recognized globally for our capabilities in designing, testing and manufacturing high quality drivetrain and braking products. With efficiency and safety in mind, our global engineering team works with supply chain and manufacturing to offer a technology-rich portfolio of drivetrain and braking solutions for original equipment manufacturers and the aftermarket.

We effectively manage complexity for small volumes and aim to support our customers’ needs during periods of high volumes. The quality, durability and on-time delivery of our products has earned us strong positions in most of the markets we support. As we seek to extend and expand our business with existing customers and begin relationships with new ones, our objective is to ensure we are getting a fair value for the recognized benefits of our products and services and the strong brand equity we hold in the marketplace.

We believe the quality of our core product lines, our ability to service our products through our aftermarket capabilities, and our sales and service support team give us a competitive advantage. A key part of being a preferred supplier is the ability to deliver service through the entire life cycle of the product.

Exceeding Customer Expectations - As part of our overall strategy, we will measure customer satisfaction. Our performance in the eyes of our customers is very important.

We believe our focus on customer value has led to the customer successes we experienced in 2014. We extended our contract with Volvo to supply axles in Europe and South America through December 2021 and in Australia through May 2019. We also entered into agreements with Volvo Group North America to extend existing contracts for the supply of axles and drivelines through May 2019. We extended an agreement to supply Hino, our second largest medium duty truck customer, with axles and brakes through March 2017. We also completed a new four-year agreement with Daimler Trucks North America. With this contract, Meritor retains standard position for air drum brakes and drivelines and holds a strong optional position for front and rear axles.

Reduce Product Cost

A broad collaborative effort among our Purchasing, Engineering, Supply Chain and Operations is needed to effectively manage product costs, as we target achieving annual net material reductions (measured against controllable spend) of 2.5% annually. We intend to drive such material performance using three different approaches.

While Commercial Negotiations with our suppliers will likely always play a role in managing product cost, we are also actively engaging in Best Cost Country Sourcing and Technical Innovation that we believe can generate more permanent forms of cost reduction. We will explore further sourcing from Best Cost Countries to add more balance as we take advantage of differences in global supplier cost and capabilities. And we will continue to assess options involved in changing product designs to lower product costs. As we explore opportunities in this area, we will ensure we balance our target with the quality and delivery standards we require from our global supply base.

Increasing inventory turns is an important element in improving our working capital performance. We believe we can improve our inventory turnover rate from our current levels. By reducing inventory, we would be able to generate more cash to reinvest in the business or to return to shareholders.

We intend to accomplish this through: localization of our supply base where possible; warehousing close to our facilities for imported supply; improved demand planning so material and supply chain planning teams can better determine how much inventory to hold; increased accuracy in production forecasting; and minimizing or eliminating inventory held to support certain low-volume products.

Invest in a High Performing Team

We believe that our strength to compete in the global market is dependent upon having the engagement of every Meritor employee. We want Meritor to be a place where talented people thrive. Around the world, we pride ourselves on collaboration, creativity and commitment. Over the next several years, we will focus on employee satisfaction in four major areas: Mission, Consistency, Involvement and Adaptability. Within each of these areas are specific elements that we will measure ourselves against annually.

We recognize that that a high-performing team is critical to the level of performance we want to achieve. We have a strong and experienced leadership team and commitment from our employees to seek to create the level of sustainable performance improvement we desire. We will also continue to diversify our workforce because we recognize the value of different opinions and backgrounds in a company as global as Meritor.

Products

Meritor designs, develops, manufactures, markets, distributes, sells, services and supports a broad range of products for use in the transportation and industrial sectors. In addition to sales of original equipment systems and components, we provide our original equipment, aftermarket and remanufactured products to vehicle OEMs, their dealers (who in turn sell to motor carriers and commercial vehicle users of all sizes), independent distributors, and other end-users in certain aftermarkets.

The following chart sets forth, for each of the three fiscal years with the most recent ended September 30, 2014, information about product sales comprising more than 10% of consolidated revenue in any of those years. A narrative description of our principal products follows the chart.

Product Sales:

	Fiscal Year Ended September 30,					
	2014		2013		2012	
Axles, Undercarriage and Drivelines	78	%	78	%	75	%
Brakes and Braking Systems	21	%	20	%	23	%
Other	1	%	2	%	2	%
Total	100	%	100	%	100	%

The two segments included in our continuing operations manufacture and supply the products set forth and described below.

Axles, Undercarriage & Drivelines

We believe we are one of the world's leading independent suppliers of axles for medium- and heavy-duty commercial vehicles, with the leading market position in axle manufacturing in North America, South America and Europe, and are one of the major axle manufacturers in the Asia-Pacific region. Our extensive truck axle product line includes a wide range of front steer axles and rear drive axles. Our front steer and rear drive axles can be equipped with our cam, wedge or air disc brakes, automatic slack adjusters, complete wheel-end equipment such as hubs, rotors and drums, and (through our MeritorWABCO joint venture) anti-lock braking systems (“ABS”) and vehicle stability control systems.

We supply heavy-duty axles in certain global regions, for use in numerous off-highway vehicle applications, including construction, material handling, and mining. We also supply axles for use in military tactical wheeled vehicles, principally in North America. These products are designed to tolerate high tonnage and operate under extreme geographical and climate conditions. In addition, we have other off-highway vehicle products that are currently in development for certain other regions. We also supply axles for use in buses, coaches and recreational vehicles, fire trucks and other specialty vehicles in North America, Asia-Pacific and Europe, and believe we are a leading supplier of bus and coach axles in North America.

We are one of the major manufacturers of heavy-duty trailer axles in North America. Our trailer axles are available in more than 40 models in capacities from 20,000 to 30,000 pounds for virtually all heavy trailer applications and are available with our broad range of suspension modules, brake products, including drum brakes, disc brakes, anti-lock and trailer stability control systems, and ABS (through our MeritorWABCO joint venture).

We supply universal joints and driveline components, including our Permalube™ universal joint and RPL Permalube™ driveline, which are maintenance free, permanently lubricated designs used often in the high mileage on-highway market. We supply drivelines in a variety of global regions, for use in numerous on-highway vehicle applications, including construction, material handling and mining. We supply transfer cases and drivelines for use in military tactical wheeled vehicles, principally in North America. We also supply transfer cases for use in specialty vehicles in North America. Anti-lock brakes and stability control systems (which we supply through our MeritorWABCO joint venture) are also used in military vehicles and specialty vehicles. In addition, we supply trailer air suspension systems and products with an increasing market presence in North America. We also supply advanced suspension modules for use in light-, medium- and heavy-duty military tactical wheeled vehicles, principally in North America.

Brakes and Braking Systems

We believe we are one of the leading independent suppliers of air brakes to medium- and heavy-duty commercial vehicle manufacturers in North America and Europe. In Brazil, one of the largest truck and trailer markets in the world, we believe that Master Sistemas Automotivos Limitada, our 49%-owned joint venture with Randon S. A. Vehiculos e Implementos, is a leading supplier of brakes and brake-related products.

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

Our brakes and brake system components also are used in military tactical wheeled vehicles, principally in North America. We also supply brakes for use in buses, coaches and recreational vehicles, fire trucks and other specialty vehicles in North America and Europe, and we believe we are the leading supplier of bus and coach brakes in North America, and also supply brakes for commercial vehicles, buses and coaches in Asia-Pacific.

U.S. Federal regulations require that new medium- and heavy-duty vehicles sold in the United States be equipped with ABS. We believe that, Meritor WABCO Vehicle Control Systems, our 50%-owned joint venture with WABCO, is a leading supplier of ABS and a supplier of other electronic and pneumatic control systems (such as stability control and collision avoidance systems) for North American heavy-duty commercial vehicles. The joint venture also supplies hydraulic ABS to the North American medium-duty truck market and produces stability control and collision mitigation systems for tractors and trailers, which are designed to help maintain vehicle stability and aid in reducing tractor-trailer rollovers and other incidents.

Other Products

In addition to the products discussed above, we sell other complimentary products, including third party and private label items, through our aftermarket distribution channels. These products are generally sold under master distribution or similar agreements with outside vendors and include brake shoes and friction materials; automatic slack adjusters; yokes and shafts; wheel-end hubs and drums; ABS and stability control systems; shock absorbers and air springs; air brakes, air systems, air dryers and compressors.

Customers; Sales and Marketing

Meritor has numerous customers worldwide and has developed long-standing business relationships with many of these customers. Our ten largest customers accounted for approximately 76 percent of our total sales from continuing operations in fiscal year 2014. Sales to AB Volvo, Daimler AG and Navistar International Corporation represented approximately 27 percent, 18 percent and 12 percent, respectively, of our sales in fiscal year 2014. No other customer accounted for 10% or more of our total sales in fiscal year 2014.

OEMs

In North America, we design, engineer, market and sell products principally to OEMs, dealers and distributors. While our North American sales are typically direct to the OEMs, our ultimate commercial truck customers include trucking and transportation fleets. Fleet customers may specify our components and integrated systems for installation in the vehicles they purchase from OEMs. We employ what we refer to as a “push-pull” marketing strategy. We “push” for being the standard product at the OEM. At the same time, our district field managers then call on fleets and OEM dealers to “pull-through” our components on specific truck purchases. For all other markets, we specifically design, engineer, market and sell products principally to OEMs for their market-specific needs or product specifications.

For certain large OEM customers, our supply arrangements are generally negotiated on a long-term contract basis for a multi-year period that may require us to provide annual cost reductions (through price reductions or other cost benefits for the OEMs). If we are unable to generate sufficient cost savings in the future to offset such price reductions, our gross margins will be adversely affected. Sales to other OEMs are typically made through open order releases or purchase orders at market based prices which do not require the purchase of a minimum number of products. The customer typically has the right to cancel or delay these orders on reasonable notice. We generally compete for new business from OEMs as long-term contracts expire.

We have established leading positions in many of the markets we serve as a global supplier of a broad range of drivetrain systems, brakes and components. Based on available industry data and internal company estimates, our market-leading positions include independent truck drive axles (i.e. those manufactured by an independent, non-captive supplier) in North America, Europe, South America and India; truck drivelines in North America; truck air brakes in North America, and South America (through a joint venture); and military wheeled vehicle drivetrain, suspension and brakes in North America.

Our global customer portfolio includes companies such as AB Volvo, Daimler AG, Navistar International Corporation, Oshkosh, MAN, Iveco, PACCAR, Inc., Ashok Leyland, and Ford.

Aftermarket

We market and sell truck, trailer, off-highway and other products principally to, and service such products principally for, OEMs, their parts marketing operations, their dealers and other independent distributors and service garages within the aftermarket industry. Our product sales are generated through long-term agreements with certain of our

OEM customers, and distribution agreements and sales to independent dealers and distributors. Sales to other OEMs are typically made through open order releases or purchase orders at market based prices which do not require the purchase of a minimum number of products. The customer typically has the right to cancel or delay these orders on reasonable notice.

Our product offerings allow us to service all stages of our customers' vehicle ownership lifecycle. In North America, we stock and distribute hundreds of parts from top national brands to our customers or what we refer to as our "all makes" strategy. Our district field managers call on our OEM and independent customers to market our full product line capabilities on a regular basis to seek to ensure that we satisfy our customers' needs. Our aftermarket business sells products under the following brand names: Meritor; Meritor Wabco; Euclid; Trucktechnic; and Meritor AllFit.

Based on available industry data and internal company estimates, our North America aftermarket business has the overall market leadership position for the portfolio of products that we offer.

Competition

We compete worldwide with a number of North American and international providers of components and systems, some of which are owned by or associated with some of our customers. The principal competitive factors are price, quality, service, product performance, design and engineering capabilities, new product innovation and timely delivery. In addition, certain OEMs manufacture their own components that compete with the types of products we supply.

Our major competitors for axles are Dana Holding Corp. and, in certain markets, OEMs that manufacture axles for use in their own products. Emerging competitors for axles include Daimler Truck North America's Detroit Axle and American Axle Corporation and from China, Hande, Fuwa and Ankai. Our major competitors for brakes are WABCO, Brembo, Bendix/Knorr Bremse and, in certain markets, OEMs that manufacture brakes for use in their own products. Our major competitors for industrial applications are MAN, AxleTech International, Oshkosh, AM General, Marmon-Herrington, Dana Holding Corp., Knorr, Kessler & Co., Carraro, NAF, Sisu and, in certain markets, OEMs that manufacture industrial products for use in their own vehicles. Our major competitors for trailer applications are Hendrickson, BPW and SAF-Holland.

See Item 1A. Risk Factors for information on certain risks associated with our competitive environment.

Raw Materials and Suppliers

Our purchases of raw materials and parts are concentrated over a limited number of suppliers. We are dependent upon our suppliers' ability to meet cost performance, quality specifications and delivery schedules. The inability of a supplier to meet these requirements, the loss of a significant supplier, or any other work stoppages, could have an adverse effect on our ability to meet our customers' delivery requirements.

The cost of our core products is susceptible to changes in overall steel commodity prices, including ingredients used for various grades of steel. We have generally structured our major steel supplier and customer contracts to absorb and pass on normal index-related market fluctuations in steel prices. While we have had steel pricing adjustment programs in place with most major OE manufacturers, the price adjustment programs tend to lag the movement in steel costs and have generally not contemplated non-index related increases.

Significant future volatility in the commodity markets or a deterioration in demand may require us to pursue customer increases through surcharges or other pricing arrangements. In addition, if suppliers are inadequate for our needs, or if prices remain at current levels or increase and we are unable to either pass these prices to our customer base or otherwise mitigate the costs, our operating results could be further adversely affected.

We continuously work to address these competitive challenges by reducing costs and, as needed, restructuring operations. We manage supplier risk by conducting periodic assessments for all major suppliers and more frequent rigorous assessments of high-risk suppliers. On an ongoing basis, we monitor third party financial statements, conduct surveys through supplier questionnaires, and conduct site visits. We have developed a chronic supplier improvement process where we identify and develop actions to address ongoing financial, quality and delivery issues to further mitigate potential risk. We are proactive in managing our supplier relationships to avoid supply disruption. Our process employs dual sourcing and resourcing trigger points that cause us to take aggressive actions and then monitor the progress closely.

Divestitures and Restructuring

As described above, our business strategies are focused on enhancing our market position by continuously evaluating the competitive differentiation of our product portfolio, focusing on our strengths and core competencies, and growing the businesses that offer the most attractive returns. Implementing these strategies involves various types of strategic initiatives.

As part of our strategy to refocus our business and dedicate our resources to our core capabilities, we regularly review the prospects of our existing businesses to determine whether any of them should be modified, restructured, sold or otherwise discontinued. In an effort to execute our long-term strategy to transform our company away from the light vehicle business to focus on profitable segments within the commercial vehicle and industrial business, we completed the following initiatives since the beginning of fiscal year 2012 (see Note 3 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below):

- In fiscal year 2012, we completed the sale our damper business located in Leicester, England.
- In fiscal year 2012, we concluded Performance Plus, our global, long-term profit improvement and cost reduction initiative.
- In fiscal year 2012, we concluded restructuring activities related to the planned closure of our EU Trailer business.
- In the fourth quarter of fiscal year 2014, we completed the disposition of our Mascot all makes remanufacturing business, which was part of the Aftermarket & Trailer segment.

Restructuring Actions

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

Variable Labor Reductions: During the fourth quarter of fiscal year 2012, we initiated a global variable labor headcount reduction plan intended to reduce labor and other costs in response to market conditions. In response to further deterioration in the global markets, we approved further headcount reductions under this action during the fourth quarter of fiscal year 2013. As part of this action, we eliminated approximately 600 hourly and 120 salaried positions in the Commercial Truck & Industrial segment. We recognized cumulative costs of approximately $10 million, primarily severance benefits, as of September 30, 2013, of which approximately $5 million was recognized in fiscal year 2012 and $5 million was recognized in fiscal year 2013. All restructuring actions associated with variable labor reduction program were substantially complete as of September 30, 2013.

Remanufacturing Consolidation: During the first quarter of fiscal year 2013, we announced the planned consolidation of our Mascot remanufacturing operations in the Aftermarket & Trailer segment resulting in the closure of one remanufacturing plant in Canada. The closure resulted in the elimination of 85 hourly positions including approximately 65 positions which were transferred to the company's facility in Indiana. We recorded restructuring charges of approximately $3 million during the fiscal year ended 2013 associated with employee severance charges. Restructuring actions associated with the remanufacturing consolidation were substantially complete as of September 30, 2013. In the fourth quarter of fiscal year 2014, we disposed of our Mascot business.

Segment Reorganization and Asia-Pacific Realignment: On March 26, 2013, we announced plans to consolidate operations in China by transferring manufacturing operations to our majority-owned, off-highway joint venture facility and closing our facilities in Wuxi, China and Nanjing, China. During fiscal year 2013, we recorded employee severance charges and other exit costs associated with the elimination of approximately 200 salaried positions (including contract employees) and 50 hourly positions of $8 million and $3 million in the Commercial Truck & Industrial and Aftermarket & Trailer segments, respectively, as well as $3 million at a corporate location. We also recognized $2 million within the Commercial Truck & Industrial segment related to a lease termination. Restructuring actions associated with the program were substantially complete as of September 30, 2013.

M2016 Footprint Actions: As part of our M2016 Strategy, our three-year plan to achieve sustainable financial strength, we announced a North American footprint realignment and a European shared services reorganization. As part of these actions, we eliminated approximately 74 hourly and 27 salaried positions and incurred approximately $2 million of restructuring cost in the Commercial Truck & Industrial segment. These expenses were primarily related to severance benefits, which were recognized in fiscal year 2013.

See Item 1A. Risk Factors for information on certain risks associated with strategic initiatives.

Joint Ventures

As the industries in which we operate have become more globalized, joint ventures and other cooperative arrangements have become an important element of our business strategies. These strategic alliances provide for sales, product design, development and manufacturing in certain product and geographic areas. As of September 30, 2014, our continuing operations participated in the following non-consolidated joint ventures:

	Key Products	Country
Meritor WABCO Vehicle Control Systems	Antilock braking and air systems	U.S.
Master Sistemas Automotivos Limitada	Braking systems	Brazil
ZF Meritor LLC (Commercial Truck)	Heavy-duty transmissions	U.S.
Sistemas Automotrices de Mexico S.A. de C.V.	Axles, drivelines and brakes	Mexico
Ege Fren Sanayii ve Ticaret A.S.	Braking systems	Turkey
Automotive Axles Limited	Rear drive axle assemblies	India

Aggregate sales of our non-consolidated joint ventures were $1,268 million, $1,552 million, and $1,787 million in fiscal years 2014, 2013 and 2012, respectively.

