MERITOR INC
Form 10-Q
May 04, 2012

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

FORM 10-Q

QUARTERLY REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended April 1, 2012

Commission File No. 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)

(248) 435-1000
(Registrant s telephone number, including area code)

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

Yes __ 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 Registration S-T during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [ ]

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

Large accelerated filer	X	**Accelerated filer**
Non-accelerated filer		**Smaller reporting company**

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

Yes ____ ___ No ____X____

96,487,135 shares of Common Stock, $1.00 par value, of Meritor, Inc. were outstanding on April 1, 2012.

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
	(Unaudited)			
Sales	$ 1,160	$ 1,176	$ 2,319	$ 2,133
Cost of sales	(1,026)	(1,058)	(2,079)	(1,910)
GROSS MARGIN	134	118	240	223
Selling, general and administrative	(72)	(70)	(137)	(140)
Restructuring costs	(3)	(5)	(27)	(8)
Other operating expense	(1)	(2)	(2)	(2)
OPERATING INCOME	58	41	74	73
Other income (loss), net	1	(2)	5	(2)
Equity in earnings of affiliates	14	17	29	30
Interest expense, net	(23)	(24)	(47)	(51)
INCOME BEFORE INCOME TAXES	50	32	61	50
Provision for income taxes	(17)	(21)	(37)	(41)
INCOME FROM CONTINUING OPERATIONS	33	11	24	9
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(9)	11	(18)	15
NET INCOME	24	22	6	24
Less: Income attributable to noncontrolling interests	(4)	(5)	(8)	(9)
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	$ 20	$ 17	$ (2)	$ 15
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.				
Net income from continuing operations	$ 29	$ 6	$ 16	$
Income (loss) from discontinued operations	(9)	11	(18)	15
Net income (loss)	$ 20	$ 17	$ (2)	$ 15
BASIC EARNINGS (LOSS) PER SHARE				
Continuing operations	$ 0.30	$ 0.06	$ 0.17	$
Discontinued operations	(0.09)	0.12	(0.19)	0.16
Basic earnings (loss) per share	$ 0.21	$ 0.18	$ (0.02)	$ 0.16
DILUTED EARNINGS (LOSS) PER SHARE				
Continuing operations	$ 0.30	$ 0.06	$ 0.17	$
Discontinued operations	(0.09)	0.12	(0.19)	0.15
Diluted earnings (loss) per share	$ 0.21	$ 0.18	$ (0.02)	$ 0.15
Basic average common shares outstanding	96.3	94.3	95.4	93.8
Diluted average common shares outstanding	97.2	96.9	97.2	96.9

See notes to consolidated financial statements. Amounts for prior period have been recast for discontinued operations.

MERITOR, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

	March 31, 2012 (Unaudited)	September 30, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 109	$ 217
Receivables, trade and other, net	703	712
Inventories	489	460
Other current assets	65	70
TOTAL CURRENT ASSETS	1,366	1,459
NET PROPERTY	404	421
GOODWILL	433	431
OTHER ASSETS	362	352
TOTAL ASSETS	$ 2,565	$ 2,663
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Short-term debt	$ 21	$ 84
Accounts payable	809	841
Other current liabilities	343	328
TOTAL CURRENT LIABILITIES	1,173	1,253
LONG-TERM DEBT	954	950
RETIREMENT BENEFITS	1,064	1,096
OTHER LIABILITIES	319	325
EQUITY (DEFICIT):		
Common stock (March 31, 2012 and September 30, 2011, 96.4 and 94.6 shares issued and outstanding, respectively)	96	94
Additional paid-in capital	898	897
Accumulated deficit	(1,159)	(1,157)
Accumulated other comprehensive loss	(820)	(829)
Total deficit attributable to Meritor, Inc.	(985)	(995)
Noncontrolling interests	40	34
TOTAL DEFICIT	(945)	(961)
TOTAL LIABILITIES AND DEFICIT	$ 2,565	$ 2,663

See notes to consolidated financial statements.

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

	Six Months Ended March 31,	
	2012 (Unaudited)	2011
OPERATING ACTIVITIES		
CASH USED FOR OPERATING ACTIVITIES (See Note 10)	$ (46)	$ (44)
INVESTING ACTIVITIES		
Capital expenditures	(43)	(42)
Proceeds from sale of property	18	
Other investing activities	(2)	1
Net investing cash flows used for continuing operations	(27)	(41)
Net investing cash flows provided by (used for) discontinued operations	28	(71)
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	1	(112)
CASH PROVIDED BY FINANCING ACTIVITIES:		
Borrowings on accounts receivable securitization program, net	19	
Repayment of notes	(84)	
Other financing activities		6
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(65)	6
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	2	2
CHANGE IN CASH AND CASH EQUIVALENTS	(108)	(148)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	217	343
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 109	$ 195

See notes to consolidated financial statements. Amounts for prior period have been recast for discontinued operations.

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

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Deficit Attributable to Meritor, Inc.	Noncontrolling Interests	Total
Beginning balance at September 30, 2011	$ 94	$ 897	$ (1,157)	$ (829)	$ (995)	$ 34	$ (961)
Net income (loss)			(2)		(2)	8	6
Foreign currency translation adjustments				9	9		9
Employee benefit related adjustment				2	2		2
Other				(2)	(2)		(2)
Comprehensive income					7	8	15
Issuance of restricted stock	2	(2)					
Equity based Compensation expense		3			3		3
Other						(2)	(2)
Ending Balance at March 31, 2012	$ 96	$ 898	$ (1,159)	$ (820)	$ (985)	$ 40	$ (945)
Beginning balance at September 30, 2010	$ 92	$ 886	$ (1,220)	$ (812)	$ (1,054)	$ 31	$ (1,023)
Net income			15		15	9	24
Foreign currency translation adjustments				38	38		38
Impact of sale of business				(62)	(62)		(62)
Employee benefit related adjustment				9	9		9
Other				(2)	(2)		(2)
Comprehensive income (loss)					(2)	9	7
Equity based compensation expense		3			3		3
Exercise of stock options	1	5			6		6
Other		1			1		1
Ending Balance at March 31, 2011	$ 93	$ 895	$ (1,205)	$ (829)	$ (1,046)	$ 40	$ (1,006)

See notes to consolidated financial statements.

MERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

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

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

In the opinion of the company, the unaudited financial statements contain all adjustments, consisting solely of adjustments of a normal, recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These statements should be read in conjunction with the company s audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K, for the fiscal year ended September 30, 2011. The results of operations for the six months ended March 31, 2012, are not necessarily indicative of the results for the full year.

The company s fiscal year ends on the Sunday nearest September 30. The second quarter of fiscal years 2012 and 2011 ended on April 1, 2012 and April 3, 2011, respectively. All year and quarter references relate to the company s fiscal year and fiscal quarters, unless otherwise stated. For ease of presentation, September 30 and March 31 are used consistently throughout this report to represent the fiscal year end and second quarter end, respectively.

The company has evaluated subsequent events through the date that the consolidated financial statements were issued. On April 23, 2012, the company amended and extended its bank credit facility (see Note 17).