In accordance with accounting principles generally accepted in the United States, our consolidated financial statements include the financial position and operating results of those joint ventures in which we have control. For additional information of our unconsolidated joint ventures and percentage ownership thereof see Note 12 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below.

Research and Development

We have significant research, development, engineering and product design capabilities. We spent $71 million in each of fiscal years 2014 and 2013 and $73 million in fiscal year 2012 on company-sponsored research, development and engineering. We employ professional engineers and scientists globally, and have additional engineering capabilities through contract arrangements in low-cost countries. We also have advanced technical centers in North America, South America, Europe and Asia-Pacific (primarily in India and China).

Patents and Trademarks

We own or license many United States and foreign patents and patent applications in our engineering and manufacturing operations and other activities. While in the aggregate these patents and licenses are considered important to the operation of our businesses, management does not consider them of such importance that the loss or termination of any one of them would materially affect a business segment or Meritor as a whole.

Our registered trademarks for Meritor® and the Bull design are important to our business. Other significant trademarks owned by us include Euclid® and Trucktechnic® for aftermarket products.

Substantially all of our U.S. held intellectual property rights are subject to a first-priority perfected security interest securing our obligations to the lenders under our credit facility. See Note 15 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below.

Employees

At September 30, 2014, we had approximately 9,050 full-time employees. At that date, 86 employees in the United States and Canada were covered by collective bargaining agreements and most of our facilities outside of the United

States and Canada were unionized. We believe our relationship with unionized employees is satisfactory.

Environmental Matters

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 our operations. We record 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, we record a liability for our allocable share of costs related to our involvement with the site, as well as an allocable share of costs related to insolvent parties or unidentified shares. At environmental sites in which we are the only potentially responsible party, we record a liability for the total estimated costs of remediation before consideration of recovery from insurers or other third parties.

We have been designated as a potentially responsible party at nine Superfund sites, excluding sites as to which our records disclose no involvement or as to which our liability has been finally determined. In addition to Superfund sites, various other lawsuits, claims and proceedings have been asserted against us, alleging violations of federal, state and local environmental protection requirements or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. We have established reserves for these liabilities when they are considered to be probable and reasonably estimable. See Note 22 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below for information as to our estimates of the total reasonably possible costs we could incur and the amounts recorded as a liability as of September 30, 2014, and as to changes in environmental accruals during fiscal year 2014.

The process of estimating environmental liabilities is complex and dependent on physical and scientific data at the site, uncertainties as to remedies and technologies to be used, and the outcome of discussions with regulatory agencies. The actual amount of costs or damages for which we may be held responsible could materially exceed our current estimates because of uncertainties, including the financial condition of other potentially responsible parties, the success of the remediation and other factors that make it difficult to predict actual costs accurately. However, based on management's assessment, after consulting with Sandra J. Quick, Meritor's General Counsel, and with outside advisors who specialize in environmental matters, and subject to the difficulties inherent in estimating these future costs, we believe that our 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 adverse effect on our 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 remedy could significantly change our estimates. Management cannot assess the possible effect of compliance with future requirements.

International Operations

We believe our international operations provide us with geographical diversity and help us to weather the cyclical nature of our business. Approximately 57 percent of our total assets as of September 30, 2014 and 61 percent of fiscal year 2014 sales from continuing operations were outside the U.S. See Note 23 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below for financial information by geographic area for the three fiscal years ended September 30, 2014.

Our international operations are subject to a number of risks inherent in operating abroad (see Item 1A. Risk Factors below). There can be no assurance that these risks will not have a material adverse impact on our ability to increase or maintain our foreign sales or on our financial condition or results of operations.

Our operations are also exposed to global market risks, including foreign currency exchange rate risk related to our transactions denominated in currencies other than the U.S. dollar. We have a foreign currency cash flow hedging program in place to help reduce the company's exposure to changes in exchange rates. We use foreign currency forward contracts to manage the company's exposures arising from foreign currency exchange risk. Gains and losses on the underlying foreign currency exposures are partially offset with gains and losses on the foreign currency forward contracts. The contracts generally mature within twelve months. It is our policy not to enter into derivative financial instruments for speculative purposes and, therefore, we hold no derivative instruments for trading purposes. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk and Note 16 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below.

Seasonality; Cyclicality

We may experience seasonal variations in the demand for our products, to the extent OEM vehicle production fluctuates. Historically, for all of our operations, demand has been somewhat lower in the quarters ended September 30 and December 31, when OEM plants may close during summer shutdowns and holiday periods or when there are fewer selling days during the quarter. In addition, our aftermarket business and our operations in China generally experience seasonally higher demand in the quarters ending March 31 and June 30.

In addition, the industries in which we operate have been characterized historically by periodic fluctuations in overall demand for trucks, trailers and other specialty vehicles for which we supply products, resulting in corresponding fluctuations in demand for our products. Production and sales of the vehicles for which we supply products generally depend on economic conditions and a variety of other factors that are outside of our control, including freight tonnage, customer spending and preferences, vehicle age, labor relations and regulatory requirements. See Item 1A. Risk Factors below. Cycles in the major vehicle industry markets of North America and Europe are not necessarily concurrent or related. It is part of our strategy to continue to seek to expand our operations globally to help mitigate the effect of periodic fluctuations in demand of the vehicle industry in one or more particular countries.

In fiscal year 2010, following sharp declines in production and sales volumes in substantially all regions in 2009, we saw varying levels of improvement from fiscal year 2009 low points. In fiscal year 2011, the pace of the recovery of commercial truck volumes in North America and Europe, our largest markets, was more rapid than previously anticipated. In fiscal year 2012, production volumes in North America increased while South America and Europe production volumes declined as compared to fiscal year 2011. In fiscal year 2014, we experienced an increase in production volumes in North America compared to the levels experienced in fiscal year 2013. During fiscal year 2015, we expect a modest increase in production volumes in North America compared to the levels experienced in fiscal year 2014. We anticipate a significant decrease in production volumes in South America resulting from continued economic uncertainty. We expect production volumes in Europe to soften compared to the levels experienced in fiscal year 2014. Production volumes in China are expected to increase slightly 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.

The following table sets forth estimated truck production in principal markets we serve for the last five fiscal years based on available industry sources and management's estimates:

	Year Ended September 30,				
	2014	2013	2012	2011	2010
Estimated Commercial Truck production (in thousands):					
North America, Heavy-Duty Trucks	281	243	295	224	146
North America, Medium-Duty Trucks	213	197	182	159	114
Western Europe, Heavy- and Medium-Duty Trucks	402	383	394	407	266
South America, Heavy- and Medium- Duty Trucks	166	186	165	204	179

Available Information

We make available free of charge through our web site (www.Meritor.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, and other filings we make with the Securities and Exchange Commission (“SEC”), as soon as reasonably practicable after they are filed.

Cautionary Statement

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

Item 1A. Risk Factors.

Our business, financial condition and results of operations can be impacted by a number of risks, including those described below and elsewhere in this Annual Report on Form 10-K, any one of which could cause our actual results to vary materially from recent results or from anticipated future results. Any of these individual risks could materially and adversely affect our business, financial condition and results of operations. This effect could be compounded if multiple risks were to occur.

We may not be able to execute our M2016 Strategy.

In 2013, we announced our M2016 Strategy, a three-year plan to achieve sustainable financial strength. In connection with the plan, we established certain financial goals relating to adjusted EBITDA margins, debt reduction and incremental revenue. The M2016 Strategy is based on our current planning assumptions, and achievement of the plan is subject to a number of risks. Our assumptions include that the global economy and our markets improve; we are able to secure new business wins (a significant portion of which generates sales by the year 2016); we are able to reduce costs and increase pricing; and any increases in raw materials prices are substantially offset by customer recovery mechanisms. If our assumptions are incorrect, if management is not able to execute the plan or if our business suffers from any number of additional risks set forth herein, we may not be able to achieve the financial goals we have announced.

Our primary military program is winding down and failure to secure new military contracts, which are subject to continued appropriations by Congress, could adversely affect our ability to maintain our sales and results of operations.

We have significant sales to U.S. Government contractors in the military vehicle market. Sales for our primary military program were at their peak during the third quarter of fiscal year 2012. This program is expected to continue to wind down next year, and failure to secure new military contracts could have a longer-term negative impact to the company. In addition, even if sales of our military programs do return to historic levels, the levels of profitability on these sales could be lower than what we have recognized in recent periods.

Future sales from orders placed under contracts with U.S. Government contractors are reliant on the continuing availability of Congressional appropriations. If government defense spending decreases on selected programs or future defense budgets and appropriations for the military vehicles that our products supply are subject to budgeting constraints or differing priorities, reductions in appropriations for these military vehicles could adversely affect our ability to maintain our sales and results of operations.

We depend on large OEM customers, and loss of sales to these customers or failure to negotiate acceptable terms in contract renewal negotiations, or to obtain new customers, could have an adverse impact on our business.

We are dependent upon large OEM customers with substantial bargaining power with respect to price and other commercial terms. In addition, we have long-term contracts with certain of these customers that are subject to renegotiation and renewal from time to time. Loss of all or a substantial portion of sales to any of our large volume customers for whatever reason (including, but not limited to, loss of contracts or failure to negotiate acceptable terms in contract renewal negotiations, loss of market share by these customers, insolvency of such customers, reduced or delayed customer requirements, plant shutdowns, strikes or other work stoppages affecting production by such customers), continued reduction of prices to these customers, or a failure to obtain new customers, could have a significant adverse effect on our financial results. There can be no assurance that we will not lose all or a portion of sales to our large volume customers, or that we will be able to offset continued reduction of prices to these customers with reductions in our costs or by obtaining new customers.

During fiscal year 2014, sales to our three largest customers, AB Volvo, Daimler AG and Navistar International Corporation, represented approximately 27 percent, 18 percent and 12 percent, respectively, of our sales from continuing operations. No other customer accounted for 10% or more of our total sales from continuing operations in fiscal year 2014.

The level of our sales to large OEM customers, including the realization of future sales from awarded business or obtaining new business or customers, is inherently subject to a number of risks and uncertainties, including the number of vehicles that these OEM customers actually produce and sell. Several of our significant customers have major union contracts that expire periodically and are subject to renegotiation. Any strikes or other actions that affect our customers' production during this process would also affect our sales. Further, to the extent that the financial condition, including bankruptcy or market share of any of our largest customers, deteriorates or their sales otherwise continue to decline, our financial position and results of operations could be adversely affected. In addition, our customers generally have the right to replace us with another supplier under certain circumstances. Accordingly, we may not in fact realize all of the future sales represented by our awarded business. Any failure to realize these sales could have a material adverse effect on our financial condition and results of operations.

Ability to manage rapidly changing production and sales volume in the commercial vehicle market may adversely affect our results of operations.

Production and sales in the commercial vehicle market have been volatile in recent years. Our business may experience difficulty in adapting to rapidly changing production and sales volumes. In an upturn of the cycle when demand increases from what had recently been a historical low for production, we may have difficulty in meeting such extreme or rapidly increasing demand. This difficulty may include not having sufficient manpower or working capital to meet the needs of our customers or relying on other suppliers who may not be able to respond quickly to a changed environment when demand increases rapidly. In contrast, in the downturn of the cycle, we may have difficulty sustaining profitability given fixed costs (as further discussed below).

A further downturn in the global economy could materially adversely affect our results of operations, financial condition and cash flows.

Although the global economy has improved since the global economic recession that began in late 2008 and continued through 2009, the recession had a significant adverse impact on our business, customers and suppliers. Our cash and liquidity needs were impacted by the level, variability and timing of our customers' worldwide vehicle production and other factors outside of our control. If the global economy were to take another significant downturn, depending upon the length, duration and severity of another recession, our results of operations, financial condition and cash flow would be materially adversely affected again.

Our levels of fixed costs can make it difficult to adjust our cost base to the extent necessary, or to make such adjustments on a timely basis, and continued volume declines can result in non-cash impairment charges as the value of certain long-lived assets is reduced. As a result, our financial condition and results of operations have been and would be expected to continue to be adversely affected during periods of prolonged declining production and sales volumes in the commercial vehicle markets.

The negative impact on our financial condition and results of operations from continued volume declines could also have negative effects on our liquidity. If cash flows are not available from our operations, we may be required to rely on the banking and credit markets to meet our financial commitments and short-term liquidity needs; however, we cannot predict whether that funding will be available at all or on commercially reasonable terms. In addition, in the event of reduced sales, levels of receivables would decline, which would lead to a decline in funding available under our U.S. receivables facilities or under our European factoring arrangements.

Our working capital requirements may negatively affect our liquidity and capital resources.

Our working capital requirements can vary significantly, depending in part on the level, variability and timing of our customers' worldwide vehicle production and the payment terms with our customers and suppliers. As production volumes increase, our working capital requirements to support the higher volumes generally increase. If our working capital needs exceed our other cash flows from operations, we would look to our cash balances and availability for borrowings under our borrowing arrangements to satisfy those needs, as well as potential sources of additional capital, which may not be available on satisfactory terms or in adequate amounts.

In addition, since many of our accounts receivable factoring programs support our working capital requirements in Europe, any dissolution of the European monetary union, if it were to occur, or any other termination of our European factoring agreements could have a material adverse effect on our liquidity if we were unable to renegotiate such agreements or find alternative sources of liquidity.

One of our consolidated joint ventures in China participates in bills of exchange programs to settle accounts receivable from its customers and obligations to its trade suppliers. These programs are common in China and generally require the participation of local banks. Any disruption in these programs, if it were to occur, could have an adverse effect on our liquidity if we were unable to find alternative sources of liquidity.

Our liquidity, including our access to capital markets and financing, could be constrained by limitations in the overall credit market, our credit ratings, our ability to comply with financial covenants in our debt instruments, and our suppliers suspending normal trade credit terms on our purchases, or by other factors beyond our control.

Our current revolving credit facility matures in February 2019. Upon expiration of this facility, we will require a new or renegotiated facility (which may be smaller and have less favorable terms than our current facility) or other financing arrangements. Our ability to access additional capital in the long term will depend on availability of capital markets and pricing on commercially reasonable terms as well as our credit profile at the time we are seeking funds, and there is no guarantee that we will be able to access additional capital.

On November 18, 2014, Standard & Poor's Ratings Services upgraded our current corporate credit rating, senior secured credit rating and senior unsecured credit rating to B+, BB and B, respectively. Moody's Investors Service corporate credit rating, senior secured credit rating and senior unsecured credit rating for our company are B2, Ba2 and B3, respectively. There are a number of factors, including our ability to achieve the intended benefits from restructuring and other strategic activities on a timely basis, that could result in lowering of our credit ratings. The rating agencies' opinions about our creditworthiness may also be affected by their views of industry conditions generally, including their views concerning the financial condition of our major OEM customers. If the credit rating agencies perceive further weakening in the industry, they could lower our ratings. Declines in our ratings could reduce our access to capital markets, further increase our borrowing costs and result in lower trading prices for our securities.

Our liquidity could also be adversely impacted if our suppliers were to suspend normal trade credit terms and require more accelerated payment terms, including payment in advance or payment on delivery of purchases. If this were to occur, we would be dependent on other sources of financing to bridge the additional period between payment of our suppliers and receipt of payments from our customers.

In December 2012, the SEC brought administrative proceedings against five accounting firms, including the Chinese affiliate of our independent registered public accounting firm, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC for potential accounting fraud. On January 22, 2014, an initial administrative law decision was issued, censuring these Chinese accounting firms and suspending four of the five firms from practicing before the SEC for a period of six months. The Chinese accounting firms have appealed the initial decision. The sanctions will not become effective until after a full appeal process is concluded and a final order is issued by the SEC Commissioners. The deadline for filing legal briefs in this appeal process has been extended to December 2014. Any final order of the SEC is subject to review by a United States Court of Appeals. Although such an SEC order is final, the Chinese accounting firms may make a motion to the SEC seeking to stay the effectiveness of the SEC order. Alternatively, the Chinese accounting firms may seek an order from the reviewing court to postpone the effective date of the SEC order. Our independent registered public accounting firm is not involved in the proceedings brought by the SEC against the Chinese accounting firms. However, our independent registered public accounting firm utilizes the work of its Chinese affiliate in auditing our Chinese operations. If the SEC order is affirmed on appeal, we may be adversely affected by the outcome of the proceedings, along with other U.S. multinational corporations with Chinese operations whose independent registered public accounting firms utilize the work of Chinese affiliates subject to the SEC enforcement action. For example, if we (like other U.S. multinational companies similarly situated) were not able to timely file our periodic reports with the SEC because our independent registered public accounting firm concludes that a scope limitation exists with respect to the audit our annual financial statements or the review of our quarterly financial statements, this could adversely impact our ability to raise capital in the U.S. public markets.

We operate in an industry that is cyclical and that has periodically experienced significant year-to-year fluctuations in demand for vehicles; we also experience seasonal variations in demand for our products.

The industries in which we operate have been characterized historically by significant periodic fluctuations in overall demand for medium- and heavy-duty trucks and other vehicles for which we supply products, resulting in corresponding fluctuations in demand for our products. The length and timing of any cycle in the vehicle industry cannot be predicted with certainty.

Production and sales of the vehicles for which we supply products generally depend on economic conditions and a variety of other factors that are outside our control, including freight tonnage, customer spending and preferences, vehicle age, labor relations and regulatory requirements. In particular, demand for our Commercial Truck & Industrial segment products can be affected by a pre-buy before the effective date of new regulatory requirements, such as changes in emissions standards. Historically, implementation of new, more stringent, emissions standards, has increased heavy-duty truck demand prior to the effective date of the new regulations, and correspondingly decreased this demand after the new standards are implemented. In addition, any expected increase in the heavy-duty truck demand prior to the effective date of new emissions standards may be offset by instability in the financial markets and resulting economic contraction in the U.S. and worldwide markets.

Sales from the aftermarket portion of our Aftermarket & Trailers segment depend on overall levels of truck ton miles and gross domestic product (GDP) and may be influenced by times of slower economic growth or economic contraction based on the average age of commercial truck fleets.

We may also experience seasonal variations in the demand for our products to the extent that vehicle production fluctuates. Historically, for our business, demand has been somewhat lower in the quarters ended September 30 and December 31, when OEM plants may close during model changeovers and vacation and holiday periods or when there are fewer selling days during the quarter. In addition, our aftermarket business and our operations in China generally experience seasonally higher demand in the quarters ending March 31 and June 30.

Disruptions in the financial markets could impact the availability and cost of credit which could negatively affect our business.

Disruptions in the financial markets, including the bankruptcy, insolvency or restructuring of certain financial institutions, and the lack of liquidity generally could impact the availability and cost of incremental credit for many companies and may adversely affect the availability of credit already arranged. Such disruptions could adversely affect the U.S. and world economy, further negatively impacting consumer spending patterns in the transportation and industrial sectors. In addition, as our customers and suppliers respond to rapidly changing consumer preferences, they may require access to additional capital. If that capital is not available or its cost is prohibitively high, their business would be negatively impacted which could result in further restructuring or even reorganization under bankruptcy laws. Any such negative impact, in turn, could negatively affect our business either through loss of sales to any of our customers so affected or through inability to meet our commitments (or inability to meet them without excess expense) because of loss of supplies from any of our suppliers so affected. There are no assurances that government responses to these disruptions will restore consumer confidence or improve the liquidity of the financial markets.

In addition, disruptions in the capital and credit markets, as were experienced a few years ago, could adversely affect our ability to draw on our revolving credit facility. Our access to funds under that credit facility is dependent on the ability of the banks that are parties to the facility to meet their funding commitments. Those banks may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from Meritor and other borrowers within a short period of time. Longer-term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives, or failures of significant financial institutions could adversely affect our access to liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged.

Continued fluctuation in the prices of raw materials and transportation costs has adversely affected our business and, together with other factors, will continue to pose challenges to our financial results.

Prices of raw materials, primarily steel, for our manufacturing needs and costs of transportation have fluctuated sharply in recent years, including rapid increases which had a negative impact on our operating income for certain periods. These steel price increases, along with increasing transportation costs, created pressure on profit margins, and if they recur in the future, they could unfavorably impact our financial results going forward. While we have had steel pricing adjustment programs in place with most major OE manufacturers, the price adjustment programs have tended to lag the increase in steel costs and have generally not contemplated all non-index-related increases in steel costs. Raw material price fluctuation, together with the volatility of the commodity markets will continue to pose risks to our financial results. If we are unable to pass price increases on to our customer base or otherwise mitigate the costs, our operating income could be adversely affected.

Escalating price pressures from customers may adversely affect our business.

Pricing pressure by OEMs is a characteristic, to a certain extent, of the commercial vehicle industry. Virtually all OEMs have aggressive price reduction initiatives and objectives each year with their suppliers, and such actions are expected to continue in the future. Accordingly, we must be able to reduce our operating costs in order to maintain our current margins. Price reductions have impacted our margins and may do so in the future. There can be no assurance that we will be able to avoid future customer price reductions or offset future customer price reductions through improved operating efficiencies, new manufacturing processes, sourcing alternatives or other cost reduction initiatives.

We operate in a highly competitive industry.

Each of Meritor's businesses operates in a highly competitive environment. We compete worldwide with a number of North American and international providers of components and systems, some of which are owned by or associated with some of our customers. Some of these competitors are larger and have greater financial resources or have established stronger relationships with significant customers. In addition, certain OEMs manufacture products for their own use that compete with the types of products we supply, and any future increase in this activity could displace Meritor's sales.

Many companies in our industry have undertaken substantial changes in contractual obligations to current and former employees, primarily with respect to pensions and other postemployment benefits. The bankruptcy or insolvency of a major competitor has resulted in certain companies eliminating or reducing some or all of these obligations as well as their debt obligations, which could give that competitor a cost advantage over us.

Exchange rate fluctuations could adversely affect our financial condition and results of operations.

As a result of our substantial international operations, we are exposed to foreign currency risks that arise from our normal business operations, including risks in connection with our transactions that are denominated in foreign currencies. While we employ financial instruments to hedge certain of our foreign currency exchange risks relating to these transactions, our efforts to manage these risks may not be successful. In addition, we translate sales and other results denominated in foreign currencies into U.S. dollars for purposes of our consolidated financial statements. As a result, appreciation of the U.S. dollar against these foreign currencies generally will have a negative impact on our reported revenues and operating income, while depreciation of the U.S. dollar against these foreign currencies will generally have a positive effect on reported revenues and operating income. For fiscal years 2012, 2013 and 2014, our reported financial results were adversely affected by appreciation of the U.S. dollar against foreign currencies. We generally do not hedge against our foreign currency exposure related to translations to U.S. dollars of our financial results that are denominated in foreign currencies.

A disruption in supply of raw materials or parts could impact our production and increase our costs.

Some of our significant suppliers have experienced weak financial condition in recent years that resulted in filing for protection under the bankruptcy laws. In addition, some of our significant suppliers are located in developing countries. We are dependent upon the ability of our suppliers to meet performance and quality specifications and delivery schedules. The inability of a supplier to meet these requirements, the loss of a significant supplier, or any labor issues or work stoppages at a significant supplier could disrupt the supply of raw materials and parts to our facilities and could have an adverse effect on us.

Work stoppages or similar difficulties could significantly disrupt our operations.

A work stoppage at one or more of our manufacturing facilities could have a material adverse effect on our business. In addition, if a significant customer were to experience a work stoppage, that customer could halt or limit purchases of our products, which could result in shutting down the related manufacturing facilities. Also, a significant disruption in the supply of a key component due to a work stoppage at one of our suppliers could result in shutting down manufacturing facilities, which could have a material adverse effect on our business.

Our international operations are subject to a number of risks.

We have a significant number of facilities and operations outside the United States, including investments and joint ventures in developing countries. During fiscal 2014, approximately 61 percent of our sales were generated outside of the United States. Our strategy to grow in emerging markets may put us at risk due to the risks inherent in operating in such markets. In particular, we have grown over an extended period of time, and intend as part of our strategy to continue to grow, in India and Brazil. Our international operations are subject to a number of risks inherent in operating abroad, including, but not limited to:

- risks with respect to currency exchange rate fluctuations (as more fully discussed above);
- risks to our liquidity if the European monetary union were to dissolve and we were unable to renegotiate European factoring agreements;
- local economic and political conditions;
- disruptions of capital and trading markets;
- possible terrorist attacks or acts of aggression that could affect vehicle production or the availability of raw materials or supplies;
- restrictive governmental actions (such as restrictions on transfer of funds and trade protection measures, including export duties, quotas and customs duties and tariffs);
- changes in legal or regulatory requirements;
- import or export licensing requirements;
- limitations on the repatriation of funds;
- difficulty in obtaining distribution and support;

- nationalization;
- the laws and policies of the United States affecting trade, foreign investment and loans;
- the ability to attract and retain qualified personnel;
- tax laws; and
- labor disruptions.

There can be no assurance that these risks will not have a material adverse impact on our ability to increase or maintain our foreign sales or on our financial condition or results of operations.

A violation of the financial covenants in our senior secured credit facility could result in a default thereunder and could lead to an acceleration of our obligations under this facility and, potentially, other indebtedness.

Our ability to borrow under our existing financing arrangements depends on our compliance with covenants in the related agreements, and on our performance against covenants in our bank credit facility that require compliance with certain financial ratios as of the end of each fiscal quarter. To the extent that we are unable to maintain compliance with these requirements or to perform against the financial ratio covenants due to one or more of the various risk factors discussed herein or otherwise, our ability to borrow, and our liquidity, would be adversely impacted. Availability under the revolving credit facility is subject to a collateral test, performed quarterly, pursuant to which borrowings on the revolving credit facility cannot exceed 1.0x the collateral test value. Availability under the revolving credit facility is also subject to certain financial covenants based on (i) the ratio of our priority debt (consisting principally of amounts outstanding under the revolving credit facility, term loan, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. We are required to maintain a total priority-debt-to-EBITDA ratio, as defined in the agreement, of not more than 2.25 to 1.00 as of the last day of each fiscal quarter through maturity. If an amendment or waiver is needed (in the event we do not meet one of these covenants) and not obtained, we would be in violation of that covenant, and the lenders would have the right to accelerate the obligations upon the vote of the lenders holding more than 50% of outstanding loans thereunder. A default under the senior secured credit facility could also constitute a default under our outstanding convertible notes as well as our U.S. receivables facility and could result in the acceleration of these obligations. In addition, a default under our senior secured credit facility could result in a cross-default or the acceleration of our payment obligations under other financing agreements. If our obligations under our senior secured credit facility and other financing arrangements are accelerated as described above, our assets and cash flow may be insufficient to fully repay these obligations, and the lenders under our senior secured credit facility could institute foreclosure proceedings against our assets.

Our strategic initiatives may be unsuccessful, may take longer than anticipated, or may result in unanticipated costs.

The success and timing of any future divestitures and acquisitions will depend on a variety of factors, many of which are not within our control. If we engage in acquisitions, we may finance these transactions by issuing additional debt or equity securities. The additional debt from any such acquisitions, if consummated, could increase our debt to capitalization ratio. In addition, the ultimate benefit of any acquisition would depend on our ability to successfully integrate the acquired entity or assets into our existing business and to achieve any projected synergies. There is no assurance that the total costs and total cash costs associated with any current and future restructuring will not exceed our estimates, or that we will be able to achieve the intended benefits of these restructurings.

We are exposed to environmental, health and safety and product liabilities.

Our business is subject to liabilities with respect to environmental and health and safety matters. In addition, we are required to comply with federal, state, local and foreign laws and regulations governing the protection of the environment and health and safety, and we could be held liable for damages arising out of human exposure to hazardous substances or other environmental or natural resource damages. Environmental health and safety laws and regulations are complex, change frequently and tend to be increasingly stringent. As a result, our future costs to comply with such laws may increase significantly. There is also an inherent risk of exposure to warranty and product liability claims, as well as product recalls, in the commercial and automotive vehicle industry if our products fail to perform to specifications or are alleged to cause property damage, injury or death.

With respect to environmental liabilities, we have been designated as a potentially responsible party at nine Superfund sites (excluding sites as to which our records disclose no involvement or as to which our liability has been finally determined). In addition to the Superfund sites, various other lawsuits, claims and proceedings have been asserted against us alleging violations of federal, state and local and foreign environmental protection requirements or seeking remediation of alleged environmental impairments. We have established reserves for these liabilities when we determine that the company has a probable obligation and we can reasonably estimate it, but the process of estimating environmental liabilities is complex and dependent on evolving physical and scientific data at the site, uncertainties as to remedies and technologies to be used, and the outcome of discussions with regulatory agencies. The actual amount of costs or damages for which we may be held responsible could materially exceed our current estimates because of these and other uncertainties which make it difficult to predict actual costs accurately. In future periods, new laws and regulations, changes in remediation plans, advances in technology and additional information about the ultimate clean-up remedy could significantly change our estimates and have a material impact on our financial position and results of operations. Management cannot assess the possible effect of compliance with future requirements.

We are exposed to asbestos litigation liability.

One of our subsidiaries, Maremont Corporation, manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. We 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. Additionally, one of our subsidiaries, Rockwell International, along with many other companies, have 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 manufactured many years ago. Liability for these claims was transferred to us at the time of the spin-off of Rockwell's automotive business to Meritor in 1997.

The uncertainties of asbestos claim litigation, the outcome of litigation with insurance companies regarding the scope of coverage and the long-term solvency of our insurance carriers make it difficult to predict accurately the ultimate resolution of asbestos claims. The possibility of adverse rulings or new legislation affecting asbestos claim litigation or the settlement process increases that uncertainty. Although we have established reserves to address asbestos liability and corresponding receivables for recoveries from our insurance carriers, if our assumptions with respect to 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 asbestos-related claims, and the effect on us, could differ materially from our current estimates and, therefore, could have a material impact on our financial position and results of operations.

We are exposed to the rising cost of pension and other postemployment benefits.

The commercial vehicle industry, like other industries, continues to be impacted by the cost of pension and other postemployment benefits. In estimating our expected obligations under our pension and postemployment benefit plans, we make certain assumptions as to economic and demographic factors, such as discount rates, investment returns and health care cost trends. If actual experience of these factors is worse than our assumptions, our obligations could grow which could in turn increase the amount of mandatory contributions to these plans in the coming years. Our pension plans and other postemployment benefits are underfunded by $219 million and $479 million, respectively, as of September 30, 2014.

Impairment in the carrying value of long-lived assets and goodwill could negatively affect our operating results and financial condition.

We have a significant amount of long-lived assets and goodwill on our consolidated balance sheet. Under generally accepted accounting principles, long-lived assets, excluding goodwill, are required to be reviewed for impairment whenever adverse events or changes in circumstances indicate a possible impairment. If business conditions or other factors cause our operating results and cash flows to decline, we may be required to record non-cash impairment charges. Goodwill must be evaluated for impairment at least annually. If the carrying value of our reporting units exceeds their current fair value, the goodwill is considered impaired and is reduced to fair value via a non-cash charge to earnings. Events and conditions that could result in impairment in the value of our long-lived assets and goodwill include changes impacting the industries in which we operate, particularly the impact of the current downturn in the global economy, as well as competition and advances in technology, adverse changes in the regulatory environment, or other factors leading to reduction in expected long-term sales or operating results. If the value of long-lived assets or goodwill is impaired, our earnings and financial condition could be adversely affected.

The value of our deferred tax assets could become impaired, which could materially and adversely affect our results of operations and financial condition.

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 “Income Taxes,” each quarter we determine the probability of the realization of deferred tax assets, using significant judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. If we determine in the future that there is not sufficient positive evidence to support the valuation of these assets, due to the risk factors described herein or other factors, we may be required to adjust the valuation allowance to reduce our deferred tax assets. Such a reduction could result in material non-cash expenses in the period in which the valuation allowance is adjusted and could have a material adverse effect on our results of operations and financial condition. In addition, future changes in laws or regulations could have a material impact on the company's overall tax position.

Our overall effective tax rate is equal to our total tax expense as a percentage of our total earnings before tax. However, tax expenses and benefits are determined separately for each tax paying component (an individual entity) or group of entities that is consolidated for tax purposes in each jurisdiction. Losses in certain jurisdictions which have valuation allowances against their deferred tax assets provide no current financial statement tax benefit unless required under the intra-period allocation requirements of ASC Topic 740. As a result, changes in the mix of projected earnings between jurisdictions, among other factors, could have a significant impact on our overall effective tax rate.

Our unrecognized tax benefits recorded in accordance with FASB ASC Topic 740 could significantly change.

FASB ASC Topic 740, “Income Taxes,” defines the confidence level that a tax position must meet in order to be recognized in the financial statements. This topic requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. In the event that the more-likely-than-not threshold is not met, we would be required to change the relevant tax position which could have an adverse effect on our results of operations and financial condition.

Restriction on use of tax attributes from tax law “ownership change”

Section 382 of the U.S. Internal Revenue Code of 1986, as amended, limits the ability of a corporation that undergoes an “ownership change” to use its tax attributes, such as net operating losses and tax credits. In general, an “ownership change” occurs if five percent shareholders (applying certain look-through rules) of an issuer's outstanding common stock, collectively, increase their ownership percentage by more than fifty percentage points within any three year period over such shareholders' lowest percentage ownership during this period. If we were to issue new shares of stock, such new shares could contribute to such an “ownership change” under U.S. tax law. Moreover, not every event that could contribute to such an “ownership change” is within our control. If an “ownership change” under Section 382 were to occur, our ability to utilize tax attributes in the future may be limited.

Assertions against us or our customers relating to intellectual property rights could materially impact our business.

Our industry is characterized by companies that hold large numbers of patents and other intellectual property rights and that vigorously pursue, protect and enforce intellectual property rights. From time to time, third parties may assert against us and our customers and distributors their patent and other intellectual property rights to technologies that are important to our business.

Claims that our products or technology infringe third-party intellectual property rights, regardless of their merit or resolution, are frequently costly to defend or settle and divert the efforts and attention of our management and technical personnel. In addition, many of our supply agreements require us to indemnify our customers and distributors from third-party infringement claims, which have in the past and may in the future require that we defend those claims and might require that we pay damages in the case of adverse rulings. Claims of this sort also could harm our relationships with our customers and might deter future customers from doing business with us. We do not know whether we will prevail in these proceedings given the complex technical issues and inherent uncertainties in intellectual property litigation. If any pending or future proceedings result in an adverse outcome, we could be required to:

- cease the manufacture, use or sale of the infringing products or technology;

- pay substantial damages for infringement;
- expend significant resources to develop non-infringing products or technology;
- license technology from the third-party claiming infringement, which license may not be available on commercially reasonable terms, or at all;
- enter into cross-licenses with our competitors, which could weaken our overall intellectual property portfolio;
- lose the opportunity to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property against others;

- pay substantial damages to our customers or end users to discontinue use or replace infringing technology with non-infringing technology; or

- relinquish rights associated with one or more of our patent claims, if our claims are held invalid or otherwise unenforceable.

Any of the foregoing results could have a material adverse effect on our business, financial condition and results of operations.

We utilize a significant amount of intellectual property in our business. If we are unable to protect our intellectual property, our business could be adversely affected.

Our success depends in part upon our ability to protect our intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, trademarks and trade secrets, as well as customary contractual protections with our customers, distributors, employees and consultants, and through security measures to protect our trade secrets. We cannot guarantee that:

- any of our present or future patents will not lapse or be invalidated, circumvented, challenged, abandoned or, in the case of third-party patents licensed or sub-licensed to us, be licensed to others;

- any of our pending or future patent applications will be issued or have the coverage originally sought;

- our intellectual property rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak; or

- any of the trademarks, trade secrets or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged, abandoned or licensed to others.

In addition, we may not receive competitive advantages from the rights granted under our patents and other intellectual property rights. Our competitors may develop technologies that are similar or superior to our proprietary technologies, duplicate our proprietary technologies, or design around the patents we own or license. Our existing and future patents may be circumvented, blocked, licensed to others, or challenged as to inventorship, ownership, scope, validity or enforceability. Effective intellectual property protection may be unavailable or more limited in one or more relevant jurisdictions relative to those protections available in the United States, or may not be applied for in one or more relevant jurisdictions. If we pursue litigation to assert our intellectual property rights, an adverse decision in any of these legal actions could limit our ability to assert our intellectual property rights, limit the value of our technology or otherwise negatively impact our business, financial condition and results of operations.

We are a party to a number of patent and intellectual property license agreements. Some of these license agreements require us to make one-time or periodic payments. We may need to obtain additional licenses or renew existing license agreements in the future. We are unable to predict whether these license agreements can be obtained or renewed on acceptable terms.

A failure of our information technology infrastructure could adversely impact our business and operations.