2. Earnings per Share

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

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

	Three Months Ended March 31,		**Six Months Ended March 31,**	
	2012	**2011**	**2012**	**2011**
Basic average common shares outstanding	96.3	94.3	95.4	93.8
Impact of stock options		0.2		0.2
Impact of restricted shares and share units	0.9	2.4	1.8	2.9
Diluted average common shares outstanding	97.2	96.9	97.2	96.9

For the three and six months ended March 31, 2012 and March 31, 2011, options to purchase 0.7 million and 0.4 million shares of common stock, respectively, were not included in the computation of diluted earnings per share because their exercise price exceeded the average market price for the period and thus their inclusion would be anti-dilutive. The company s convertible senior unsecured notes are excluded from the computation of diluted earnings per share, as the stock price at the end of the quarter is less than the conversion price.

3. New Accounting Standards

Accounting standards implemented during fiscal year 2012

In September 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2011-08: Testing Goodwill for Impairment. Under the revised guidance, entities testing for goodwill impairment have an option of performing a qualitative assessment before calculating the fair value for the reporting unit, i.e., Step 1 of the goodwill impairment test. If an entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more-likely-than-not less than the carrying amount, the first step of the two-step impairment test would be required. If it is not more-likely-than-not that the fair value of the reporting unit is less than the carrying value, then goodwill is not considered to be impaired. ASU No. 2011-08 does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill at least annually for impairment. This ASU is effective for interim and annual periods beginning after December 15, 2011 with early adoption permitted. The company has adopted the revised guidance provided in this ASU effective with its second quarter of fiscal year 2012 and will apply it in the fiscal year 2012 goodwill impairment review during the fourth quarter. The company does not expect any significant effect on its goodwill impairment assessments as a result of the adoption of the new guidance.

MERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). This ASU is intended to result in convergence between U.S. GAAP and IFRS requirements for measurement of and disclosures about fair value. The guidance amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The company has adopted this new guidance effective with its second quarter of fiscal year 2012 and has provided required disclosures in Note 18 to the consolidated financial statements.

Accounting standard to be implemented

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The company does not believe the adoption of the new guidance will have a significant impact on the company s consolidated financial statements.

4. Discontinued Operations

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
Sales	$	$ 19	$ 2	$ 336
Operating income (loss), net	$	$ (1)	$	$ 13
Gain (loss) on sale of businesses, net		19	(1)	19
Restructuring costs		(6)	(1)	(7)
Charge for legal contingency (see Note 20)	(6)		(9)	
Environmental remediation charges	(2)	(1)	(2)	(1)
Other, net	(2)	(4)	(6)	(7)
Income (loss) before income taxes	(10)	7	(19)	17
Benefit (provision) for income taxes	1	4	1	(2)
Income (loss) from discontinued operations attributable to Meritor, Inc.	$ (9)	$ 11	$ (18)	$ 15

In conjunction with the company s long-term strategic objective to focus on supplying the commercial vehicle on- and off-highway markets for original equipment manufacturers, aftermarket and industrial customers, the company previously announced its intent to divest the Light Vehicle Systems (LVS) business groups in their entirety. In November 2011, the company sold its damper business located in Leicester, England. With the sale of this business, the company has completed the divestiture of its LVS businesses.

In the second quarter of fiscal year 2011, the company announced the planned closure of its European Trailer (EU Trailer) business which was part of the company s Aftermarket & Trailer segment. All manufacturing operations and use of productive assets ceased prior to September 30, 2011. The company sold certain long-lived and current assets of the business to a third party during the fourth quarter of fiscal year 2011. The European Trailer business is presented in discontinued operations for all periods presented.

The following summarizes significant items included in income from discontinued operations in the consolidated statement of operations for the three- and six-month periods ended March 31, 2012 and 2011:

Sales from discontinued operations in the three month period ended March 31, 2011 were $19 million, which primarily related to the company s EU Trailer business. Sales in the six month period ended March 31, 2011 were $336 million, which included $298 million in Body Systems and $30 million in EU Trailer.

MERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Operating income (loss), net from discontinued operations in the three and six month periods ended March 31, 2011 represents income from normal operating activities of businesses, primarily Body Systems, included in discontinued operations.

Net gain (loss) on sale of businesses: The loss on sale of business in the six month period ended March 31, 2012 relates to the sale of the company s damper business located in Leicester, England during the first quarter of fiscal year 2012. In the second quarter of fiscal year 2011, the company recognized a pre-tax gain of $32 million ($32 million after tax) on the sale of the Body Systems business and a pre-tax loss of $13 million ($13 million after tax) on the sale of its Gabriel Europe business.

Restructuring costs: In the second quarter of fiscal year 2011, the company recognized $6 million of restructuring charges associated with the closure of its EU Trailer business. The company recognized additional restructuring charges of $1 million associated with EU Trailer closure in the first six months of fiscal year 2012.

Other: These charges primarily relate to charges for changes in estimates and adjustments for certain assets and liabilities retained from previously sold businesses and indemnities provided at the time of sale, and costs associated with the divestiture actions.

5. Goodwill

A summary of the changes in the carrying value of goodwill are presented below (in millions):

	Commercial Truck	Industrial	Aftermarket & Trailer	Total
Balance at September 30, 2011	$ 150	$ 109	$ 172	$ 431
Foreign currency translation	2			2
Balance at March 31, 2012	$ 152	$ 109	$ 172	$ 433

6. Restructuring Costs

At March 31, 2012 and September 30, 2011, $15 million and $19 million, respectively, of restructuring reserves primarily related to unpaid employee termination benefits remained in the consolidated balance sheet. The changes in restructuring reserves for the six months ended March 31, 2012 and 2011 are as follows (in millions):

	Employee Termination Benefits	Asset Impairment	Plant Shutdown & Other	Total
Balance at September 30, 2011	$ 19	$	$	$ 19
Activity during the period:				
Charges to continuing operations	6	19	2	27
Charges to discontinued operations[1]			1	1
Asset impairments and other	(1)	(19)		(20)
Cash payments continuing operations	(9)		(1)	(10)
Cash payments discontinued operations	(1)		(1)	(2)
Total restructuring reserves at March 31, 2012	14		1	15
Less: non-current restructuring reserves	(5)			(5)
Restructuring reserves current, at March 31, 2012	$ 9	$	$ 1	$ 10
Balance at September 30, 2010	$ 11	$	$	$ 11
Activity during the period:				
Charges to continuing operations	7	1		8
Charges to discontinued operations[1]	6			6
Asset impairments		(1)		(1)

Cash payments - continuing operations	(7)			(7)
Cash payments discontinued operations	(1)			(1)
Other	1			1
Total restructuring reserves at March 31, 2011	$ 17	$	$	$ 17

(1) Charges to discontinued operations are included in income from discontinued operations in the consolidated statement of income.

MERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Performance Plus: During fiscal year 2007, the company launched a long-term profit improvement and cost reduction initiative called Performance Plus. As part of this program, the company identified significant restructuring actions which would eliminate up to 2,800 positions in North America and Europe and consolidate and combine certain global facilities. The company s continuing operations recognized restructuring costs in its Commercial Truck business segment of $24 million in the first six months of fiscal year 2012 related to Performance Plus. These costs include $19 million of non-cash charges, including an impairment charge of $17 million for assets held for sale at December 31, 2011. In connection with the then planned sale of St. Priest, France manufacturing facility to Renault Trucks SAS, the company classified certain assets and associated liabilities as held for sale (collectively the Disposal Group) at December 31, 2011. Upon comparing the carrying value of the Disposal Group to its fair value less cost to sell, an impairment was identified. The sale of Disposal Group was completed on January 2, 2012. In addition, other restructuring charges of approximately $5 million (including $1 million in the second quarter of fiscal year 2012) associated with employee headcount reduction and plant rationalization costs were recognized in connection with the sale of St. Priest facility. Restructuring costs recognized in the first and second quarters of fiscal year 2011 were also associated with the company s Commercial Truck segment.

Cumulative restructuring costs recorded for this program as of March 31, 2012 are $186 million, including $93 million reported in discontinued operations in the consolidated statement of operations. These costs primarily relate to employee severance and related costs of $117 million, asset impairment charges of $41 million and $28 million primarily associated with pension termination benefits. The company s Commercial Truck segment has recognized cumulative restructuring costs associated with Performance Plus of $82 million. Cumulative restructuring costs of $11 million were recognized by corporate locations and the company s Aftermarket & Trailer segment. Substantially all restructuring actions associated with Performance Plus were complete as of March 31, 2012.

Fiscal Year 2012 European Action: During the second quarter of fiscal year 2012, the company approved a European headcount reduction plan in response to the ongoing economic weakness and uncertainty in that region and recognized approximately $1 million of restructuring costs associated with this plan in its Commercial Truck segment. Remaining anticipated costs under this plan are approximately $5 million and are expected to be incurred during the second half of fiscal year 2012.

7. Other Income (Loss), Net

Other income, net for the six months ended March 31, 2012 includes a $3 million non-operating gain related to the sale of the company s remaining ownership interest in Gabriel India, Ltd during the first quarter of fiscal year 2012. The company s ownership interest in Gabriel India, Ltd was a legacy cost method investment that the company deemed non-core upon the completion of the sale of its light vehicle businesses.

8. Income Taxes

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

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

For the first six months of fiscal 2012 and 2011, the company had approximately $52 million and $85 million, respectively, of net pre-tax losses in tax jurisdictions in which a tax benefit is not recorded. Losses arising from these jurisdictions resulted in increasing the valuation allowance, rather than reducing income tax expense.

MERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

9. Accounts Receivable Factoring

Off-balance sheet arrangements

Swedish Factoring Facility: The company has an arrangement to sell trade receivables due from AB Volvo through one of its European subsidiaries. Under this arrangement, which was renewed in June 2011 for a term of one year, the company can sell up to, at any point in time, €150 million of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €131 million ($174 million) and €107 million ($146 million) of this accounts receivable factoring facility as of March 31, 2012 and September 30, 2011, respectively.

French Factoring Facility: The company has an arrangement to sell trade receivables through one of its French subsidiaries. Under this arrangement, the company can sell up to, at any point in time, €125 million of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €6 million ($8 million) and €47 million ($63 million) of this accounts receivable factoring facility as of March 31, 2012 and September 30, 2011, respectively. In January 2012, the company sold its manufacturing facility located at St. Priest, France to Renault Trucks SAS. As a result, the French Factoring Facility is expected to ramp down over the course of fiscal year 2012. During the second quarter of fiscal year 2012, the company entered into new arrangements to sell trade receivables from AB Volvo and its European subsidiaries through its United Kingdom and Italian subsidiaries as more fully described below.

U.S. Factoring Facility: In October 2010, the company entered into a two-year arrangement to sell trade receivables from AB Volvo and its subsidiaries. Under this arrangement, the company can sell up to, at any point in time, €60 million ($80 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €49 million ($65 million) and €46 million ($62 million) of this accounts receivable factoring facility as of March 31, 2012 and September 30, 2011, respectively.

The above facilities are backed by 364-day liquidity commitments from Nordea Bank which were renewed through June 2012 for the French and the Swedish facilities and October 2012 for the U.S. facility. The commitments are subject to standard terms and conditions for these types of arrangements (including, in the case of the French commitment, a sole discretion clause whereby the bank retains the right to not purchase receivables, which to the company s knowledge has never been invoked).

United Kingdom Factoring Facility: On February 2, 2012, the company entered into an arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of its United Kingdom subsidiaries. Under this arrangement, which expires in February 2013, the company can sell up to, at any point in time, €25 million of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €5 million ($7 million) of this accounts receivable factoring facility as of March 31, 2012. The commitment is subject to standard terms and conditions for these types of arrangements including a sole discretion clause whereby the bank retains the right to not purchase receivables.

Italy Factoring Facility: On March 15, 2012, the company entered into an arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of its Italian subsidiaries. Under this arrangement, which expires in March 2017, the company can sell up to, at any point in time, €30 million of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €17 million ($22 million) of this accounts receivable factoring facility as of March 31, 2012. The commitment is subject to standard terms and conditions for these types of arrangements including a sole discretion clause whereby the bank retains the right to not purchase receivables.

In addition, several of the company s subsidiaries, primarily in Europe, factor eligible accounts receivable with financial institutions. Certain receivables are factored without recourse to the company and are excluded from accounts receivable in the consolidated balance sheet. The amount of factored receivables excluded from accounts receivable was $11 million and $8 million at March 31, 2012 and September 30, 2011, respectively.

Total costs associated with these off-balance sheet arrangements were $6 million and $3 million in the six month periods ended March 31, 2012 and 2011, respectively, and are included in selling, general and administrative expenses in the consolidated statement of operations.

On-balance sheet arrangements

The company has a $125 million U.S. receivables financing arrangement which is provided on a committed basis by a syndicate of financial institutions led by Ally Commercial Finance LLC which expires in October 2013. Under this program, the company has the ability to sell substantially all of the trade receivables (excluding the receivables due from AB Volvo and subsidiaries eligible for sale under the U.S. Factoring Facility discussed above) of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation (ARC), a wholly-owned, special purpose subsidiary. ARC funds these purchases with borrowings under a loan agreement with participating lenders. 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 March 31, 2012, the company had $19 million of borrowings outstanding under this program. At September 30, 2011, no amount was outstanding under this program. This program does not have specific financial covenants; however, it does have a cross-default provision to the company s revolving credit facility agreement.

MERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

10. Operating Cash Flow

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

	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011
OPERATING ACTIVITIES		
Net income	$ 6	$ 24
Less: Income (loss) from discontinued operations, net of tax	(18)	15
Income from continuing operations	24	9
Adjustments to income from continuing operations to arrive at cash used for operating activities:		
Depreciation and amortization	33	33
Restructuring costs	27	8
Equity in earnings of affiliates	(29)	(30)
Pension and retiree medical expense	26	35
Other adjustments to income from continuing operations	7	8
Dividends received from affiliates	8	7
Pension and retiree medical contributions	(50)	(34)
Restructuring payments	(10)	(7)
Changes in off-balance sheet receivable securitization and factoring	8	138
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations	(82)	(174)
Operating cash flows used for continuing operations	(38)	(7)
Operating cash flows used for discontinued operations	(8)	(37)
CASH USED FOR OPERATING ACTIVITIES	$ (46)	$ (44)

11. Inventories

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

	March 31, 2012	September 30, 2011
Finished goods	$ 202	$ 183
Work in process	48	63
Raw materials, parts and supplies	239	214
Total	$ 489	$ 460

12. Other Current Assets

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

	March 31, 2012	September 30, 2011
Current deferred income tax assets, net	$ 27	$ 28
Asbestos-related recoveries (see Note 20)	9	9
Deposits and collateral	7	11

Prepaid and other		22		18
Assets of discontinued operations				4
Other current assets	$	65	$	70

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13. Net Property

Net property is summarized as follows (in millions):

	March 31, 2012	September 30, 2011
Property at cost:		
Land and land improvements	$ 39	$ 47
Buildings	251	264
Machinery and equipment	913	897
Company-owned tooling	157	153
Construction in progress	55	74
Total	1,415	1,435
Less accumulated depreciation	(1,011)	(1,014)
Net property	$ 404	$ 421

14. Other Assets

Other assets are summarized as follows (in millions):

	March 31, 2012	September 30, 2011
Investments in non-consolidated joint ventures	$ 197	$ 174
Asbestos-related recoveries (see Note 20)	65	67
Non-current deferred income tax assets, net	12	12
Unamortized debt issuance costs	21	25
Capitalized software costs, net	22	23
Prepaid pension costs	10	9
Other	35	42
Other assets	$ 362	$ 352

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

The company holds a variable interest in a joint venture accounted for under the equity method of accounting. The joint venture manufactures components for commercial vehicle applications primarily on behalf of the company. The variable interest relates to a supply arrangement between the company and the joint venture whereby the company supplies certain components to the joint venture at a cost-plus basis. The company is not the primary beneficiary of the joint venture, as the joint venture partner has shared or absolute control over key manufacturing operations, labor relationships, financing activities and certain other functions of the joint venture. Therefore, the company does not consolidate the joint venture. At March 31, 2012, the company s investment in the joint venture was $37 million representing the company s maximum exposure to loss. This amount is included in investments in non-consolidated joint ventures in the table above.

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15. Other Current Liabilities

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

	March 31, 2012	September 30, 2011
Compensation and benefits	$ 132	$ 148
Income taxes	26	23
Taxes other than income taxes	38	38
Accrued interest	5	5
Product warranties	17	19
Restructuring (see Note 6)	10	16
Asbestos-related liabilities (see Note 20)	19	18
Deferred credit	18	
Other	78	61
Other current liabilities	$ 343	$ 328

The deferred credit is associated with proceeds received from the sale of excess land at the company s Commercial Truck facility in Cwmbran, Wales. The company entered into an agreement to sell the excess land in February 2012; however, due to its continued use of this land through April 2012, it has deferred the recognition of a gain on the sale. The company expects to recognize the gain during the third quarter of fiscal year 2012. The land subject to this transaction with a carrying amount of approximately $1 million has been classified as held for sale and is included in other current assets in the accompanying condensed consolidated balance sheet (see Note 12).

The company records estimated product warranty costs at the time of shipment of products to customers. Warranty reserves are primarily based on factors that include past claims experience, sales history, product manufacturing and engineering changes and industry developments. Liabilities for product recall campaigns are recorded at the time the company s obligation is 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.

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

	Six Months Ended March 31,	
	2012	2011
Total product warranties beginning of period	$ 48	$ 54
Accruals for product warranties	10	12
Payments	(7)	(11)
Change in estimates and other	(5)	(2)
Total product warranties end of period	46	53
Less: Non-current product warranties (see Note 16)	(29)	(25)
Product warranties current	$ 17	$ 28

16. Other Liabilities

Other liabilities are summarized as follows (in millions):

	March 31, 2012	September 30, 2011

Asbestos-related liabilities (see Note 20)	$	77	$	78
Non-current deferred income tax liabilities		95		92
Liabilities for uncertain tax positions		34		35
Product warranties (see Note 15)		29		29
Environmental		8		9
Indemnity obligations		36		41
Other		40		41
Other liabilities	$	319	$	325

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17. Long-Term Debt

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

	March 31, 2012	September 30, 2011
8-3/4 percent notes due 2012[(1)]	$	$ 84
8-1/8 percent notes due 2015	250	250
10-5/8 percent notes due 2018	246	246
4.625 percent convertible notes due 2026[(2)]	300	300
4.0 percent convertible notes due 2027[(2)]	200	200
Lines of credit and other	12	8
Accounts receivable securitization	19	
Unamortized gain on interest rate swap termination	11	14
Unamortized discount on convertible notes	(63)	(68)
Subtotal	975	1,034
Less: current maturities	(21)	(84)
Long-term debt	$ 954	$ 950

(1) During the quarter ended March 31, 2012, the company retired its $84 million 8-3/4 percent notes due 2012 at par value.

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

Revolving Credit Facility

At March 31, 2012, the company had a revolving credit facility of $441 million which was slated to mature in January 2014. The availability under this facility was dependent upon various factors, including principally performance against certain financial covenants. At March 31, 2012 and September 30, 2011, there were no borrowings outstanding under the revolving facility. The revolving credit facility included a $100 million limit on the issuance of letters of credit. No letters of credit were outstanding at March 31, 2012 and September 30, 2011 under the revolving credit facility.

Availability under the revolving credit facility was subject to a collateral test, pursuant to which borrowings on the revolving credit facility could not exceed 1.0x the collateral test value. The collateral test was performed on a quarterly basis and under the most recent collateral test, the full amount of the revolving credit facility was available for borrowing at March 31, 2012. Availability under the revolving credit facility was also subject to certain financial covenants based on (i) the ratio of the company s priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. The company was required to maintain a total priority debt-to-EBITDA ratio, as defined in the agreement, of (i) 2.25 to 1 as of the last day of each fiscal quarter commencing with the fiscal quarter ended September 30, 2011 through and including the fiscal quarter ended June 30, 2012; and (ii) 2.00 to 1 as of the last day of each fiscal quarter thereafter through maturity. At March 31, 2012, the company was in compliance with all covenants under its credit agreement with a ratio of approximately 0.26x for the priority debt-to-EBITDA covenant.

Borrowings under the revolving credit facility were collateralized by approximately $653 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 were subject to interest based on quoted LIBOR rates plus a margin, and a commitment fee on undrawn amounts, both of which were based upon the company s current credit rating for the senior secured facility. At March 31, 2012, the margin over LIBOR rate was 425 basis points and the commitment fee was 50 basis points.

Certain of the company s subsidiaries, as defined in the credit agreement, irrevocably and unconditionally guaranteed amounts outstanding under the revolving credit facility. Similar subsidiary guarantees were provided for the benefit of the holders of the publicly-held notes outstanding under the company s indentures (see Note 23).