We recognize the increasing volume of cyber attacks and employ commercially practical efforts to provide reasonable assurance such attacks are appropriately mitigated. Each year, we evaluate the threat profile of our industry to stay abreast of trends and to provide reasonable assurance our existing countermeasures will address any new threats identified. Despite our implementation of security measures, our IT systems and those of our service providers are vulnerable to circumstances beyond our reasonable control including acts of malfeasance, acts of terror, acts of government, natural disasters, civil unrest, and denial of service attacks any of which may lead to the theft of our intellectual property, trade secrets, or business disruption. To the extent that any disruption or security breach results in a loss or damage to our data or an inappropriate disclosure of confidential information, it could cause significant damage to our reputation, affect our relationships with our customers, suppliers and employees, and lead to claims against the company and ultimately harm our business. Additionally, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

At September 30, 2014, our operating segments, including all consolidated joint ventures, had the following facilities in the United States, Europe, South America, Canada, Mexico and the Asia-Pacific region. For purposes of these numbers, multiple facilities in one geographic location are counted as one facility.

	Manufacturing Facilities	Engineering Facilities, Sales Offices, Warehouses and Service Centers
Commercial Truck & Industrial	20	16
Aftermarket & Trailer	8	8
Other	—	4
Total	28	28

These facilities had an aggregate floor space of approximately 9.0 million square feet, substantially all of which is in use. We owned approximately 60 percent and leased approximately 40 percent of this floor space. Substantially all of our owned domestic plants and equipment are subject to liens securing our obligations under our revolving credit facility with a group of banks (see Note 15 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data). In the opinion of management, our properties have been well maintained, are in sound operating condition and contain all equipment and facilities necessary to operate at present levels.

A summary of floor space (in square feet) of these facilities at September 30, 2014, (including new space under construction) is as follows:

	Owned Facilities			Leased Facilities			
Location	Commercial Truck & Industrial	Aftermarket & Trailer	Other	Commercial Truck & Industrial	Aftermarket & Trailer	Other	Total
United States	2,029,291	432,037	417,800	487,039	460,327	—	3,826,494
Canada	—	—	—	—	300,484	—	300,484
Europe	1,870,150	68,326	—	528,076	45,613	12,766	2,524,931
Asia-Pacific	173,155	—	—	1,059,963	87,335	—	1,320,453
Latin America	494,913	—	—	571,743	50,024	—	1,116,680
Total	4,567,509	500,363	417,800	2,646,821	943,783	12,766	9,089,042

Item 3. Legal Proceedings

- See Note 19 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data for information with respect to three class action lawsuits filed against the company as a result of modifications made to its retiree medical benefits.
- See Note 22 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data for information with respect to asbestos-related litigation.
- See Item 1. Business, “Environmental Matters” and Note 22 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data for information relating to environmental proceedings.

- On October 5, 2006, our subsidiary, Meritor Transmission LLC, and ZF Meritor LLC, a joint venture between Meritor Transmission and ZF Friedrichshafen AG, filed a lawsuit against Eaton Corporation in the United States District Court for the District of Delaware, alleging that Eaton had engaged in exclusionary, anticompetitive conduct in the markets for heavy-duty truck transmissions, in violation of the U.S. antitrust laws. We were seeking an injunction prohibiting Eaton from engaging in such anticompetitive conduct and monetary damages. On October 8, 2009, the jury found that Eaton engaged in conduct that violated the Sherman and Clayton antitrust acts in the sale and marketing of heavy-duty truck transmissions. The jury did not address the amount of damages. Following various appeals, the case was scheduled to go to trial in the district court with respect to damages in June 2014. On June 20, 2014, ZF Meritor and Meritor Transmission entered into a settlement agreement with Eaton, pursuant to which Eaton agreed to pay $500 million to ZF Meritor, and ZF Meritor and Meritor Transmission agreed to dismiss all pending antitrust litigation with Eaton. In July 2014, Meritor received net proceeds of $210 million representing our share based on our ownership interest in ZF Meritor including a recovery of current and prior years' attorney expenses paid by Meritor. ZF Meritor does not have any operating activities. Our pre-tax share of the settlement was $210 million ($209 million after-tax), of which $190 million was recognized as equity in earnings of ZF Meritor, and $20 million for the recovery of legal expenses from ZF Meritor was recognized as a reduction of selling, general and administrative expenses in the consolidated statement of operations. Proceeds from the settlement were used primarily to pre-fund mandatory pension contributions in our U.S. and U.K. pension contributions in our U.S. and U.K. pension plans.
- On July 10, 2014, Sistemas Automotrices de Mexico, S.A. de C.V. (“Sisamex”), a Mexican joint venture between our subsidiary Meritor Heavy Vehicle Systems, LLC (“Meritor HVS”) and Quimmco, S.A. de C.V. ("Quimmco"), filed a lawsuit against Meritor HVS in the Northern District of Illinois, seeking, among other relief, a declaration of Sisamex’s exclusive right to manufacture certain products and the components thereof for sale in Mexico. On July 13, 2014, Meritor HVS filed a lawsuit against Sisamex and Quimmco in the Northern District of Illinois, seeking, among other relief, a declaration that Sisamex may not manufacture without Meritor HVS's consent the components at issue in Sisamex's lawsuit and that Sisamex must instead purchase those components from Meritor HVS. On July 23, 2014, the parties to the two actions filed a joint motion seeking an order that the two actions are related and that both actions be heard before the same judge.
- Various other lawsuits, claims and proceedings have been or may be instituted or asserted against Meritor or our subsidiaries relating to the conduct of our business, including those pertaining to product liability, tax, warranty or recall claims, intellectual property, safety and health, contract and employment matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to Meritor, management believes, after consulting with Sandra J. Quick, Esq., Meritor's General Counsel, that the disposition of matters that are pending will not have a material effect on our business, financial condition or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 4A. Executive Officers of the Registrant.

The name, age, positions and offices held with Meritor and principal occupations and employment during the past five years of each of our executive officers as of November 19, 2014, are as follows:

Ivor J. Evans, 72 – Chairman of the Board and Chief Executive Officer since August 2013 and was President from May 2013 until May 2014. Executive Chairman of the Board and Interim Chief Executive Officer from May 2013 until August 2013. Mr. Evans has been a director since May 2005. He served as Vice Chairman of Union Pacific Corporation from January 2004 until his retirement in March 2005, and served as a member of the Union Pacific board of directors from 1999 to 2005. He had served as President and Chief Operating Officer of Union Pacific

Railroad from 1998 until January 2004. From 1989 to 1998, he served in various executive positions at Emerson Electric Company (technology and engineering applications), including Senior Vice President, Industrial Components and Equipment. Prior to that, he was President of Blackstone Corp. (automotive components and systems) from 1985 to 1989 and, prior to that, spent 21 years serving in key operations roles for General Motors Corporation (automotive).

Kevin Nowlan, 42 – Senior Vice President and Chief Financial Officer since May 2013. Vice President and Chief Financial Officer from February 2013 until April 2013. Vice President and Controller of Meritor from December 2010 to February 2013 and Vice President and Treasurer of Meritor from July 2009 until his appointment as Vice President and Controller. From 2008 to 2009, served as Assistant Treasurer of Meritor and from 2007 to 2008 served as Vice President of Shared Services of Meritor. Prior to that, director of Capital Planning for General Motors Acceptance Corp. ("GMAC") from 2006 to 2007 and worked in various roles at GMAC and General Motors Company since 1995.

Jeffrey A. Craig, 54 – President and Chief Operating Officer since June 2014, Senior Vice President and President of Commercial Truck and Industrial from February 2013 until May 2014. Senior Vice President and Chief Financial Officer from January 2009 to January 2013. Acting Controller from May 2008 to January 2009. Senior Vice President and Controller from July 2007 to May 2008. Vice President and Controller of Meritor from May 2006 to July 2007; and President and Chief Executive Officer of GMAC Commercial Finance (commercial lending business) from 2001 to May 2006.

Sandra Quick, 48— Senior Vice President, General Counsel and Corporate Secretary since February 2014. Group Vice President and General Counsel for the Electronics and Interiors Division of Johnson Controls, Inc. from April 2012 until February 2014. Vice President and General Counsel for the North American and South American operations of Johnson Controls Automotive Experience Group from August 2007 until April 2012.

There are no family relationships, as defined in Item 401 of Regulation S-K, between any of the above executive officers and any director, executive officer or person nominated to become a director or executive officer. No officer of Meritor was selected pursuant to any arrangement or understanding between him or her and any person other than Meritor. All executive officers are elected annually.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Meritor's common stock, par value $1 per share ("Common Stock"), is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "MTOR." On November 17, 2014, there were 16,976 shareowners of record of Meritor's Common Stock.

The high and low sale prices per share of Meritor Common Stock for each quarter of fiscal years 2014 and 2013 were as follows:

	Fiscal Year 2014		Fiscal Year 2013	
Quarter Ended	High	Low	High	Low
December 31	$9.93	$6.61	$4.93	$3.94
March 31	12.68	9.41	5.55	4.19
June 30	14.75	11.17	7.42	4.34
September 30	14.09	11.41	8.40	6.77

There were no dividends declared and paid in fiscal year 2014 or in fiscal year 2013. Our payment of cash dividends and the amount of the dividend are subject to review and change at the discretion of our Board of Directors.

Our revolving credit facility permits us to declare and pay up to $40 million of dividends in any fiscal year provided that no default or unmatured default, as defined in the agreement, has occurred and is continuing at the date of declaration or payment.

Additionally, our indentures permit us to pay dividends under the following primary conditions:
- if a default on the notes, as defined in the indentures, has not occurred and is not continuing or shall not occur as a consequence of the payment;
- if the interest coverage ratio, as defined in the indentures, is greater than 2.00 to 1.00 after giving effect to the dividend;
- if the cumulative amount of the dividends paid does not exceed certain cumulative cash and earnings measurements;
- if the dividends are less than $60 million per fiscal year (with a carryover to the next fiscal year of up to $60 million if unused in the current fiscal year); and
- if after giving effect to the dividend, the total leverage ratio, as defined in the indenture, would not exceed 4.00 to 1.00.

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for information on securities authorized for issuance under equity compensation plans.

Issuer repurchases

The independent trustee of our 401(k) plans purchases shares in the open market to fund investments by employees in our common stock, one of the investment options available under such plans, and any matching contributions in company stock we provide under certain of such plans. In addition, our stock incentive plans permit payment of an option exercise price by means of cashless exercise through a broker and permit the satisfaction of the minimum statutory tax obligations upon exercise of options and the vesting of restricted stock units through stock withholding. However, the company does not believe such purchases or transactions are issuer repurchases for the purposes of this

Item 5 of this Report on Form 10-K. In addition, our stock incentive plans also permit the satisfaction of tax obligations upon the vesting of restricted stock through stock withholding. There were no shares withheld in the fourth quarter of fiscal year 2014.

Shareowner Return Performance Presentation

The line graph below compares the cumulative total shareowner return of the S&P 500, Meritor, Inc. and the peer group of companies for the period from September 30, 2009 to September 30, 2014, assuming a fixed investment of $100 at the respective closing prices on the last day of each fiscal year and reinvestment of cash dividends.

	9/09	9/10	9/11	9/12	9/13	9/14
Meritor, Inc.	100.00	198.72	90.28	54.22	100.51	138.75
S&P 500	100.00	110.16	111.42	145.07	173.13	207.30
Peer Group[(1)]	100.00	199.72	177.60	208.27	313.80	317.33

(1) The peer group consists of representative commercial vehicle suppliers of approximately comparable products to Meritor. The peer group consists of Accuride Corporation, Commercial Vehicle Group, Inc., Cummins Inc., Dana Holding Corporation, Haldex AB, Modine Manufacturing Company, SAF-Holland SA, Stoneridge, Inc., and Wabco Holdings Inc.

The information included under the heading “Shareowner Return Performance Presentation” is not to be treated as “soliciting material” or as “filed” with the SEC, and is not incorporated by reference into any filing by the company under the Securities Act of 1933 or the Securities Exchange Act of 1934 that is made on, before or after the date of filing of this Annual Report on Form 10-K.

Item 6. Selected Financial Data.

The following sets forth selected consolidated financial data. The data should be read in conjunction with the information included under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data below. Prior periods have been recast to reflect our Mascot business as discontinued operations.

	Year Ended September 30,				
	2014	2013	2012	2011	2010
	(in millions, except per share amounts)				
SUMMARY OF OPERATIONS					
Sales					
Commercial Truck & Industrial	$2,980	$2,920	$3,613	$3,828	$2,826
Aftermarket & Trailer	920	871	906	915	836
Intersegment Sales	(134)	(119)	(135)	(159)	(164)
Total Sales	$3,766	$3,672	$4,384	$4,584	$3,498
Operating Income	$217	$7	$173	$172	$131
Income (Loss) Before Income Taxes	315	51	137	157	75
Net Income Attributable to Noncontrolling Interests	(5)	(2)	(11)	(17)	(14)
Net Income (Loss) Attributable to Meritor, Inc.:					
Income (Loss) from Continuing Operations	$279	$(15)	$69	$64	$13
Loss from Discontinued Operations	(30)	(7)	(17)	(1)	(1)
Net Income (Loss)	$249	$(22)	$52	$63	$12
BASIC EARNINGS (LOSS) PER SHARE					
Continuing Operations	$2.86	$(0.15)	$0.72	$0.68	$0.15
Discontinued Operations	(0.31)	(0.07)	(0.18)	(0.01)	(0.01)
Basic Earnings (Loss) per Share	$2.55	$(0.22)	$0.54	$0.67	$0.14
DILUTED EARNINGS (LOSS) PER SHARE					
Continuing Operations	$2.81	$(0.15)	$0.71	$0.66	$0.15
Discontinued Operations	(0.30)	(0.07)	(0.17)	(0.01)	(0.01)
Diluted Earnings (Loss) per Share	$2.51	$(0.22)	$0.54	$0.65	$0.14
FINANCIAL POSITION AT SEPTEMBER 30					
Total Assets	$2,502	$2,570	$2,501	$2,663	$2,879
Short-term Debt	7	13	18	84	—
Long-term Debt	965	1,125	1,042	950	1,029

Income (loss) from continuing operations attributable to Meritor, Inc. in the selected financial data information presented above includes the following items specific to the period of occurrence (in millions):

	Year Ended September 30,				
	2014	2013	2012	2011	2010
Pretax items:					
Restructuring costs	$(10)	$(23)	$(39)	$(22)	$(6)
Impact of curtailment gain, pension settlement loss and pension plan freeze	15	(109)	—	—	7
Antitrust settlement with Eaton (including recovery of past legal fees)	209	—	—	—	—
Gain on sale of equity investment	—	125	—	—	—
Specific warranty contingency, net of supplier recovery	(8)	(7)	—	—	—
Loss on debt extinguishment	(31)	(19)	—	—	—
Gain on sale of property	—	—	16	—	—
Asbestos-related liability remeasurement	(20)	(7)	(18)	—	—
Non-operating gains, net	—	3	7	10	2
After tax items:					
Deferred tax asset valuation allowance benefit (expense)	—	—	—	—	9

Loss from discontinued operations attributable to Meritor, Inc. in the selected financial data information presented above includes the following items specific to the period of occurrence (in millions):

	Year Ended September 30,				
	2014	2013	2012	2011	2010
Pretax items:					
Gain (loss) on divestitures of businesses, net	$(23)	$—	$(1)	$19	$5
Restructuring costs	—	(3)	(1)	(9)	(6)
Asset impairment charges	—	—	—	—	(2)
Charge for contingency and indemnity obligation	—	—	(10)	(4)	—

30

Item 7. 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.

Our sales for fiscal year 2014 were $3,766 million, an increase compared to $3,672 million in the prior year. We experienced higher sales driven primarily by higher truck production volumes in North America offset by lower commercial truck production in South America and a step down in the company's revenue from the Family of Medium Tactical Vehicles (FMTV) program. Net income for the year ended September 30, 2014 was $249 million compared to a net loss of $22 million in the prior year. The increase in net income is primarily due to our share of the proceeds recognized by ZF Meritor LLC, a joint venture between our subsidiary Meritor Transmission LLC and ZF Friedrichshafen, in connection with the settlement of an antitrust lawsuit against Eaton Corporation in fiscal year 2014 as well as improved operating performance from prior year.

Adjusted EBITDA (see Non-GAAP Financial Measures below) for the fiscal year ended September 30, 2014 was $314 million compared to $264 million in fiscal year 2013. Our Adjusted EBITDA margin in fiscal year 2014 was 8.3 percent compared to 7.2 percent in the same period a year ago. Adjusted EBITDA and Adjusted EBITDA margin increased compared to the prior year primarily as a result of improved material and operating performance, pricing and slightly higher revenue, partially offset by the unfavorable sales mix.

Cash flows provided by operating activities were $215 million in fiscal year 2014 compared to cash flows used for operating activities of $96 million in the prior fiscal year. This improvement is primarily due to improvement in earnings from operations including $209 million in proceeds received from the settlement of the Eaton antitrust litigation, partially offset by pension and retiree medical contributions, including $134 million associated with the voluntary pre-funding of the next three years of mandatory contributions in our U.S. and U.K. pension plans, and decrease in working capital compared to fiscal year 2013.

Capital Market Transactions and Revolving Credit Facility

During the second quarter of fiscal year 2014, we issued $225 million of 6.25 percent notes due 2024. Net proceeds and balance sheet cash were used to complete the redemption, at a premium, of $250 million of our 10.625 percent notes due 2018 and for repayment of our remaining $41 million term loan balance. These transactions resulted in a net loss on debt extinguishment of $21 million. The net loss on debt extinguishment is included in interest expense, net in the consolidated statement of operations.

On August 5, 2014, we repurchased $38 million of our 4.0 percent convertible notes due February 15, 2027. The notes were purchased at a premium of 7 percent of their principal amount. The repurchase of $38 million of our 4.0 percent convertible notes was accounted for as an extinguishment of debt, and accordingly, we recognized a net loss on debt extinguishment of $5 million. The net loss on debt extinguishment is included in interest expense, net in the consolidated statement of operations.

On September 20, 2014, we completed the redemption of our 8.125 percent notes due September 15, 2015. The notes were redeemed at a premium of 7 percent of their principal amount. The repurchase of $84 million of our 8.125 percent notes was accounted for as an extinguishment of debt, and accordingly, we recognized a net loss on debt extinguishment of $5 million. The net loss on debt extinguishment is included in interest expense, net in the consolidated statement of operations.

We also amended our revolving credit agreement in February 2014. The maturity date was extended to February 2019, and the facility size was increased to $499 million through April 2017. The facility size then decreases to $410 million through February 2019. This amendment also reduced the applicable interest rate margins by 75 basis points and increased the priority debt-to-EBITDA covenant from 2.0x to 2.25x through maturity.