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Amended Bank Credit Facility (Subsequent Event)

On April 23, 2012, the company amended and restated the above described revolving credit facility. Pursuant to the revolving credit facility agreement as amended, the company has a $429 million revolving credit facility, $14 million of which matures in January 2014 for a bank not electing to extend its commitments under the revolving credit facility existing at March 31, 2012 and the remaining $415 million of which matures in April 2017. The April 2017 maturity date is also subject to the following: if on June 1, 2015, the outstanding principal amount of the company s $250 million bonds due 2015 is greater than $100 million, the maturity date becomes June 10, 2015 and if on November 1, 2015, the outstanding principal amount of the company s $300 million 4.625 percent convertibles notes due 2026 is greater than $100 million and the conversion price of $20.98 is greater than the then current Meritor common stock price, the maturity date becomes November 15, 2015. The availability under this facility is dependent upon various factors, including principally performance against certain financial covenants. The amended and extended revolving credit facility includes $100 million of availability for the issuance of letters of credit.

Availability under the amended and extended revolving credit facility is 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. The availability under the revolving credit facility is also subject to certain financial covenants based on (i) the ratio of the company s priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. The company is required to maintain a total priority-debt-to-EBITDA ratio, as defined in the agreement, of (i) 2.50 to 1.00 as of the last day of the fiscal quarter commencing with the fiscal quarter ending on or about March 31, 2012 through and including the fiscal quarter ending on or about September 30, 2012, (ii) 2.25 to 1.00 as of the last day of each fiscal quarter commencing with the fiscal quarter ending on or about December 31, 2012 through and including the fiscal quarter ending on or about September 30, 2013, and (iii) 2.00 to 1.00 as of the last day of each fiscal quarter thereafter. Borrowings under the amended and extended revolving credit facility are subject to the same interest rate and commitment fee terms as applicable to the existing revolving credit facility discussed above.

As part of the amendment and restatement of the above described revolving credit facility, on April 23, 2012, the company entered into a $100 million term loan agreement with a maturity date of April 23, 2017. The term loan will amortize over a period of 5 years from the effective date as follows: $5 million principal to be repaid during year one, $10 million principal to be repaid in each of the years two, three and four; and the remaining principal balance to be paid in year five. Payments will be made on a quarterly basis for the duration of the term loan. As of the effective date of the term loan, the margin over LIBOR rate was 425 basis points. The company has the ability to prepay the term loan at any time without penalty or premium.

Capital Leases

On March 20, 2012, the company entered into an arrangement to finance equipment acquisitions for various U.S. locations. Under this arrangement, the company can request financing from GE Capital Commercial, Inc. (GE Capital) for progress payments for equipment under construction, not to exceed $10 million at any point in time. The financing rate is equal to the 30-day LIBOR plus 575 basis points per annum. Under this arrangement, the company can also enter into lease arrangements with GE Capital for completed equipment. The lease term is 60 months and the lease interest rate is equal to the 5-year Swap Rate published by the Federal Reserve Board plus 564 basis points. As of March 31, 2012, the company had $4 million outstanding under these arrangements.

Letter of Credit Facilities

The company entered into a five-year credit agreement dated as of November 18, 2010 with Citicorp USA, Inc., as administrative agent and issuing bank, the other lenders party thereto and the Bank of New York Mellon, as paying agent. Under the terms of this credit agreement, as amended, the company has the right to obtain the issuance, renewal, extension and increase of letters of credit up to an aggregate availability of $30 million. This facility contains covenants and events of default generally similar to those existing in our public debt indentures. At March 31, 2012 and September 30, 2011, $29 million and $30 million, respectively, of letters of credit were outstanding under this facility. In addition, the company had another $6 million and $2 million of letters of credit outstanding through other letters of credit facilities at March 31, 2012 and September 30, 2011, respectively.

18. Financial Instruments

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

	March 31, 2012 Carrying Value	Fair Value	September 30, 2011 Carrying Value	Fair Value
Cash and cash equivalents	$ 109	$ 109	$ 217	$ 217
Short-term debt	21	21	84	83
Long-term debt	954	982	950	844
Foreign exchange forward contracts (asset)	2	2		

Fair Value

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

- Level 1 inputs use quoted prices in active markets for identical instruments.
- Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar instruments in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related instrument.

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

Fair value of financial instruments by the valuation hierarchy is as follows (in millions):

	Level 1	Level 2	Level 3
Short-term debt	$	$ 21	$
Long-term debt		982	
Foreign exchange forward contracts (asset)		2	

Cash and cash equivalents All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. The carrying value approximates fair value because of the short maturity of these instruments. The company does not have any cash equivalents at March 31, 2012 or September 30, 2011.

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Short- and Long-term debt Fair values are based on interest rates that would be currently available to the company for issuance of similar types of debt instruments with similar terms and remaining maturities.

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

19. Retirement Benefit Liabilities

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

	March 31, 2012	September 30, 2011
Retiree medical liability	$ 552	$ 550
Pension liability	538	565
Other	26	33
Subtotal	1,116	1,148
Less: current portion (included in compensation and benefits, Note 15)	(52)	(52)
Retirement benefit liabilities	$ 1,064	$ 1,096

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

	2012		2011	
	Pension	Retiree Medical	Pension	Retiree Medical
Service cost	$	$	$ 1	$
Interest cost	23	6	22	6
Assumed return on plan assets	(26)		(28)	
Amortization of prior service costs		(2)		(1)
Recognized actuarial loss	5	6	10	7
Total expense	$ 2	$ 10	$ 5	$ 12

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

	2012		2011	
	Pension	Retiree Medical	Pension	Retiree Medical
Service cost	$ 1	$	$ 4	$
Interest cost	46	12	46	13
Assumed return on plan assets	(52)		(58)	
Amortization of prior service costs		(4)		(4)
Recognized actuarial loss	10	13	19	15
Total expense	$ 5	$ 21	$ 11	$ 24

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20. Contingencies

Environmental

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

The company has been designated as a potentially responsible party at nine Superfund sites, excluding sites as to which the company s records disclose no involvement or as to which the company s liability has been finally determined. Management estimates the total reasonably possible costs the company could incur for the remediation of Superfund sites at March 31, 2012 to be approximately $19 million, of which $3 million is recorded as a liability. Included in reasonably possible amounts are estimates for certain remediation actions that may be required if current actions are deemed inadequate by the regulators.

In addition to the Superfund sites, various other lawsuits, claims and proceedings have been asserted against the company, alleging violations of federal, state and local environmental protection requirements, or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. For these matters, management has estimated the total reasonably possible costs the company could incur at March 31, 2012 to be approximately $38 million, of which $15 million is recorded as a liability.

Included in the company s environmental liabilities are costs for on-going operation, maintenance and monitoring at environmental sites in which remediation has been put into place. This liability is discounted using a discount rate of 5-percent and is approximately $8 million at March 31, 2012. The undiscounted estimate of these costs is approximately $10 million.