On September 12, 2014, we entered into Amendment No. 1 to the Second Amended and Restated Credit Agreement and Second Amended and Restated Pledge and Security Agreement ("Amendment No. 1"), among the company, ArvinMeritor Finance Ireland, the financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent. Amendment No. 1, among other things, (i) permits us to repurchase shares of capital stock for a purchase price not to exceed the lesser of (a) $210,000,000, and (b) the amount of our free cash flow for the period commencing on June 30, 2014 through and including the last day of the most recently ended fiscal quarter prior to the share repurchase date, provided that our net debt (including retirement liabilities) after giving effect to such repurchase is less than $1,500,000,000 and (ii) resets the amount of certain permitted debt repurchases under the restricted payments covenant to $100,000,000 as of the date of Amendment No. 1.

Equity in Earnings of ZF Meritor

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

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

Restructuring Actions - South America Labor Reduction

In the fourth quarter of fiscal year 2014, we announced a labor headcount reduction plan to manage our cost structure in South America to address softening economic conditions in the region. We recognized $7 million in restructuring charges related to this action. Total restructuring charges, including other actions recognized in fiscal year 2014 were $10 million, all of which related to severance charges.

Mascot Divestiture

On August 15, 2014, we completed our strategic review of certain remanufacturing product lines within the aftermarket business in North America, and the Board of Directors concluded that we should exit the Mascot business. Mascot is a remanufacturer and distributor of all makes differentials, transmissions and steering gears. We sold substantially all of the inventory and other assets of the Mascot business, incurring a loss of $23 million, and liquidated the remaining assets. The results of operations and cash flows of our Mascot business are presented in discontinued operations in the consolidated statement of operations, consolidated statement of cash flows, and prior period information has been recast to reflect this presentation.

Retiree Medical and Retiree Life Insurance Actions

During the fourth quarter of fiscal year 2014, we amended our retiree medical and retiree life insurance plan in the United States to cease retiree medical coverage for salaried and non-union hourly employees under the age of 65 and eliminate retiree life insurance coverage with face amounts ranging from $3,750 to $15,000, effective January 1, 2015. The amendment triggered a curtailment in the fourth quarter of fiscal year 2014, which immediately reduced our retiree medical liability by $16 million (i.e., a curtailment gain) and reduced retiree medical expense by $15 million. The reduction in expense was primarily attributable to the required immediate recognition of negative prior service costs which were previously being amortized into net periodic expense over the active participants' remaining average service life. The $16 million reduction to the retiree medical liability established a new negative prior service cost base, which will be amortized into net period expense over the remaining average service life of approximately 8 years.

Asbestos

During the fourth quarter of fiscal year 2014, we incurred a $20 million charge associated with the re-measurement of our asbestos liabilities net of insurance recoveries at year end. The increase in our fiscal year 2014 liabilities is primarily due to increasing claim filings and higher projected defense costs. Management is actively trying to mitigate its exposure to asbestos related liabilities through renegotiated contracts with national and regional defense firms to lower costs and active litigation against insurers that are disputing coverage.

Trends and Uncertainties

Industry Production Volumes

The following table reflects estimated commercial truck production volumes for selected original equipment (OE) markets based on available sources and management's estimates.

	Year Ended September 30,				
	2014	2013	2012	2011	2010
Estimated Commercial Truck production (in thousands):					
North America, Heavy-Duty Trucks	281	243	295	224	146
North America, Medium-Duty Trucks	213	197	182	159	114
Western Europe, Heavy- and Medium-Duty Trucks	402	383	394	407	266
South America, Heavy- and Medium- Duty Trucks	166	186	165	204	179

During fiscal year 2015, we expect a modest increase in production volumes in North America compared to the levels experienced in fiscal year 2014. We anticipate a significant decrease in production volumes in South America resulting from continued economic uncertainty. We expect production volumes in Europe to soften compared to the levels experienced in fiscal year 2014. Production volumes in China are expected to increase slightly 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. We are working to secure our participation in new military programs with various OEMs. However, failure to secure new military contracts could have a longer-term negative impact on our Commercial Truck and Industrial Segment. In addition, even if sales of our military programs do return to historical levels, the profitability on these sales could be lower than what we have recognized in recent periods.

Other

On October 2, 2014, we entered into an agreement with Volvo (our largest global customer) regarding our contract covering axle supply in Europe and South America through December 31, 2021 and axle supply in Australia through May 31, 2019. These agreements replace existing agreements which expired on October 4, 2014. In addition, we entered into agreements with Volvo to extend and amend our existing agreements with respect to the supply of axles and drivelines in North America through May 31, 2019.

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 contracts 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;
- 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 divesture or wind down of any portion of our businesses;
- Higher-than-planned price reductions to our customers;
- Potential price increases from our suppliers;
- Additional restructuring actions and the timing and recognition of restructuring charges, including any actions associated with the prolonged softness in markets in which we operate;
- Higher-than-planned warranty expenses, including the outcome of known or potential recall campaigns;
- Our ability to implement planned productivity, cost reduction, and other margin improvement initiatives;
- Uncertainties of asbestos claim litigation and the outcome of litigation with insurance companies regarding the scope of coverage and the long-term solvency of our insurance carriers; and
- Restrictive government actions by foreign countries (such as restrictions on transfer of funds and trade protection measures, including export duties, quotas and customs duties and tariffs).

NON-GAAP FINANCIAL MEASURES

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

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

Management believes these non-GAAP financial measures are useful to both management and investors in their analysis of the company's financial position and results of operations. In particular, management believes that Adjusted EBITDA, Adjusted EBITDA margin and Adjusted diluted earnings (loss) per share from continuing operations are meaningful measures of performance as they are commonly utilized by management and the investment community to analyze operating performance in our industry. Further, management uses Adjusted EBITDA for planning and forecasting future periods. In addition, we use Segment EBITDA as the primary basis for the Chief Operating Decision Maker (CODM) to evaluate the performance of each of our reportable segments. 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. Management believes that free cash flow is useful in analyzing our ability to service and repay debt and return value directly to shareholders. Net debt, including retirement liabilities, is a specific financial measure which is part of our three-year plan, M2016, to reduce debt and other balance sheet liabilities.

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

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

	Year Ended September 30,		
	2014	2013 [2]	2012 [2]
Adjusted income from continuing operations attributable to the company, net of tax	$101	$41	$110
Antitrust settlement with Eaton [1]	208	—	—
Restructuring costs	(7)	(22)	(39)
Gain on sale of property	—	—	16
Specific warranty contingency, net of supplier recovery	8	(7)	—
Pension settlement losses	—	(100)	—
Asbestos-related liability remeasurement	—	—	(18)
Gain on sale of equity investment	—	92	—
Loss on debt extinguishment	(31)	(19)	—
Income (loss) from continuing operations attributable to the company	$279	$(15)	$69
Adjusted diluted earnings per share from continuing operations	$1.02	$0.42	$1.13
Impact of adjustments on diluted earnings per share	1.79	(0.57)	(0.42)
Diluted earnings (loss) per share from continuing operations	$2.81	$(0.15)	$0.71

[1] Adjustment associated with our share of the antitrust settlement with Eaton less legal expenses incurred in fiscal year 2014.

[2] Amounts for prior periods have been recast for discontinued operations.

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

	Year Ended September 30,		
	2014	2013	2012
Cash provided by (used for) operating activities	$215	$(96)	$77
Capital expenditures	(77)	(54)	(89)
Free cash flow	$138	$(150)	$(12)

Net debt, including retirement liabilities, is reconciled to total debt (in millions).

	September 30,	
	2014	2013
Short-term debt	$7	$13
Long-term debt	965	1,125
Total debt	972	1,138
Pension assets - non-current	(104)	(55)
Pension liability - current	8	9
Pension liability - non-current	315	387
Pension liability	219	341
Retiree medical liability - current	33	37
Retiree medical liability - non-current	446	476
Retire medical liability	479	513
Other retirement benefits - current	2	2
Other retirement benefits - non-current	14	23
Subtotal	1,686	2,017
Less: Cash and cash equivalents	(247)	(318)
Net debt, including retirement liabilities	$1,439	$1,699

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

Results of Operations

The following is a summary of our financial results for the last three fiscal years.

	Year Ended September 30,		
	2014	2013 [3]	2012 [3]
	(in millions, except per share amounts)		
Sales:			
Commercial Truck & Industrial	$2,980	$2,920	$3,613
Aftermarket & Trailer	920	871	906
Intersegment Sales	(134)	(119)	(135)
SALES	$3,766	$3,672	$4,384
SEGMENT EBITDA:			
Commercial Truck & Industrial	$218	$192	$270
Aftermarket & Trailer	106	87	81
SEGMENT EBITDA	324	279	351
Unallocated legacy and corporate costs, net [1]	(10)	(15)	(6)
ADJUSTED EBITDA	314	264	345
Interest expense, net	(130)	(126)	(95)
Provision for income taxes	(31)	(64)	(57)
Depreciation and amortization	(67)	(67)	(63)
Restructuring costs	(10)	(23)	(39)
Loss on sale of receivables	(8)	(6)	(9)
Pension settlement losses	—	(109)	—
Antitrust settlement with Eaton, net of tax [2]	208	—	—
Gain on sale of equity investment	—	125	—
Specific warranty contingency, net of supplier recovery	8	(7)	—
Gain on sale of property	—	—	16
Asbestos-related liability remeasurement	—	—	(18)
Noncontrolling interests	(5)	(2)	(11)
INCOME (LOSS) FROM CONTINUING OPERATIONS, attributable to Meritor, Inc.	279	(15)	69
LOSS FROM DISCONTINUED OPERATIONS, net of tax, attributable to Meritor, Inc.	(30)	(7)	(17)
NET INCOME (LOSS) attributable to Meritor, Inc.	$249	$(22)	$52
DILUTED EARNINGS (LOSS) PER SHARE, attributable to Meritor, Inc.			
Continuing operations	$2.81	$(0.15)	$0.71
Discontinued operations	(0.30)	(0.07)	(0.17)
Diluted earnings (loss) per share	$2.51	$(0.22)	$0.54
DILUTED AVERAGE COMMON SHARES OUTSTANDING	99.2	97.1	97.2

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

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

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

Fiscal Year 2014 Compared to Fiscal Year 2013

Sales

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

					Dollar Change Due To	
	2014	2013	Dollar Change	% Change	Currency	Volume / Other
Sales:						
Commercial Truck & Industrial	$2,980	$2,920	$60	2 %	$(41)	$101
Aftermarket & Trailer	920	871	49	6 %	4	45
Intersegment Sales	(134)	(119)	(15)	13 %	(10)	(5)
TOTAL SALES	$3,766	$3,672	$94	3 %	$(47)	$141

Commercial Truck & Industrial sales were $2,980 million in fiscal year 2014, up 2 percent from fiscal year 2013, reflecting higher production primarily in our North America truck market partially offset by lower commercial truck production in South America and a step down in our FMTV program. North America industry-wide production volumes for heavy-duty trucks increased 16% in fiscal year 2014 as compared to fiscal year 2013. In addition, we experienced slightly higher sales in Europe in fiscal year 2014 compared to the prior fiscal year driven by sales in advance of Europe's implementation of the new commercial truck emission standards in January 2014. Sales in South America declined in fiscal year 2014 compared to fiscal year 2013 due to macro-economic conditions in the region. Foreign currency exchange rates, primarily the depreciation of the Brazilian real, unfavorably impacted sales by $41 million compared to the prior fiscal year.

Aftermarket & Trailer sales were $920 million in fiscal year 2014, up 6 percent from fiscal year 2013. The increase was primarily due to higher revenue across all parts of the segment.

Cost of Sales and Gross Profit

Cost of sales primarily represents materials, labor and overhead production costs associated with the company’s products and production facilities. Cost of sales for the fiscal year ended September 30, 2014 was $3,279 million compared to $3,277 million in the prior year. Total cost of sales was approximately 87.1 percent of sales for the fiscal year ended September 30, 2014 compared to approximately 89.2 percent for the prior fiscal year.

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

	Cost of Sales
Fiscal year ended September 30, 2013	$3,277
Volumes, mix and other, net	34
Foreign exchange	(32)

Fiscal year ended September 30, 2014	$3,279

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

Higher material costs	$65
Lower labor and overhead costs	(26)
Other, net	(37)
Total increase in costs of sales	$2

Material costs represent the majority of our cost of sales and include raw materials, composed primarily of steel and purchased components. Material costs increased by $65 million compared to the prior fiscal year primarily as a result of higher volume partially offset by material cost savings and movement in foreign currency rates, primarily the depreciation of the Brazilian real.

Labor and overhead costs decreased by $26 million compared to the prior fiscal year. The decrease was primarily due to a specific warranty contingency recorded in fiscal year 2013 that was substantially reversed in fiscal year 2014, savings associated with labor and burden cost reduction programs and by movement in foreign currency rates, primarily the depreciation of the Brazilian real.

Other, net decreased by $37 million compared to the prior fiscal year. The decrease was primarily due to a $15 million immediate recognition of negative prior service costs related to the curtailment on our retiree medical liability and decrease in foreign currency transaction losses.

Gross margin, for fiscal year 2014 was $487 million compared to $395 million in fiscal year 2013. Gross margin, as a percentage of sales, was 12.9 percent and 10.8 percent for fiscal years 2014 and 2013, respectively.

Other Income Statement Items

Selling, general and administrative expenses (SG&A) for fiscal years 2014 and 2013 are summarized as follows (in millions):

	2014		2013		Increase (Decrease)	
	Amount	% of sales	Amount	% of sales		
SG&A						
Loss on sale of receivables	$8	0.2 %	$6	0.2 %	$2	—
Short- and long-term variable compensation	35	0.9 %	20	0.5 %	15	0.4 pts
Legal fee recovery from the Eaton settlement	(20)	(0.5)%	—	— %	(20)	(0.5) pts
Asbestos-related liability remeasurement	20	0.5 %	7	0.2 %	13	0.3 pts
Executive severance	—	— %	4	0.1 %	(4)	(0.1) pts
Long-term liability reduction	(5)	(0.1)%	—	— %	(5)	(0.1) pts
All other SG&A	220	5.8 %	216	5.9 %	4	(0.1) pts
Total SG&A	$258	6.8 %	$253	6.9 %	$5	(0.1) pts

In the fourth quarter of fiscal year 2014, we incurred a $20 million charge associated with the re-measurement of our asbestos liabilities net of expected insurance recoveries. The increase in our fiscal year 2014 net liability is primarily due to increasing claim filings and higher projected defense costs.

In the third quarter of fiscal year 2014, as a result of the settlement with Eaton, ZF Meritor was obligated to reimburse the company $20 million for the recovery of current and prior period legal expenses. We recognized the recovery in SG&A as the historical incurrence of these costs was included in SG&A in the consolidated statements of operations in prior periods.

In the first quarter of fiscal year 2014, we executed a change to our long-term disability benefit plan reducing the duration for which we provide medical and dental benefits to individuals on long-term disability to be more consistent with market practices. This resulted in a $5 million reduction in the liability associated with these benefits.
All other SG&A represents normal selling, general and administrative expense and decreased year over year. Total SG&A as a percentage of sales remained relatively flat year over year.

Pension settlement losses of $109 million were recognized during the fiscal year ended 2013. During the third quarter ended June 30, 2013, we recognized $36 million loss associated with the settlement of certain Canadian pension plans. In addition, we recognized a $73 million settlement loss in the fourth quarter of fiscal year 2013 associated with our U.S. retirement plan lump-sum payouts.

Restructuring costs were $10 million in fiscal year 2014 compared to $23 million in fiscal year 2013. Our Commercial Truck & Industrial segment recognized $8 million of restructuring costs in fiscal year 2014 primarily related to employee severance costs. Our Aftermarket & Trailer segment recognized $1 million of restructuring costs during fiscal year 2014 primarily related to employee severance costs. In addition, we recognized $1 million of restructuring costs at our corporate locations.

Restructuring costs in fiscal year 2013 were $23 million. Our Commercial Truck & Industrial segment recognized $17 million primarily related to employee severance costs and a lease termination. Our Aftermarket & Trailer segment recognized $3 million of restructuring costs during fiscal year 2013 primarily related to employee severance costs. In addition, we recognized $3 million of restructuring costs at our corporate locations associated with our segment reorganization.

Operating income for fiscal year 2014 was $217 million, compared to $7 million in fiscal year 2013. Key items affecting income are discussed above.

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

Equity in earnings of affiliates was $38 million in fiscal year 2014, compared to $42 million in the prior year. The decrease was primarily due to the sale of our ownership interest in the Suspensys Sistemas Automotivos LTDA (the "Suspensys joint venture") in the fourth quarter of fiscal year 2013, partially offset by higher earnings from our North American joint ventures.

Gain on sale of equity investment of $125 million was recognized in fiscal year 2013 associated with the sale of our 50-percent ownership interest in our Suspensys joint venture in the fourth quarter of fiscal year 2013.

Interest expense, net was $130 million and $126 million in fiscal years 2014 and 2013, respectively. The increase was driven
primarily by the loss on debt extinguishment incurred in fiscal year 2014 compared to the prior fiscal year. In fiscal year 2014, we recognized $31 million net loss on debt extinguishment compared to $19 million in the prior fiscal year. During the second quarter ended March 31, 2014, we exercised a call option to redeem $250 million of our 10.625 percent notes due 2018 at a premium of 5.313 percent of the principal amount. During the fourth quarter, we repurchased the remaining $84 million of our 8.125 percent notes as well as $38 million of our 4.0 percent convertible notes due 2027. Excluding loss on debt extinguishment, our interest expense year over year decreased.

Provision for income taxes was $31 million in fiscal year 2014 compared to $64 million in fiscal year 2013. The decrease in provision for income taxes was primarily attributable to the tax effect of the gain on the sale of our equity interest in our Suspensys joint venture, partially offset by the tax benefit received from the Canadian pension settlement charge, both recorded in fiscal year 2013. Provision for income taxes in fiscal year 2014 also decreased due to lower earnings in tax-paying jurisdictions. In fiscal year 2014, our effective tax rate was 10 percent compared to 125 percent in the prior year. The decrease is primarily attributable to $210 million of pre-tax share on the antitrust lawsuit settlement with Eaton Corporation, which was recorded in a jurisdiction with a valuation allowance. This income resulted in a decrease to the valuation allowance, rather than an adjustment to income tax expense.

Income (loss) from continuing operations (before noncontrolling interests) for fiscal year 2014 was $284 million compared to a loss from continuing operations of $13 million in fiscal year 2013. The reasons for the increase are previously discussed.