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

	Superfund Sites	Non-Superfund Sites	Total
Balance at September 30, 2011	$ 2	$ 15	$ 17
Payments and other		(3)	(3)
Accruals[(1)]	1	3	4
Balance at March 31, 2012	$ 3	$ 15	$ 18

(1) Includes $2 million recognized in loss from discontinued operations in the consolidated statement of operations.

Environmental reserves are included in Other Current Liabilities (see Note 15) and Other Liabilities (see Note 16) in the consolidated balance sheet.

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

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Asset Retirement Obligations

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

Asbestos

Maremont Corporation (Maremont), a subsidiary of Meritor, manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. Arvin Industries, Inc., a predecessor of the company, acquired Maremont in 1986. Maremont and many other companies are defendants in suits brought by individuals claiming personal injuries as a result of exposure to asbestos-containing products. Maremont had approximately 21,000 pending asbestos-related claims at March 31, 2012 and September 30, 2011. Although Maremont has been named in these cases, in the cases where actual injury has been alleged, very few claimants have established that a Maremont product caused their injuries. Plaintiffs lawyers often sue dozens or even hundreds of defendants in individual lawsuits on behalf of hundreds or thousands of claimants, seeking damages against all named defendants irrespective of the disease or injury and irrespective of any causal connection with a particular product. For these reasons, Maremont does not consider the number of claims filed or the damages alleged to be a meaningful factor in determining its asbestos-related liability.

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

	March 31, 2012	September 30, 2011
Pending and future claims	$ 75	$ 77
Asbestos-related insurance recoveries	67	67

A portion of the asbestos-related recoveries and reserves are included in Other Current Assets and Liabilities, with the majority of the amounts recorded in Other Assets and Liabilities (see Notes 12, 14, 15 and 16).

Prior to February 2001, Maremont participated in the Center for Claims Resolution (CCR) and shared with other CCR members in the payment of defense and indemnity costs for asbestos-related claims. The CCR handled the resolution and processing of asbestos claims on behalf of its members until February 2001, when it was reorganized and discontinued negotiating shared settlements. Since the CCR was reorganized in 2001, Maremont has handled asbestos-related claims through its own defense counsel and has taken a more aggressive defensive approach that involves examining the merits of each asbestos-related claim. Although the company expects legal defense costs to continue at higher levels than when it participated in the CCR, the company believes its litigation strategy has reduced the average indemnity cost per claim.

Pending and Future Claims: Maremont engages Bates White LLC (Bates White), a consulting firm with extensive experience estimating costs associated with asbestos litigation, to assist with determining the estimated cost of resolving pending and future asbestos-related claims that have been, and could reasonably be expected to be, filed against Maremont. Bates White prepares these cost estimates on a semi-annual basis in March and September each year. Although it is not possible to estimate the full range of costs because of various uncertainties, Bates White advised Maremont that it would be possible to determine an estimate of a reasonable forecast of the cost of the probable settlement and defense costs of resolving pending and future asbestos-related claims, based on historical data and certain assumptions with respect to events that may occur in the future.

Bates White provided an estimate of the reasonably possible range of Maremont s obligation for asbestos personal injury claims over the next ten years of $75 million to $85 million. After consultation with Bates White, Maremont determined that as of March 31, 2012, the most likely and probable liability for pending and future claims over the next ten years is $75 million. 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.

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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 2022. The ten-year assumption is considered appropriate as Maremont has reached certain longer-term agreements with key plaintiff law firms and filings of mesothelioma claims have been relatively stable over the last few years resulting in an improvement in the reliability of future projections over a longer time period;

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

- The ultimate cost of resolving pending and future claims filed in Madison County, Illinois, a jurisdiction where a substantial amount of Maremont s claims are filed, will decline to reflect average outcomes throughout the United States;

- Defense and processing costs for pending and future claims filed outside of Madison County, Illinois will be at the level consistent with Maremont s prior experience; and

- The ultimate indemnity cost of resolving nonmalignant claims with plaintiffs law firms in jurisdictions without an established history with Maremont cannot be reasonably estimated. Recent changes in tort law and insufficient settlement history make estimating a liability for these nonmalignant claims difficult and uncertain.

Recoveries: Maremont has insurance that reimburses a substantial portion of the costs incurred defending against asbestos-related claims. The coverage also reimburses Maremont for any indemnity paid on those claims. The coverage is provided by several insurance carriers based on insurance agreements in place. Incorporating historical information with respect to buy-outs and settlements of coverage, and excluding any policies in dispute, the insurance receivable related to asbestos-related liabilities is $67 million as of March 31, 2012. The difference between the estimated liability and insurance receivable is primarily related to proceeds received 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. Receivables for policies in dispute are not recorded.

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 nature of pending and future claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of liability for Maremont s asbestos-related claims, and the effect on the company, could differ materially from current estimates and, therefore, could have a material impact on the company s financial condition and results of operations.

Rockwell International (Rockwell) ArvinMeritor, Inc. (AM), a subsidiary of Meritor, along with many other companies, has also been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos used in certain components of Rockwell products many years ago. Liability for these claims was transferred at the time of the spin-off of the automotive business from Rockwell in 1997. Currently there are thousands of claimants in lawsuits that name AM, together with many other companies, as defendants. However, the company does not consider the number of claims filed or the damages alleged to be a meaningful factor in determining asbestos-related liabilities. 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. For those claimants who do show that they worked with Rockwell s products, management nevertheless believes it has meritorious defenses, in substantial part due to the integrity of the products involved and the lack of any impairing medical condition on the part of many claimants. The company defends these cases vigorously. Historically, AM has been dismissed from the vast majority of similar claims filed in the past with no payment to claimants.

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The company engages Bates White to assist with determining whether it would be possible to estimate the cost of resolving pending and future Rockwell legacy asbestos-related claims that have been, and could reasonably be expected to be, filed against the company. Although it is not possible to estimate the full range of costs because of various uncertainties, Bates White advised the company that it would be able to determine an estimate of probable defense and indemnity costs which could be incurred to resolve pending and future Rockwell legacy asbestos-related claims. After consultation with Bates White, the company determined that as of March 31, 2012 and September 30, 2011 the probable liability for pending and future claims over the next four years is $21 million and $19 million, respectively. The accrual estimates are based on historical data and certain assumptions with respect to events that may occur in the future. The uncertainties of asbestos claim litigation and resolution of the litigation with the insurance companies make it difficult to predict accurately the ultimate resolution of asbestos claims beyond four years. That uncertainty is increased by the possibility of adverse rulings or new legislation affecting asbestos claim litigation or the settlement process.

Rockwell maintained insurance coverage that management believes covers indemnity and defense costs, over and above self-insurance retentions, for most of these claims. The company has initiated claims against certain of these carriers to enforce the insurance policies, which are currently being disputed. 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. Based on consultation with advisors and underlying analysis performed by management, the company has recorded an insurance receivable related to Rockwell legacy asbestos-related liabilities of $7 million and $9 million at March 31, 2012 and September 30, 2011, respectively. If the assumptions with respect to the nature of pending claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of 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.