Loss from discontinued operations for fiscal year 2014 was $30 million, compared to a loss of $7 million in the prior fiscal year. Significant items included in results from discontinued operations in fiscal years 2014 and 2013 include the following (in millions):

	Year Ended September 30, 2014	2013
Operating loss, net (primarily Mascot)	$(8)	$(3)
Loss on Mascot Disposal [1]	(23)	—
Environmental remediation charges	(4)	(5)
Other, net	(2)	(4)
Loss before income taxes	(37)	(12)
Benefit for income taxes	7	5
Loss from discontinued operations attributable to Meritor, Inc.	$(30)	$(7)

[1] Includes loss on sale, severance and other disposal costs.

Net income attributable to noncontrolling interests was $5 million in fiscal year 2014 compared to $2 million in fiscal year 2013. Noncontrolling interests represent our minority partners' share of income or loss associated with our less than 100-percent-owned consolidated subsidiaries.

Net income (loss) attributable to Meritor, Inc. was $249 million for fiscal year 2014 compared to a net loss of $22 million in fiscal year 2013. Various factors affecting the net income are previously discussed.

Segment EBITDA and EBITDA Margins

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

As discussed previously, we announced the planned disposition of our Mascot business during the fourth quarter of fiscal year 2014 and ceased all manufacturing operations and use of productive assets prior to September 30, 2014. The Mascot business has been classified as part of discontinued operations at September 30, 2014, and all prior period amounts have been recast to reflect this presentation.

The following table reflects Segment EBITDA and EBITDA margins for fiscal years 2014 and 2013 (dollars in millions).

	Segment EBITDA				Segment EBITDA Margins		
	2014	2013	$ Change	% Change	2014	2013	Change
Commercial Truck & Industrial	$218	$192	$26	14 %	7.3 %	6.6 %	0.7 pts
Aftermarket & Trailer	106	87	19	22 %	11.5 %	10.0 %	1.5 pts
Segment EBITDA	$324	$279	$45	16 %	8.6 %	7.6 %	1.0 pts

41

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

	Commercial Truck & Industrial	Aftermarket & Trailer	TOTAL
Segment EBITDA–Year ended September 30, 2013	$192	$87	$279
Lower earnings from unconsolidated affiliates	(1)	(5)	(6)
Higher variable compensation	(12)	(3)	(15)
Impact of foreign currency exchange rates	(14)	(2)	(16)
Volume, mix, pricing and other	53	29	82
Segment EBITDA – Year ended September 30, 2014	$218	$106	$324

Commercial Truck & Industrial Segment EBITDA was $218 million in fiscal year 2014 compared to $192 million in the prior fiscal year. Segment EBITDA margin increased to 7.3 percent in fiscal year 2014 compared to 6.6 percent in the prior fiscal year. The increase in Segment EBITDA and EBITDA margin reflects the favorable impact of material, labor and burden performance and higher commercial vehicle sales, primarily in North America. This was partially offset by the unfavorable mix impact of lower sales in South America and Defense and higher variable incentive compensation.

Aftermarket & Trailer Segment EBITDA was $106 million in fiscal year 2014, up $19 million compared to the prior fiscal year. Segment EBITDA margin increased to 11.5 percent compared to 10.0 percent in the prior year. The increase in Segment EBITDA and EBITDA margin is primarily due to higher sales of our core aftermarket products, pricing actions, and favorable material, labor and burden performance, which more than offset the loss of earnings associated with the divestiture of our 50-percent ownership interest in our Suspensys joint venture during the fourth quarter of fiscal year 2013. The prior year also includes a $5 million value-added tax charge that did not repeat in fiscal year 2014.

Fiscal Year 2013 Compared to Fiscal Year 2012

Sales

The following table reflects total company and business segment sales for fiscal years 2013 and 2012. The reconciliation is intended to reflect the trend in business segment sales and to illustrate the impact that changes in foreign currency exchange rates, volumes and other factors had on sales. Business segment sales include intersegment sales (in millions).

					Dollar Change Due To	
	2013	2012	Dollar Change	% Change	Currency	Volume / Other
Sales:						
Commercial Truck & Industrial	$2,920	$3,613	$(693)	(19)%	$(47)	$(646)
Aftermarket & Trailer	871	906	(35)	(4)%	3	(38)
Intersegment Sales	(119)	(135)	16	(12)%	(2)	18
TOTAL SALES	$3,672	$4,384	$(712)	(16)%	$(46)	$(666)

Commercial Truck & Industrial sales were $2,920 million in fiscal year 2013, down 19 percent from fiscal year 2012, primarily reflecting lower commercial truck production globally. North American industry-wide production volumes for heavy-duty trucks decreased 18 percent in fiscal year 2013 as compared to the prior year. Industry-wide production volumes in Europe were down 8 percent. Our sales in China and India declined 46% and 41%, respectively, as production declined sharply in these regions. In addition, our military business decreased due to the step down in FMTV production. Industry-wide production volumes for South America increased 13%. However, the favorable impact of production volumes in this region were largely offset by the depreciation of the Brazilian real.

Aftermarket & Trailer sales were $871 million in fiscal year 2013, down 4 percent from fiscal year 2012. The decrease in sales is primarily due to lower sales of core aftermarket replacement products, primarily in North America partially offset by pricing actions in our Aftermarket business.

Cost of Sales and Gross Profit

Cost of sales primarily represents materials, labor and overhead production costs associated with the company's products and production facilities. Cost of sales for the fiscal year ended September 30, 2013 was $3,277 million compared to $3,902 million in the prior year, representing a decrease of 16 percent. The decrease in costs of sales is primarily due to lower sales volumes, which is discussed above.

Total cost of sales was approximately 89.2 percent of sales for the fiscal year ended September 30, 2013 compared to approximately 89.0 percent for the prior fiscal year.

The following table summarizes significant factors contributing to the changes in costs of sales during fiscal year 2013 compared to the prior fiscal year (in millions):

	Cost of Sales
Fiscal year ended September 30, 2012	$3,902
Volumes, mix and other, net	(588)
Foreign exchange	(37)
Fiscal year ended September 30, 2013	$3,277

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

Lower material costs	$(588)
Lower labor and overhead costs	(51)
Other, net	14
Total decrease in costs of sales	$(625)

Material costs represent the majority of our cost of sales and include raw materials, composed primarily of steel and purchased components. Material costs decreased by $588 million compared to the prior year primarily as a result of lower sales and lower material cost attributable to net material savings. In addition, global steel prices were lower in fiscal year 2013 as compared to fiscal year 2012.

Labor and overhead costs decreased by $51 million compared to the prior year. The decrease was primarily due to lower sales in the fiscal year 2013 and savings associated with the variable labor cost reductions as part of our continuous improvement initiatives partially offset by a $7 million specific warranty contingency charge, net of supplier recovery, related to a non-safety, product performance issue recognized in fiscal year 2013.

Other, net increased by $14 million compared to the same period in the prior year. The increase was primarily due to higher currency losses in our operations compared to the prior year.
As a result of the above, gross profit for the fiscal year ended September 30, 2013 was $395 million compared to $482 million in the same period last year. Gross margins decreased to 10.8 percent for the fiscal year ended September 30, 2013 compared to 11.0 percent in the prior year.

Other Income Statement Items

Selling, general and administrative expenses (SG&A) for fiscal years 2013 and 2012 are summarized as follows (in millions):

	2013		2012		Increase (Decrease)	
	Amount	% of sales	Amount	% of sales		
SG&A						
Loss on sale of receivables	$6	0.2 %	$9	0.2 %	$(3)	—
Short- and long-term variable compensation	20	0.5 %	23	0.5 %	(3)	—
Charge for legal contingency	—	— %	6	0.1 %	(6)	(0.1) pts
Asbestos-related liability remeasurement	7	0.2 %	18	0.4 %	(11)	(0.2) pts
Executive severance	4	0.1 %	—	— %	4	0.1 pts
All other SG&A	216	5.9 %	226	5.2 %	(10)	0.7 pts
Total SG&A	$253	6.9 %	$282	6.4 %	$(29)	0.5 pts

All other SG&A represents normal selling, general and administrative expense and declined approximately 4 percent year over year primarily due to cost reduction related to headcount actions executed in fiscal year 2013. The increase in total SG&A as a percentage of sales compared to the fiscal year 2012 was due to lower sales in fiscal year 2013.

Pension settlement losses of $109 million were recognized during the fiscal year ended 2013. During the third quarter ended June 30, 2013, we recognized $36 million loss associated with the settlement of certain Canadian pension plans. In addition, we recognized a $73 million settlement loss in the fourth quarter of fiscal year 2013 associated with our U.S. retirement plan lump-sum payouts.

Restructuring costs were $23 million in fiscal year 2013 compared to $39 million in fiscal year 2012. Our Commercial Truck & Industrial segment recognized $17 million of restructuring costs in fiscal year 2013 primarily related to employee severance costs and a lease termination. Our Aftermarket & Trailer segment recognized $3 million of restructuring costs during the fiscal year 2013 primarily related to employee severance costs. In addition, we recognized $3 million of restructuring costs at our corporate locations associated with our segment reorganization. Restructuring costs in the fiscal year 2012 included $24 million recognized in our Commercial Truck & Industrial segment in connection with the January 2012 sale of our St. Priest, France manufacturing facility to Renault Trucks SAS. During the second quarter of fiscal year 2012, we approved a European headcount reduction plan in response to the ongoing economic weakness and uncertainty in that region and recognized approximately $7 million of restructuring costs associated with this plan in fiscal year 2012. During the fourth quarter of fiscal year 2012, we recognized approximately $5 million of costs associated with employee headcount reductions. The remaining restructuring costs recognized during the fiscal year 2012 were primarily associated with the company's previously announced executive headcount reduction.

Gain on sale of property of $16 million recognized during fiscal year 2012 is associated with the sale of excess land at our facility in Cwmbran, Wales.

Operating income for fiscal year 2013 was $7 million, compared to $173 million in fiscal year 2012. Key items affecting income are discussed above.

Gain on sale of equity investment of $125 million recognized during fiscal year 2013 is associated with the sale of our 50-percent ownership interest in our Suspensys joint venture in the fourth quarter of fiscal year 2013.

Equity in earnings of affiliates was $42 million in fiscal year 2013, compared to $52 million in the prior year. The decrease is primarily due to lower earnings from our affiliates in Mexico and India reflecting weaker truck markets in those regions.

Interest expense, net was $126 million and $95 million in fiscal years 2013 and 2012, respectively. During the first quarter ended December 31, 2012, we repurchased approximately $245 million of $300 million principal amount of our 4.625 percent convertible notes due 2026. We recognized a $5 million loss on debt extinguishment associated with the repurchase. We recognized an additional $19 million loss on debt extinguishment in the third quarter of fiscal year 2013 associated with the repurchase of $167 million of the 8.125 percent notes due 2015. The remaining increase in interest expense is primarily due to additional interest cost associated with our debt securities issued during the fiscal year 2013.

Provision for income taxes was $64 million in fiscal year 2013 compared to $57 million in fiscal year 2012. The increase in provision for income taxes was primarily due to the tax effect of the gain on the sale of our equity interest in our Suspensys joint venture, partially offset by the tax benefit received from the Canadian pension settlement charge, and lower earnings in taxpaying jurisdictions. In fiscal year 2013, our effective tax rate was 125 percent compared to 42 percent in the prior year.

Loss from continuing operations (before noncontrolling interests) for fiscal year 2013 was $13 million compared to income from continuing operations of $80 million in fiscal year 2012. The reasons for the decrease are previously discussed.

Loss from discontinued operations for fiscal year 2013 was $7 million, compared to a loss of $17 million in the prior year. Significant items included in results from discontinued operations in fiscal year 2013 and 2012 include the following (in millions):

	Year Ended September 30, 2013	2012
Loss on sale of businesses, net	$—	$(1)
Restructuring costs	(3)	(1)
Charge for legal contingency and indemnity obligation	—	(10)
Environmental remediation charges	(5)	(3)
Other, net	(4)	(5)
Loss before income taxes	(12)	(20)
Benefit for income taxes	5	3
Loss from discontinued operations attributable to Meritor, Inc.	$(7)	$(17)

Loss on sale of businesses, net: The loss on sale of business in fiscal year 2012 relates to the sale of our damper business located in Leicester, England during the first quarter.

Charge for legal contingency and indemnity obligation: On March 31, 2008, S&E Quick Lube, a filter distributor, filed a lawsuit in U.S. District Court for the District of Connecticut alleging that several filter manufacturers and their affiliated corporate entities, including a prior subsidiary of the company, engaged in a conspiracy to fix prices, rig bids and allocate U.S. customers for aftermarket automotive filters. This suit was a purported class action on behalf of direct purchasers of filters from the defendants. In April 2012, the company settled with the U.S. indirect purchasers for $3.1 million. In August 2012, the company entered into a settlement agreement for the remaining claims with the U.S. direct purchasers for $8.3 million. During the fourth quarter of fiscal year 2013, the company settled with the remaining plaintiffs in the litigation actions in Canada for an immaterial amount.

Other primarily relates to charges for changes in estimates and adjustments related to certain assets and liabilities retained from previously sold businesses and indemnities provided at the time of sale. Also included in other charges are operating losses and costs associated with the sale of our divested businesses.

Net income attributable to noncontrolling interests was $2 million in fiscal year 2013 compared to $11 million in fiscal year 2012. Noncontrolling interests represent our minority partners’ share of income or loss associated with our less than 100 percent owned consolidated subsidiaries.

Net loss attributable to Meritor, Inc. was $22 million for fiscal year 2013 compared to a net income of $52 million for fiscal year 2012.Various factors affecting the net loss were previously discussed.

Segment EBITDA and EBITDA Margins

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

During the fourth quarter of fiscal year 2014, we disposed of our Mascot business and ceased all manufacturing operations and use of productive assets prior to September 30, 2014. The Mascot business has been classified as part of discontinued operations at September 30, 2014 and all prior period amounts have been recast to reflect this presentation.

The following table reflects Segment EBITDA and EBITDA margins for fiscal years 2013 and 2012 (dollars in millions).

	Segment EBITDA				Segment EBITDA Margins		
	2013	2012	$ Change	% Change	2013	2012	Change
Commercial Truck & Industrial	$192	$270	$(78)	(29)%	6.6%	7.5%	(0.9) pts
Aftermarket & Trailer	87	81	6	7%	10.0%	8.9%	1.1 pts
Segment EBITDA	$279	$351	$(72)	(21)%	7.6%	8.0%	(0.4) pts

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

	Commercial Truck & Industrial	Aftermarket & Trailer	TOTAL
Segment EBITDA–Year ended September 30, 2012	$270	$81	$351
Lower earnings from unconsolidated affiliates	(9)	(1)	(10)
Lower pension and retiree medical costs	5	1	6
Impact of foreign currency exchange rates	(13)	1	(12)
Volume, mix, pricing and other, net of cost reductions	(61)	5	(56)
Segment EBITDA – Year ended September 30, 2013	$192	$87	$279

Commercial Truck & Industrial Segment EBITDA was $192 million in fiscal year 2013 compared to $270 million in the prior fiscal year. Segment EBITDA margin decreased to 6.6 percent in fiscal year 2013 compared to 7.5 percent in the prior fiscal year. The decrease in Segment EBITDA margin reflects lower commercial vehicle production volumes in all regions and lower earnings from our unconsolidated joint ventures as compared to the same period a year ago. In addition, Segment EBITDA was unfavorably impacted by foreign currency movements, primarily due to the depreciation in Brazilian real compared to the U.S. dollar. These items were partially offset by lower material and structural costs.

Aftermarket & Trailer Segment EBITDA was $87 million in fiscal year 2013, up $6 million compared to the prior fiscal year. Segment EBITDA margin increased to 10.0 percent in the current fiscal year compared to 8.9 percent in fiscal year 2012. The increase in Segment EBITDA is primarily due to pricing actions and lower material and structural costs, partially offset by a $5 million accrual associated with value-added tax for certain sales transactions.

Non-Consolidated Joint Ventures

At September 30, 2014, our continuing operations included investments in joint ventures that are not majority owned or controlled and are accounted for under the equity method of accounting. Our investments in non-consolidated joint ventures totaled $106 million at September 30, 2014 and $102 million at September 30, 2013.

These strategic alliances provide for sales, product design, development and/or manufacturing in certain product and geographic areas. Aggregate sales of our non-consolidated joint ventures were $1,268 million, $1,552 million and $1,787 million in fiscal years 2014, 2013 and 2012, respectively.

Our equity in the earnings of affiliates was $38 million, $42 million and $52 million in fiscal years 2014, 2013 and 2012, respectively. We received cash dividends from our affiliates of $36 million, $30 million and $47 million in fiscal years 2014, 2013 and 2012, respectively.

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

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

On July 30 2013, we completed the sale of our 50-percent ownership interest in the Suspensys joint venture to the company's joint venture partner, Randon S.A. Implementos E Participações. Our fiscal 2013 earnings from continuing operations includes Suspensys joint venture financial results for the ten months ended July 31, 2013.

For more information about our non-consolidated joint ventures, see Note 12 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Cash Flows (in millions)

	Fiscal Year Ended September 30,		
	2014	2013	2012
OPERATING CASH FLOWS			
Income (loss) from continuing operations	$284	$(13)	$80
Adjustments to income (loss) from continuing operations:			
Depreciation and amortization	67	67	63
Loss on debt extinguishment	31	24	—
Deferred income tax expense (benefit)	(2)	(4)	13
Pension and retiree medical expense	25	151	53
Gain on sale of equity investment	—	(125)	—
Gain on sale of property	—	—	(16)
Equity in earnings of ZF Meritor	(190)	—	—
Equity in earnings of other affiliates	(38)	(42)	(52)
Restructuring costs	10	23	39
Dividends received from ZF Meritor	190	—	—
Dividends received from other equity method investments	36	30	47
Pension and retiree medical contributions	(177)	(153)	(140)
Restructuring payments	(10)	(23)	(22)
Decrease (increase) in working capital	20	(100)	43
Changes in off-balance sheet accounts receivable securitization and factoring	(46)	43	(24)
Other, net	27	44	12
Cash flows provided by (used for) continuing operations	227	(78)	96
Cash flows used for discontinued operations	(12)	(18)	(19)
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$215	$(96)	$77

Cash provided by operating activities for fiscal year 2014 was $215 million compared to cash used of $96 million in fiscal year 2013 and cash provided of $77 million in fiscal year 2012. The increase in cash flows provided by continuing operations in fiscal year 2014 was primarily due to improvement in earnings from operations including proceeds received from the settlement of the Eaton antitrust litigation, partially offset by pension and retiree medical contributions, including voluntary pre-funding of the next three years of mandatory contributions in our U.S. and U.K. pension plans, and decrease in working capital compared to fiscal year 2013. The cash outflow in continuing operations in fiscal year 2013 was primarily due to an increase in working capital and pension contributions.

	Fiscal Year Ended September 30,		
	2014	2013	2012
INVESTING CASH FLOWS			
Capital expenditures	$(77)	$(54)	$(89)
Proceeds from sale of equity investment	—	182	—
Proceeds from sale of property	—	—	18
Other investing activities	—	3	3
Net investing cash flows provided by discontinued operations	7	6	28
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	$(70)	$137	$(40)

Cash used for investing activities was $70 million in fiscal year 2014, compared to cash provided by investing activities of $137 million in fiscal year 2013 and cash used of $40 million in fiscal year 2012. Capital expenditures were $77 million in fiscal year 2014 compared to $54 million in fiscal year 2013 and $89 million in fiscal year 2012.

Proceeds from the sale of equity investment in fiscal year 2013 is related to the sale of our 50-percent ownership equity interest in the Suspensys joint venture. Proceeds from sale of property in fiscal year 2012 were related to the sale of excess land at our Commercial Truck facility at Cwmbran, Wales.

Net investing cash flows provided by discontinued operations in fiscal year 2014 includes $4 million of proceeds from the sale of our Mascot business. In addition, we received $3 million for the third installment on the note receivable that was issued at the time of sale of our Body Systems business.

Net investing cash flows provided by discontinued operations in fiscal year 2013 includes $3 million of proceeds from the sale of property from our divested Light Vehicle Systems business group. In addition, we received $3 million for the second installment on the note receivable that was issued at the time of sale of our Body Systems business.
Net investing cash flows provided by discontinued operations in fiscal year 2012 includes $27 million of cash received from the purchaser of our Body Systems business. We received $24 million, net of tax withholdings, of cash balances which were held at Body Systems entities in China and Brazil at the time of sale and which the company was entitled to receive as these balances became available for distribution from those jurisdictions. We received $3 million for the first installment on the note receivable that was issued at the time of sale as part of the purchase consideration.

	Fiscal Year September 30,		
	2014	2013	2012
FINANCING CASH FLOWS			
Repayment of notes and term loan	$(439)	$(475)	$(86)
Proceeds from debt issuance	225	500	100
Other financing activities	12	11	—
Net change in debt	(202)	36	14
Debt issuance costs	(10)	(12)	(12)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	$(212)	$24	$2

Cash used for financing activities was $212 million in fiscal year 2014 compared to cash provided of $24 million in fiscal year 2013 and cash provided of $2 million in fiscal year 2012. During fiscal year 2014, we issued $225 million of 6.25 percent senior unsecured notes due in 2024. Net proceeds from the issuance of these notes were used along with available cash to retire the $250 million of 10.625 percent notes due in 2018 at a premium of $13 million. We also repurchased $38 million of our 4.0 percent convertible notes due February 2027 and our $84 million outstanding 8.125 percent notes due September 2015. The outstanding term loan balance of $45 million was paid in fiscal year 2014.
During fiscal year 2013, we issued debt securities generating aggregate proceeds of $500 million. We used a portion of the proceeds to repurchase $167 million of our $250 million 8.125 percent notes due in 2015 and retire $245 million of our outstanding 4.625 percent convertible senior notes due 2026. In addition, we incurred an aggregate of

$12 million of costs related to the issuance of debt securities. During the fourth quarter of fiscal year 2013, we made a $45 million principal repayment under our term loan due 2016.

In the second quarter of fiscal year 2012, we retired the remaining $84 million of outstanding 8.75 percent notes due 2012 at par value. In the third quarter of fiscal year 2012, we entered into a new five-year term loan agreement as part of the amendment and extension of our revolving credit facility and borrowed $100 million under the term loan. During the third and fourth quarters of fiscal year 2012, we made the required repayments under the new term loan in the amount of $2 million. Debt issuance costs of $12 million in fiscal year 2012 were related to fees associated with the amendment and extension of our revolving credit facility and the new term loan agreement.

Contractual Obligations

As of September 30, 2014, we are contractually obligated to make payments as follows (in millions):

	Total	2015	2016	2017	2018	2019	Thereafter (2)
Total debt (1)	$1,024	$7	$22	$17	$4	$2	$972
Operating leases	92	16	14	13	13	12	24
Interest payments on long-term debt	457	47	47	47	47	47	222
Total	$1,573	$70	$83	$77	$64	$61	$1,218

(1) See additional discussion under "Liquidity" below. Total debt excludes the unamortized discount on convertible notes of $31 million and a discount on $21 million on the 7.875 percent notes due March 1, 2016.

(2) Includes our 4.625 percent, 4.0 percent and 7.875 percent convertible notes which contain a put and call feature that allows for earlier redemption beginning in 2016, 2019 and 2020, respectively (for further discussion, refer to Note 15 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data Convertible Securities below).

We also sponsor defined benefit pension plans that cover most of our U.S. employees and certain non-U.S. employees. Our funding practice provides that annual contributions to the pension trusts will be at least equal to the minimum amounts required by ERISA in the U.S. and the actuarial recommendations or statutory requirements in other countries. Management expects funding for our retirement pension plans of approximately $10 million in fiscal year 2015.

We also sponsor retirement medical plans that cover certain of our U.S. and non-U.S. employees and retirees, including certain employees of divested businesses, and provide for medical payments to eligible employees and dependents upon retirement. Management expects gross retiree medical plan benefit payments of approximately $38 million, $39 million, $39 million, $40 million and $40 million in fiscal years 2015, 2016, 2017, 2018 and 2019, respectively, before consideration of any Part D reimbursement from the U.S. government.

Contractual obligations identified in the table above do not include liabilities associated with uncertain tax positions of $14 million due to the high degree of uncertainty regarding the future cash outflows associated with these amounts. For additional discussion of uncertain tax positions, refer to Note 21 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Liquidity

Our outstanding debt, net of discounts where applicable, is summarized below (in millions). For a detailed discussion of terms and conditions related to this debt, see Note 15 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

	September 30, 2014	September 30, 2013
Fixed-rate debt securities	$500	$606
Fixed-rate convertible notes	446	482
Term Loan	—	45
Unamortized discount on convertible notes	(31)	(43)
Unamortized gain on interest rate swap termination	—	2
Other borrowings	57	46
Total debt	$972	$1,138

Overview – Our principal operating and capital requirements are for working capital needs, capital expenditure requirements, debt service requirements, funding of pension and retiree medical costs, restructuring and product development programs. We expect fiscal year 2015 capital expenditures to be in the range of $80 million to $90 million.

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

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

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

Sources of liquidity as of September 30, 2014, in addition to cash on hand, are as follows (in millions):

	Total Facility Size	Utilized as of 9/30/14	Readily Available as of 9/30/14	Current Expiration
On-balance sheet arrangements:				
Revolving credit facility[1]	$499	$—	$499	February 2019[1]
Committed U.S. accounts receivable securitization[2]	100	—	86	October 2017
Total on-balance sheet arrangements	599	—	585	
Off-balance sheet arrangements:[2]				
Swedish Factoring Facility	$191	$127	—	June 2015
U.S. Factoring Facility	83	81	—	October 2015
U.K. Factoring Facility	32	7	—	February 2018
Italy Factoring Facility	38	10	—	June 2017
Other uncommitted factoring facilities	26	19	—	Various
Letter of credit facility	30	25	5	March 2019
Total off-balance sheet arrangements	400	269	5	
Total available sources	$999	$269	$590	

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

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

Cash and Liquidity Needs – Our cash and liquidity needs have been impacted by the level, variability and timing of our customers’ worldwide vehicle production and other factors outside of our control. At September 30, 2014, we had $247 million in cash and cash equivalents.

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

Debt Repurchase Program – On January 23, 2014, the Offering Committee of our Board of Directors approved a repurchase program for up to $100 million of any of our public debt securities (including without limitation convertible debt securities) from time to time through open market purchases or privately negotiated transactions or otherwise, until December 15, 2014. As of September 30, 2014, $38 million has been repurchased.

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

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

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

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

Redemption of 2015 Notes - On September 20, 2014, we completed the redemption of all outstanding 8.125 percent notes due September 15, 2015. The notes were redeemed at a premium equal to 7 percent of their principal amount. The repurchase of $84 million of 8.125 percent notes was accounted for as an extinguishment of debt, and accordingly, we recognized a net loss on debt extinguishment of $5 million, consisting of $6 million of premium net of a $1 million acceleration of the remaining unamortized gain on a related interest rate swap termination. The net loss on debt extinguishment is included in interest expense, net in the consolidated statement of operations.

Repurchase of 2027 Notes - On August 5, 2014, we repurchased $38 million of our 4.0 percent convertible notes due February 15, 2027. The notes were purchased at a premium equal to 7 percent of their principal amount. The repurchase of $38 million of 4.0 percent convertible notes was accounted for as an extinguishment of debt, and accordingly, we recognized a net loss on debt extinguishment of $5 million, the majority of which is premium. The net loss on debt extinguishment is included in interest expense, net in the consolidated statement of operations.
Redemption of 2018 Notes - On March 15, 2014, we completed the redemption of all outstanding 10.625 percent notes due March 15, 2018. These notes were redeemed at a premium equal to 5 percent of their principal amount. The repurchase of our $250 million 10.625 percent notes was accounted for as an extinguishment of debt, and accordingly, we recognized a net loss on debt extinguishment of $19 million, which consisted of $6 million of unamortized discount and deferred issuance costs and $13 million of premium. The net loss on debt extinguishment is included in interest expense, net in the consolidated statement of operations.

Repurchase of 2015 Notes - On June 5, 2013, we completed the cash tender offer for our 8.125 percent notes due September 15, 2015. These notes were repurchased at a premium equal to 14 percent of their principal amount. The repurchase of $167 million of 8.125 percent notes was accounted for as an extinguishment of debt, and accordingly, we recognized a net loss on debt extinguishment of $19 million, which is included in interest expense, net in the consolidated statement of operations.

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

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

The availability under the revolving credit facility is subject to certain financial covenants based on (i) the ratio of our priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. We are required to maintain a total priority-debt-to-EBITDA ratio, as defined in the agreement, of 2.25 to 1.00 throughout the term of the agreement. At September 30, 2014, we were in compliance with all covenants under our credit agreement with a ratio of approximately 0.36x for the priority debt-to-EBITDA covenant.

The availability under the amended and extended 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 September 30, 2014, the revolving credit facility was collateralized by approximately $615 million of the company's assets, primarily consisting of eligible domestic U.S. accounts receivable, inventory, plant, property and equipment, intellectual property and the company's investment in all or a portion of certain of its wholly-owned subsidiaries.

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

Certain of the company's subsidiaries, as defined in the revolving credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the publicly held notes outstanding under the company's indentures, including the 2024 Notes issued in February 2014, the 2021 Notes issued in May 2013 and the 7.875 percent convertible notes due 2026 issued in December 2012 (see Note 26 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data).

Term Loan – As part of the amendment and restatement of the revolving credit facility, on April 23, 2012, we also entered into a $100 million term loan agreement with a maturity date of April 23, 2017. On February 13, 2014, we repaid the outstanding balance on the term loan of $41 million and recognized a $2 million loss on the repayment associated with unamortized debt issuance costs. At September 30, 2014, there was no outstanding balance on the term loan.

U.S. Securitization Program – We have a $100 million U.S. accounts receivables securitization facility. On October 15, 2014, we 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 Securitization Facility at 2.25 to 1.00. This program is provided by PNC as Administrator and Purchaser, and the other Purchasers and Purchaser Agents from time to time (participating lenders), which are party to the agreement. Under this program, we have the ability to sell an undivided percentage ownership interest in substantially all of our trade receivables (excluding the receivables due from AB Volvo and subsidiaries eligible for sale under the U.S. 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 our U.S. subsidiaries (originators) or their designees, which when issued will constitute a utilization of the facility for the amount of letters of credit issued. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the consolidated balance sheet. At September 30, 2014 and 2013, no amounts, including letters of credit, were outstanding under this program. This securitization program contains a cross default to our revolving credit facility. At certain times during any given month, we may sell eligible accounts receivable under this program to fund intra-month working capital needs. In such months, we would then typically utilize the cash we receive from our customers throughout the month to repay the borrowings under the program. Accordingly, during any given month, we may borrow under this program in amounts exceeding the amounts shown as outstanding at fiscal quarter ends.

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

Export financing arrangements - We entered into a number of export financing arrangements through our Brazilian subsidiary during fiscal years 2014 and 2013. 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 $29 million and $18 million outstanding under these arrangements at September 30, 2014 and 2013, respectively. In addition, we had another $2 million outstanding through a similar arrangement through our India subsidiary at September 30, 2014.

Other – One of our consolidated joint ventures in China participates in a bills of exchange program to settle its obligations with its trade suppliers. These programs are common in China and generally require the participation of local banks. Under these programs, our joint venture issues notes payable through the participating banks to its trade suppliers. If the issued notes payable remain unpaid on their respective due dates, this could constitute an event of default under the company’s revolving credit facility if the defaulted amount exceeds $35 million per bank. As of September 30, 2014 and 2013, we had $32 million and $21 million, respectively, outstanding under this program at more than one bank.

Credit Ratings – On November 18, 2014, Standard & Poor’s Ratings Services upgraded our corporate credit rating, senior secured credit rating, and senior unsecured credit rating to B+, BB and B, respectively. Moody’s Investors Service corporate credit rating, senior secured credit rating, and senior unsecured credit rating for our company were B2, Ba2 and B3, respectively. Any lowering of our credit ratings could increase our cost of future borrowings and could reduce our access to capital markets and result in lower trading prices for our securities.

Off-Balance Sheet Arrangements

Accounts Receivable Factoring Arrangements – We participate in accounts receivable factoring programs with total amounts utilized at September 30, 2014 of approximately $244 million, of which $208 was attributable to committed factoring facilities involving the sale of AB Volvo accounts receivables. The remaining amount of $36 million was related to factoring by certain of our European subsidiaries under uncommitted factoring facilities with financial institutions. The receivables under all of these programs are sold at face value and are excluded from the consolidated balance sheet. Total facility size, unused amounts and expiration dates for each of these programs are shown in the earlier table in the "Liquidity" section under "Overview."

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

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

Contingencies

Contingencies related to environmental, asbestos and other matters are discussed in Note 22 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Critical Accounting Policies

Critical accounting policies are those that are most important to the portrayal of the company’s financial condition and results of operations. These policies require management’s most difficult, subjective or complex judgments in the preparation of the financial statements and accompanying notes. Management makes estimates and assumptions about the effect of matters that are inherently uncertain, relating to the reporting of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Our most critical accounting policies are discussed below.

Pensions — Our pension obligations are determined annually on an actuarial basis and were measured as of September 30, 2014 and 2013. The U.S. plans include a qualified and non-qualified pension plan. The most significant non-U.S. plan is located in the United Kingdom. Other non-U.S. plans are located in Canada, Germany, and Switzerland. The following are the significant assumptions used in the measurement of the projected benefit obligation (PBO) and net periodic pension expense:

	2014						2013					
	U.S.			Non-U.S.			U.S.			Non-U.S.		
Assumptions as of September 30:												
Discount rate [1]	4.20%	—	4.30%	1.90%	—	4.10%	4.75%	—	4.95%	2.40%	—	4.70%
Assumed return on plan assets (beginning of the year)[1][2]	8.00%			2.25%	—	7.25%	8.00%			2.50%	—	7.25%
Rate of compensation increase [3]	N/A			2.00%	—	3.00%	N/A			2.00%	—	3.00%

(1) The discount rate for the company’s U.K. pension plan was 4.10 percent, 4.70 percent and 4.60 percent for fiscal years 2014, 2013 and 2012, respectively. The assumed return on plan assets for this plan was 7.25 percent, 7.25 percent and 7.50 percent for fiscal years 2014, 2013 and 2012, respectively.

(2) The assumed return on plan assets for fiscal year 2015 is 8.00 percent for the U.S. plan and 7.25 percent for the U.K. plan.

(3) The rate of compensation increase for the company's Canadian pension plans was 3.00 percent for 2014, 2013 and 2012. The rate of compensation increase for the company's Swiss pension plans was 2.00 percent for 2014, 2013 and 2012.

The discount rate is used to calculate the present value of the PBO. The rate is determined based on high-quality fixed income investments that match the duration of expected benefit payments. The company uses a portfolio of long-term corporate AA/Aa bonds that match the duration of the expected benefit payments to establish the discount rate for this assumption.

The assumed return on plan assets is used to determine net periodic pension expense. The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations. An incremental amount for diversification, rebalancing and active management, where appropriate, is included in the rate of return assumption. The return assumption is reviewed annually.

The rate of compensation increase represents the long-term assumption for expected increases to salaries for pay-related plans.

These assumptions reflect our historical experience and our best judgments regarding future expectations. The effects of the indicated increase and decrease in selected assumptions, assuming no changes in benefit levels and no amortization of gains or losses for the plans in 2014, are shown below (in millions):

	Effect on All Plans – September 30, 2014		
	Percentage Point Change	Increase (Decrease) in PBO	Increase (Decrease) in Pension Expense
Assumption:			
Discount rate	-0.5 pts	$120	$1
	+0.5 pts	(107)	(1)
Assumed return on plan assets	-1.0 pts	NA(1)	15
	+1.0 pts	NA(1)	(15)

(1) Not Applicable

Accounting guidance applicable to pensions does not require immediate recognition of the effects of a deviation between actual and assumed experience and the revision of an estimate. This approach allows the favorable and unfavorable effects that fall within an acceptable range to be netted and disclosed as an unrecognized gain or loss in the footnotes. Based on the September 30, 2014 and 2013 measurement dates, we had an unrecognized loss of $790 million and $767 million, respectively. A portion of this loss is amortized into earnings each fiscal year. Unrecognized losses for the U.S. and U.K. plans are being amortized into net periodic pension expense over the average life expectancy of the inactive participants of approximately 22 years and 27 years, respectively.

In recognition of the long-term nature of the liabilities of the pension plans, we have targeted an asset allocation strategy designed to promote asset growth while maintaining an acceptable level of risk over the long term. Asset-liability studies are performed periodically to validate the continued appropriateness of these asset allocation targets. The asset allocation ranges for the U.S. plan are 30–50 percent equity investments, 30–50 percent fixed income investments and 10–30 percent alternative investments. Alternative investments include private equities, real estate, hedge funds and partnership interests. The target asset allocation ranges for the non-U.S. plans are 15–40 percent equity investments, 30–60 percent fixed income investments, 0–10 percent real estate and 10–40 percent alternative investments. The asset class mix and the percentage of securities in any asset class or market may vary as the risk/return characteristics of either individual market or asset classes vary over time.