On March 4, 2010, Gordon Bankhead and his spouse filed suit in Superior Court for Alameda County, California, against more than 40 defendants that Mr. Bankhead claims manufactured or supplied asbestos-containing products he allegedly was exposed to during his career as a janitor; as an ordnance specialist in the National Guard; and as an automotive parts-man. By the time trial began on October 27, 2010, Mr. and Mrs. Bankhead had settled with all defendants except for the company and three other defendants. The claims against these four defendants were limited to Mr. Bankhead s work as an automotive parts-man. On December 23, 2010, the jury ruled against all four defendants, including the company. The company was assessed $375,000 in compensatory damages for which it has recorded a liability at March 31, 2012. Additionally, the company was assessed $4.5 million in punitive damages. The company filed an appeal on the punitive damages award to the California Court of Appeals. Possible outcomes of the appeal included vacating the damages award in its entirety, reducing the award, affirming the award in its entirety or remanding the case back to the trial court. Accordingly, the possible estimated range of loss at September 30, 2011 was $0 to $4.5 million. Because of the uncertainty associated with the litigation including the appeal process, the company was previously unable to determine an estimate within this range which was considered more probable than others and accordingly did not record any liability for punitive damages at September 30, 2011. On April 19, 2012, the California Court of Appeals issued its opinion, affirming the trial court judgment in full. The company is considering its options, but given the opinion issued by the California Court of Appeals in April 2012, the company increased its liability for this matter from $375,000 to $5.6 million at March 31, 2012.

Indemnifications

In December 2005, the company guaranteed a third party s obligation to reimburse another party for payment of health and prescription drug benefits to a group of retired employees. The retirees were former employees of a wholly-owned subsidiary of the company prior to it being acquired by the company. The wholly-owned subsidiary, which was part of the company s light vehicle aftermarket business, was sold by the company in fiscal year 2006. Prior to May 2009, except as set forth hereinafter, the third party met its obligations to reimburse the other party. In May 2009, the third party filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code requiring the company to recognize its obligations under the guarantee. The company recorded a $28 million liability in fiscal year 2009 for this matter. During the second quarter of fiscal year 2011, the company recorded a $4 million charge in income from discontinued operations to increase the liability based on changes in demographic data. At March 31, 2012 and September 30, 2011, the remaining estimated liability for this matter was approximately $22 million and $23 million, respectively.

The company has recorded indemnity liabilities of $5 million related to the sale of its Body Systems business, primarily associated with income tax matters and $15 million related to the sale of its 57-percent interest in Meritor Suspension Systems Company related to its share of potential obligations related to taxes, pension funding shortfall, environmental and other contingencies. These amounts are included in other current liabilities and other liabilities in the accompanying consolidated balance sheet.

The company has provided indemnifications in conjunction with certain transactions, primarily divestitures. These indemnities address a variety of matters, which may include environmental, tax, asbestos and employment-related matters, and the periods of indemnification vary in duration. The company s maximum obligations under these indemnifications cannot be reasonably estimated. The company is not aware of any claims or other information that would give rise to material payments under such indemnifications.

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Other

On March 31, 2008, S&E Quick Lube, a filter distributor, filed suit 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 is a purported class action on behalf of direct purchasers of filters from the defendants. Several parallel purported class actions, including on behalf of indirect purchasers of filters, have been filed by other plaintiffs in a variety of jurisdictions in the United States and Canada. The cases have been consolidated into a multi-district litigation proceeding in Federal court for the Northern District of Illinois. On April 16, 2009, the Attorney General of the State of Florida filed a complaint with the U.S. District Court for the Northern District of Illinois based on these same allegations. On May 25, 2010, the Office of the Attorney General for the State of Washington informed the company that it also was investigating the allegations raised in these suits. On August 9, 2010, the County of Suffolk, New York, filed a complaint in the Eastern District of New York based on the same allegations. The case was transferred to the multi-district litigation proceeding in Illinois, but has been dismissed without prejudice pursuant to a tolling agreement that continues until thirty days after the claims by the indirect purchasers in the multi-district litigation are terminated, settled, or dismissed. On April 14, 2011, the judge in that multi-district litigation granted a stay on discovery and depositions until July 25, 2011. The stay was subsequently extended until August 23, 2011 and, on October 12, 2011, was further extended pending the court s ruling on various motions. On January 19, 2012, counsel for the defendants and counsel for all purported class plaintiffs participated in a settlement conference that was facilitated by the magistrate for the judge in the multi-district litigation. None of the parties were able to reach any agreement at that conference and, on January 20, 2012, the court ruled on the above-referenced motions and vacated the stay on discovery and depositions. In February 2012 the other remaining defendants reached preliminary settlement with all plaintiffs for $13 million, leaving the company as the sole remaining defendant. These preliminary settlements were allocated 65 percent to the direct purchasers and 35 percent to the remaining plaintiffs. In April 2012, the company reached an agreement in principle to settle with certain plaintiffs for $3.1 million.

Based on management s assessment, the company has recognized a $9 million liability in discontinued operations at March 31, 2012 for this matter. The company believes it has meritorious defenses against the claims raised in all of these actions and intends to vigorously defend itself. However, there is considerable uncertainty around the potential outcomes in a jury trial, and if this matter were to proceed to trial and were ultimately decided by a jury in favor of plaintiffs, it is possible that awarded damages could materially exceed the recorded liability by an amount that the company is unable to reasonably estimate at this time.

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

21. Accumulated Other Comprehensive Loss (AOCL)

The components of AOCL as reported in the Consolidated Balance Sheet are as follows (in millions):

	March 31, 2012	September 30, 2011
Foreign currency translation	$ 119	$ 110
Employee benefit related adjustments	(940)	(942)
Unrealized gains, net	1	3
Accumulated Other Comprehensive Loss	$ (820)	$ (829)

22. Business Segment Information

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

MERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The company has three reportable segments at March 31, 2012, as follows:

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

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

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

Segment information is summarized as follows (in millions):

	Commercial Truck	Industrial	Aftermarket & Trailer	Eliminations	Total
Three months ended March 31, 2012:					
External Sales	$ 632	$ 269	$ 259	$	$ 1,160
Intersegment Sales	61	20	4	(85)	
Total Sales	$ 693	289	263	$ (85)	$ 1,160
Three months ended March 31, 2011:					
External Sales	$ 635	$ 289	$ 252	$	$ 1,176
Intersegment Sales	58	17	5	(80)	
Total Sales	$ 693	$ 306	$ 257	$ (80)	$ 1,176

	Commercial Truck	Industrial	Aftermarket & Trailer	Eliminations	Total
Six months ended March 31, 2012:					
External Sales	$ 1,329	$ 500	$ 490	$	$ 2,319
Intersegment Sales	115	37	8	(160)	
Total Sales	$ 1,444	$ 537	$ 498	$ (160)	$ 2,319
Six months ended March 31, 2011:					
External Sales	$ 1,166	$ 506	$ 461	$	$ 2,133
Intersegment Sales	102	30	7	(139)	

Total Sales	$	1,268	$	536	$	468	$	(139)	$	2,133

MERITOR, INC.
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(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Segment EBITDA:				
Commercial Truck	$ 49	$ 40	$ 96	$ 73
Industrial	22	18	33	35
Aftermarket & Trailer	28	29	48	45
Segment EBITDA	99	87	177	153
Unallocated legacy and corporate costs [1]	(4)	(5)	(3)	(6)
Interest expense, net	(23)	(24)	(47)	(51)
Provision for income taxes	(17)	(21)	(37)	(41)
Depreciation and amortization	(16)	(17)	(33)	(33)
Loss on sale of receivables	(3)	(2)	(6)	(3)
Restructuring costs	(3)	(5)	(27)	(8)
Other loss		(2)		(2)
Noncontrolling interests	(4)	(5)	(8)	(9)
Income from continuing operations attributable to Meritor, Inc.	$ 29	$ 6	$ 16	$

(1) Unallocated legacy and corporate costs represent items that are not directly related to our business segments and include pension and retiree medical costs associated with sold businesses and other legacy costs for environmental and product liability matters.

Segment Assets:	March 31, 2012	September 30, 2011
Commercial Truck	$ 1,512	$ 1,482
Industrial	480	470
Aftermarket & Trailer	526	504
Total segment assets	2,518	2,456
Corporate[1]	334	483
Discontinued operations		4
Less: Accounts receivable sold under off-balance sheet factoring programs[2]	(287)	(280)
Total assets	$ 2,565	$ 2,663

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

(2) At March 31, 2012 and September 30, 2011 segment assets include $287 million and $280 million, respectively, of accounts receivable sold under off-balance sheet accounts receivable factoring programs (See Note 9). These sold receivables are included in segment assets as the CODM reviews segment assets inclusive of these balances.

23. Supplemental Guarantor Condensed Consolidating Financial Statements

Certain of the company s wholly-owned subsidiaries, as defined in the credit agreement (the Guarantors) irrevocably and unconditionally provide joint and several guarantee for the amounts outstanding under the senior secured revolving credit facility. Similar subsidiary guarantees were provided for the benefit of the holders of the publicly-held notes outstanding under the company s indentures (see Note 17).

In lieu of providing separate financial statements for the Guarantors, the company has included the accompanying condensed consolidating financial statements. These condensed consolidating financial statements are presented on the equity method. Under this method, the investments in subsidiaries are recorded at cost and adjusted for the parent s share of the subsidiary s cumulative results of operations, capital contributions and distributions and other equity changes. The Guarantor subsidiaries are combined in the condensed consolidating financial statements.

MERITOR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(In millions)
(Unaudited)

	Three Months Ended March 31, 2012				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$	$ 448	$ 712	$	$ 1,160
Subsidiaries		40	24	(64)	
Total sales		488	736	(64)	1,160
Cost of sales	(13)	(418)	(659)	64	(1,026)
GROSS MARGIN	(13)	70	77		134
Selling, general and administrative	(21)	(24)	(27)		(72)
Restructuring costs	—	—	(3)		(3)
Other operating expense			(1)		(1)
OPERATING INCOME (LOSS)	(34)	46	46		58
Equity in earnings of affiliates		10	4		14
Other income (loss), net	41	(8)	(32)		1
Interest income (expense), net	(30)	5	2		(23)
INCOME (LOSS) BEFORE INCOME TAXES	(23)	53	20		50
Provision for income taxes	(1)	(2)	(14)		(17)
Equity income from continuing operations of subsidiaries	53	(2)		(51)	
INCOME FROM CONTINUING OPERATIONS	29	49	6	(51)	33
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(9)	$ (2)	$ —	$ 2	$ (9)
Net income	20	47	6	(49)	24
Less: Net income attributable to noncontrolling interests			(4)		(4)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	$ 20	$ 47	$ 2	$ (49)	$ 20

MERITOR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(In millions)
(Unaudited)

	Three Months Ended March 31, 2011				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$	$ 395	$ 781	$	$ 1,176
Subsidiaries		40	20	(60)	
Total sales		435	801	(60)	1,176
Cost of sales	(15)	(397)	(706)	60	(1,058)
GROSS MARGIN	(15)	38	95		118
Selling, general and administrative	(25)	(20)	(25)		(70)
Restructuring costs			(5)		(5)
Other operating expense	(2)				(2)
OPERATING INCOME (LOSS)	(42)	18	65		41
Other income (loss), net	25	(8)	(19)		(2)
Equity in earnings of affiliates		9	8		17
Interest income (expense), net	(31)	6	1		(24)
INCOME (LOSS) BEFORE INCOME TAXES	(48)	25	55		32
Benefit (provision) for income taxes	1	(1)	(21)		(21)
Equity income from continuing operations of subsidiaries	53	25		(78)	
INCOME FROM CONTINUING OPERATIONS	6	49	34	(78)	11
INCOME FROM DISCONTINUED OPERATIONS, net of tax	11	$ 31	$ 39	$ (70)	$ 11
NET INCOME	17	80	73	(148)	22
Less: Net income attributable to noncontrolling interests			(5)		(5)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	$ 17	$ 80	$ 68	$ (148)	$ 17

Amounts have been recast for discontinued operations.

MERITOR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(In millions)
(Unaudited)

	Six Months Ended March 31, 2012				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$	$ 819	$ 1,500	$	$ 2,319
Subsidiaries		72	47	(119)	
Total sales		891	1,547	(119)	2,319
Cost of sales	(25)	(784)	(1,389)	119	(2,079)
GROSS MARGIN	(25)	107	158		240
Selling, general and administrative	(43)	(43)	(51)		(137)
Restructuring costs	—	—	(27)		(27)
Other operating expense	(1)		(1)		(2)
OPERATING INCOME (LOSS)	(69)	64	79		74
Other income (loss), net	41	(8)	(28)		5
Equity in earnings of affiliates		19	10		29
Interest income (expense), net	(61)	12	2		(47)
INCOME (LOSS) BEFORE INCOME TAXES	(89)	87	63		61
Benefit (provision) for income taxes	(1)	(5)	(31)		(37)
Equity income from continuing operations of subsidiaries	106	17		(123)	
INCOME FROM CONTINUING OPERATIONS	16	99	32	(123)	24
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(18)	$ (7)	$ (3)	$ 10	$ (18)
NET INCOME (LOSS)	(2)	92	29	(113)	6
Less: Net income attributable to noncontrolling interests			(8)		(8)
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	$ (2)	$ 92	$ 21	$ (113)	$ (2)

Amounts have been recast for discontinued operations.

MERITOR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(In millions)
(Unaudited)

	Six Months Ended March 31, 2011				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$	$ 698	$ 1,435	$	$ 2,133
Subsidiaries		71	37	(108)	
Total sales		769	1,472	(108)	2,133
Cost of sales	(29)	(705)	(1,284)	108	(1,910)
GROSS MARGIN	(29)	64	188		223
Selling, general and administrative	(54)	(43)	(43)		(140)
Restructuring costs			(8)		(8)
Other operating expense	(2)				(2)
OPERATING INCOME (LOSS)	(85)	21	137		73
Other income (loss), net	24	(8)	(18)		(2)
Equity in earnings of affiliates		16	14		30
Interest income (expense), net	(61)				