The investment strategies for the pension plans are designed to achieve an appropriate diversification of investments as well as safety and security of the principal invested. Assets invested are allocated to certain global sub-asset categories within prescribed ranges in order to promote international diversification across security type, issuer type, investment style, industry group, and economic sector. Assets of the plans are both actively and passively managed. Policy limits are placed on the percentage of plan assets that can be invested in a security of any single issuer and minimum credit quality standards are established for debt securities. Meritor securities did not comprise any of the value of our worldwide pension assets as of September 30, 2014.

Based on current assumptions, the fiscal year 2015 net pension income is estimated to be $14 million.

Retiree Medical — We have retirement medical plans that cover certain of our U.S. and non-U.S. employees and provide for medical payments to eligible employees and dependents upon retirement. Our retiree medical obligations were measured as of September 30, 2014 and September 30, 2013.

56

The following are the significant assumptions used in the measurement of the accumulated postretirement benefit obligation (APBO):

	2014		2013	
Assumptions as of September 30:				
Discount rate	4.20	%	4.80	%
Health care cost trend rate	7.40	%	7.00	%
Ultimate health care trend rate	5.00	%	5.00	%
Year ultimate rate is reached	2022		2022	

The discount rate is the rate used to calculate the present value of the APBO. The rate is determined based on high-quality fixed income investments that match the duration of expected benefit payments. We used the corporate AA/Aa bond rate for this assumption.

The health care cost trend rate represents the company's expected annual rates of change in the cost of health care benefits. The trend rate noted above represents a forward projection of health care costs as of the measurement date. Our projection for fiscal year 2014 is an increase in health care costs of 7.40 percent. For measurement purposes, the annual increase in health care costs was assumed to decrease gradually to 5.00 percent by fiscal year 2022 and remain at that level thereafter.

A one-percentage point change in the assumed health care cost trend rate for all years to, and including, the ultimate rate would have the following effects (in millions):

	2014		2013	
Effect on total of service and interest cost				
1% Increase	$2		$3	
1% Decrease	(2	)	(2	)
Effect on APBO				
1% Increase	46		50	
1% Decrease	(40	)	(43	)

Based on current assumption, fiscal year 2015 retiree medical expense is estimated to be approximately $41 million.

Product Warranties — Our business segments record estimated product warranty costs at the time of shipment of products to customers. Liabilities for product recall campaigns are recorded at the time the company's obligation is known and can be reasonably estimated. Product warranties, including recall campaigns, not expected to be paid within one year are recorded as a non-current liability.

Significant factors and information used by management when estimating product warranty liabilities include:

- Past claims experience;
- Sales history;
- Product manufacturing and industry developments; and
- Recoveries from third parties, where applicable.

Asbestos — Maremont Corporation ("Maremont") — 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 5,700 and 5,400 pending asbestos-related claims at September 30, 2014 and 2013, respectively. Although Maremont has been named in these cases, very few cases allege actual injury and, 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.

Maremont engaged 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 advised Maremont that it would be possible to determine an estimate of a reasonable forecast 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 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. After consultation with Bates White, Maremont recognized a liability for pending and future claims over the next ten years of $73 million as of September 30, 2014 and 2013. 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 claims 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. Because no insurance receivable is recognized for these policies in dispute, Maremont recognized a $10 million and $9 million charge in the fourth quarter of fiscal years 2014 and 2013, respectively, associated with its annual valuation of asbestos-related liabilities.

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 declines 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 plaintiff’s law firms in jurisdictions without an established history with Maremont cannot be reasonably estimated.

Maremont has insurance that reimburses a substantial portion of the costs incurred defending against asbestos-related claims including indemnity paid on those claims. The insurance receivable related to asbestos-related liabilities is $49 million and $58 million as of September 30, 2014 and 2013, 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, as those carriers dispute coverage. 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 forcasted 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.

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 our financial position and results of operations.

Asbestos — 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 to Meritor Automotive, Inc. at the time of the spin-off of the Rockwell automotive business from Rockwell in 1997. At September 30, 2014 and 2013, there were approximately 2,800 and 2,600 pending active asbestos claims in lawsuits that name AM, together with many other companies, as defendants at September 30, 2014 and 2013, 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. We defend these cases vigorously.

We engaged 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 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. After consultation with Bates White, management recognized a liability for pending and future claims over the next ten years of $48 million as of September 30, 2014 compared to $39 million as of September 30, 2013. The ultimate cost of resolving pending and future claims is estimated based on the history of claims and expenses for plaintiffs represented by law firms in jurisdictions with an established history with Rockwell. The increase in the estimated liability is primarily due to higher defense and processing costs, on a per claim basis, compared to the prior year. Rockwell recognized a $10 million charge in the fourth quarter of fiscal year 2014 associated with its annual valuation of asbestos-related liabilities.

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 declines 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.

The insurance receivable related to asbestos-related liabilities is $11 million and $13 million as of September 30, 2014 and 2013, respectively. Included in these amounts are insurance receivables of $8 million and $9 million at September 30, 2014 and 2013, respectively, which 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 agreement. 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.

Environmental — We record 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, we record a liability for our allocable share of costs related to our involvement with the site, as well as an allocable share of costs related to insolvent parties or unidentified shares. At environmental sites in which we are the only potentially responsible party, a liability is recorded for the total estimated costs of remediation before consideration of recovery from insurers or other third parties. The ultimate cost with respect to our environmental obligations could significantly exceed the costs we have recorded as liabilities and therefore could have a material impact on our financial condition and results of operations.

Significant factors considered by management when estimating environmental reserves include:

- Evaluations of current law and existing technologies;
- The outcome of discussions with regulatory agencies;
- Physical and scientific data at the site;
- Government requirements and legal standards; and
- Proposed remedies and technologies.

Goodwill — Goodwill is reviewed for impairment annually 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, we may be required to record impairment charges for goodwill at that time. Previous guidance required an entity to test goodwill for impairment using a two-step process on at least an annual basis. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount. An impairment loss may be recognized if the review indicates that the carrying value of a reporting unit exceeds its fair value. Estimates of fair value are primarily determined by using discounted cash flows and market multiples on earnings. If the carrying amount of a reporting unit exceeds its fair value, step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the goodwill of the reporting unit exceeds the implied fair value, an impairment charge is recorded equal to the excess.

Under the revised guidance issued by the Financial Accounting Standards Board, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads the entity to determine that it is more-likely-than-not that the fair value of its reporting units is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test is unnecessary. If the entity concludes otherwise, then it is required to test goodwill for impairment under the two-step process.

The impairment review is highly judgmental and involves the use of significant estimates and assumptions. These estimates and assumptions have a significant impact on the amount of any impairment charge recorded. Discounted cash flow methods are dependent upon assumptions of future sales trends, market conditions and cash flows of each reporting unit over several years. Actual cash flows in the future may differ significantly from those previously forecasted.

Given that our 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 us to impair the goodwill. The defense reporting unit is included within the Commercial Truck & Industrial segment and has $20 million of goodwill allocated to it.

Impairment of Long-Lived Assets — Long-lived assets, excluding goodwill, to be held and used are reviewed for impairment whenever adverse events or changes in circumstances indicate a possible impairment. An impairment loss is recognized when the long-lived assets' carrying value exceeds the fair value. If business conditions or other factors cause the operating results and cash flows to decline, we may be required to record impairment charges at that time.

Long-lived assets held for sale are recorded at the lower of their carrying amount or fair value less cost to sell.
Significant judgments and estimates used by management when evaluating long-lived assets for impairment include:

- An assessment as to whether an adverse event or circumstance has triggered the need for an impairment review;
- Undiscounted future cash flows generated by the asset; and
- Probability and estimated future cash flows associated with alternative courses of action that are being considered to recover the carrying amount of a long-lived asset.

Income Taxes — Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If it is more-likely-than-not that the deferred tax asset will be realized, no valuation allowance is recorded. Management judgment is required in determining the company's provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against the company's net deferred tax assets. The valuation allowance would need to be adjusted in the event future taxable income is materially different than amounts estimated. Significant judgments, estimates and factors considered by management in its determination of the probability of the realization of deferred tax assets include:

- Historical operating results;
- Expectations of future earnings;
- Tax planning strategies; and
- The extended period of time over which retirement medical and pension liabilities will be paid.

In prior years, the company established valuation allowances against its U.S. net deferred tax assets and the net deferred tax assets of its 100-percent-owned subsidiaries, including those in France, Germany, Italy, Sweden, U.K. and certain other countries. In evaluating the ability to recover these net deferred tax assets, the company utilizes a consistent approach which considers its three-year historical cumulative income (loss), including an assessment of the degree to which any gains or losses are driven by items that are unusual in nature. In addition, the company reviews changes in near-term market conditions and other factors that impact future operating results. Both positive and negative evidence are considered in the analysis. As of September 30, 2014, the company maintains the valuation allowances in these jurisdictions, as the company believes the negative evidence continues to outweigh the positive evidence. If, in the future, we generate taxable income in jurisdictions where we have recorded valuation allowances, on a sustained basis, our 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.

The expiration periods for $678 million of deferred tax assets related to net operating losses and tax credit carryforwards are as follows: $26 million between fiscal years 2015 and 2019; $326 million between fiscal years 2020 and 2029; $28 million between fiscal years 2030 and 2034; and $298 million can be carried forward indefinitely. The company has provided valuation allowances on these deferred tax assets of approximately $22 million, $323 million, $24 million and $298 million, respectively.

New Accounting Pronouncements

New Accounting Pronouncements are discussed in Note 2 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

International Operations

Approximately 57 percent of the company’s total assets as of September 30, 2014 and 61 percent of fiscal year 2014 sales from continuing operations were outside the United States. Management believes that international operations have significantly benefited the financial performance of the company. However, our international operations are subject to a number of risks inherent in operating abroad. There can be no assurance that these risks will not have a material adverse impact on our ability to increase or maintain our foreign sales or on our financial condition or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

As a result of our substantial international operations, we are exposed to foreign currency risks that arise from our normal business operations, including in connection with our transactions that are denominated in foreign currencies. In addition, we translate sales and financial results denominated in foreign currencies into U.S. dollars for purposes of our consolidated financial statements. As a result, appreciation of the U.S. dollar against these foreign currencies generally will have a negative impact on our reported revenues and operating income while depreciation of the U.S. dollar against these foreign currencies will generally have a positive effect on reported revenues and operating income. For fiscal years 2014, 2013 and 2012, our reported financial results were adversely affected by the appreciation of the U.S. dollar against foreign currencies relative to the prior year.

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

We generally do not hedge against our foreign currency exposure related to translations to U.S. dollars of our financial results denominated in foreign currencies. Due to increasing foreign currency exchange risk associated with purchasing economics related to the Indian rupee, we entered into foreign currency option contracts on expected future purchases tied to the Indian rupee. The contracts were entered into during April 2014 with effective dates from the start of fiscal year 2015 through the end of fiscal year 2016. Changes in fair value associated with these contracts are recorded in cost of sales in the consolidated statement of operations.

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

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

Market Risk	Assuming a 10% Increase in Rates	Assuming a 10% Decrease in Rates	Increase / (Decrease) In
Foreign Currency Sensitivity:			
Forward contracts in USD	3.3	(3.3)	Fair Value
Foreign currency denominated debt [1]	4.3	(4.3)	Fair Value
Forward contracts in EUR	(1.5)	1.5	Fair Value
Foreign currency option contracts in USD	(0.4)	3.2	Fair Value
Foreign currency option contracts in Euro	(1.5)	3.6	Fair Value

Interest Rate Sensitivity:	Assuming a 50 BPS Increase in Rates	Assuming a 50 BPS Decrease in Rates	Increase / (Decrease) In
Debt - fixed rate [2]	$(40.1)	$42.1	Fair Value
Debt - variable rate	—	—	Cash Flow
Interest rate swaps	—	—	Fair Value

---

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

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

(2) At September 30, 2014, the fair value of debt outstanding was approximately $1,150 million. A 50 basis point decrease in quoted interest rates would result in an increase of $42 million in the fair value of fixed-rate debt. A 50 basis point increase in quoted interest rates would result in a decrease of $40 million in the fair value of fixed-rate debt.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareowners of Meritor, Inc.
Troy, Michigan

We have audited the accompanying consolidated balance sheets of Meritor, Inc. and subsidiaries (the "Company") as of September 28, 2014 and September 29, 2013, and the related consolidated statements of operations, comprehensive income (loss), equity (deficit), and cash flows for each of the three years in the period ended September 28, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Meritor, Inc. and subsidiaries as of September 28, 2014 and September 29, 2013, and the results of their operations and their cash flows for each of the three years in the period ended September 28, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, the Company discontinued the Mascot business, previously included in the Aftermarket and Trailer segment of its operations, when it sold the business on September 26, 2014. The loss on sale and results prior to the sale are included in loss from discontinued operations in the accompanying consolidated financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 28, 2014, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated November 19, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP

Detroit, Michigan
November 19, 2014

MERITOR, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(In millions, except per share amounts)

	Year Ended September 30,		
	2014	2013	2012
Sales	$3,766	$3,672	$4,384
Cost of sales	(3,279)	(3,277)	(3,902)
GROSS MARGIN	487	395	482
Selling, general and administrative	(258)	(253)	(282)
Pension settlement losses	—	(109)	—
Restructuring costs	(10)	(23)	(39)
Gain on sale of property	—	—	16
Other operating expense, net	(2)	(3)	(4)
OPERATING INCOME	217	7	173
Other income, net	—	3	7
Gain on sale of equity investment	—	125	—
Equity in earnings of ZF Meritor	190	—	—
Equity in earnings of affiliates	38	42	52
Interest expense, net	(130)	(126)	(95)
INCOME BEFORE INCOME TAXES	315	51	137
Provision for income taxes	(31)	(64)	(57)
INCOME (LOSS) FROM CONTINUING OPERATIONS	284	(13)	80
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(30)	(7)	(17)
NET INCOME (LOSS)	254	(20)	63
Less: Net income attributable to noncontrolling interests	(5)	(2)	(11)
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	$249	$(22)	$52
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.			
Net income (loss) from continuing operations	$279	$(15)	$69
Loss from discontinued operations	(30)	(7)	(17)
Net income (loss)	$249	$(22)	$52
BASIC EARNINGS (LOSS) PER SHARE			
Continuing operations	$2.86	$(0.15)	$0.72
Discontinued operations	(0.31)	(0.07)	(0.18)
Basic earnings (loss) per share	$2.55	$(0.22)	$0.54
DILUTED EARNINGS (LOSS) PER SHARE			
Continuing operations	$2.81	$(0.15)	$0.71
Discontinued operations	(0.30)	(0.07)	(0.17)
Diluted earnings (loss) per share	$2.51	$(0.22)	$0.54
Basic average common shares outstanding	97.5	97.1	95.9
Diluted average common shares outstanding	99.2	97.1	97.2

See Notes to Consolidated Financial Statements. Amounts for prior periods have been recast for discontinued operations.

MERITOR, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	Year Ended September 30,		
	2014	2013	2012
Net income (loss)	$254	$(20)	$63
Other comprehensive income (loss):			
Foreign currency translation adjustments	(20)	(32)	(18)
Pension and other postretirement benefit related adjustments (net of tax of $2, $12 and $2 at September 30, 2014, 2013 and 2012, respectively)	3	218	(68)
Unrealized gain (loss) on investments:			
Unrealized gain (loss) on investments and foreign exchange contracts	2	(5)	1
Reclassification adjustment for gain on sale of investments	—	—	(2)
Total comprehensive income (loss)	239	161	(24)
Less: Comprehensive income attributable to noncontrolling interest	(5)	(2)	(10)
Comprehensive income (loss) attributable to Meritor, Inc.	$234	$159	$(34)

See Notes to Consolidated Financial Statements.

MERITOR, INC.
CONSOLIDATED BALANCE SHEET
(In millions)

	September 30, 2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$247	$318
Receivables, trade and other, net	610	596
Inventories	379	414
Other current assets	56	56
TOTAL CURRENT ASSETS	1,292	1,384
NET PROPERTY	424	417
GOODWILL	431	434
OTHER ASSETS	355	335
TOTAL ASSETS	$2,502	$2,570
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Short-term debt	$7	$13
Accounts and notes payable	680	694
Other current liabilities	351	339
TOTAL CURRENT LIABILITIES	1,038	1,046
LONG-TERM DEBT	965	1,125
RETIREMENT BENEFITS	775	886
OTHER LIABILITIES	309	335
TOTAL LIABILITIES	3,087	3,392
COMMITMENTS AND CONTINGENCIES (NOTE 22)		
EQUITY (DEFICIT):		
Common stock (September 30, 2014 and 2013, 97.8 and 97.4 shares issued and outstanding, respectively)	97	97
Additional paid-in capital	918	914
Accumulated deficit	(878)	(1,127)
Accumulated other comprehensive loss	(749)	(734)
Total deficit attributable to Meritor, Inc.	(612)	(850)
Noncontrolling interests	27	28
TOTAL DEFICIT	(585)	(822)
TOTAL LIABILITIES AND DEFICIT	$2,502	$2,570

See Notes to Consolidated Financial Statements.

MERITOR, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions)

	Year Ended September 30,		
	2014	2013	2012
OPERATING ACTIVITIES			
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES (see Note 25)	$215	$(96)	$77
INVESTING ACTIVITIES			
Capital expenditures	(77)	(54)	(89)
Proceeds from sale of equity investment	—	182	—
Proceeds from sale of property	—	—	18
Other investing activities	—	3	3
Net investing cash flows provided by (used for) continuing operations	(77)	131	(68)
Net investing cash flows provided by discontinued operations	7	6	28
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(70)	137	(40)
FINANCING ACTIVITIES			
Proceeds from debt issuances	225	500	100
Repayment of notes and term loan	(439)	(475)	(86)
Other financing activities	12	11	—
Net change in debt	(202)	36	14
Debt issuance costs	(10)	(12)	(12)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(212)	24	2
EFFECT OF CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(4)	(4)	1
CHANGE IN CASH AND CASH EQUIVALENTS	(71)	61	40
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	318	257	217
CASH AND CASH EQUIVALENTS AT END OF YEAR	$247	$318	$257

See Notes to Consolidated Financial Statements. Amounts for prior periods have been recast for discontinued operations.

MERITOR, INC.
CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)
(In millions)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Deficit Attributable to Meritor, Inc.	Non-controlling Interests	Total
Beginning balance at September 30, 2013	$97	$914	$(1,127)	$ (734)	$(850)	$28	$(822)
Comprehensive income (loss)	—	—					