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y \$236 million (including accrued interest). The company recognized a loss on debt extinguishment of \$5 million.

Accounting guidance requires that cash-settled convertible debt, such as the 2013 convertible notes, be separated into debt and equity components at issuance and a value be assigned to each. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar bond without the conversion feature. The difference between the bond cash proceeds and this estimated fair value, representing the value assigned to the equity component, is recorded as a debt discount. The company measures the debt component at fair value by utilizing a discounted cash flow model. This model utilizes observable inputs such as contractual repayment terms, benchmark forward yield curves, and yield curves and quoted market prices of its own nonconvertible debt. The yield curves are acquired from an independent source that is widely used in the financial industry and reviewed internally by personnel with appropriate expertise in valuation methodologies. The estimated fair value of the debt component of the Notes was \$216 million (Level 2). The amount of the equity component recognized was \$9 million.

2026 and 2027 convertible notes

In February 2007, the company issued \$200 million of 4.00 percent convertible senior unsecured notes due 2027 (the "2027 convertible notes"). In August 2014, the company acquired approximately \$38 million of the \$200 million principal amount of the 2027 convertible notes. The 2027 convertible notes bear cash interest at a rate of 4.00 percent per annum from the date of issuance through February 15, 2019, payable semi-annually in arrears on February 15 and August 15 of each year. After February 15, 2019, the principal amount of the notes will be subject to accretion at a rate that provides holders with an aggregate annual yield to maturity of 4.00 percent.

The 2027 convertible notes are convertible into shares of the company's common stock at an initial conversion rate, subject to adjustment, equivalent to 37.4111 shares of common stock per \$1,000 initial principal amount of notes, which represents an initial conversion price of approximately \$26.73 per share. If converted, the accreted principal amount will be settled in cash and the remainder of the company's conversion obligation, if any, in excess of such accreted principal amount will be settled in cash, shares of common stock, or a combination thereof, at the company's election. Holders may convert their 2027 convertible notes

at any time on or after February 15, 2025. The maximum number of shares of common stock the 2027 convertible notes are convertible into is approximately 6 million shares.

In March 2006, the company issued \$300 million of 4.625 percent convertible senior unsecured notes due 2026 (the "2026 convertible notes"). In December 2012, the company acquired approximately \$245 million of \$300 million principal amount of the 2026 convertible notes. The 2026 convertible notes bear cash interest at a rate of 4.625 percent per annum from the date of issuance through March 1, 2016, payable semi-annually in arrears on March 1 and September 1 of each year. After March 1, 2016, the principal amount of the 2026 convertible notes will be subject to accretion at a rate that provides holders with an aggregate annual yield to maturity of 4.625 percent.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The 2026 convertible notes are convertible into shares of the company's common stock at an initial conversion rate, subject to adjustment, equivalent to 47.6667 shares of common stock per \$1,000 initial principal amount of notes, which represents an initial conversion price of approximately \$20.98 per share. If converted, the accreted principal amount will be settled in cash and the remainder of the company's conversion obligation, if any, in excess of such accreted principal amount will be settled in cash, shares of common stock, or a combination thereof, at the company's election. Holders may convert their 2026 convertible notes at any time on or after March 1, 2024. The maximum number of shares of common stock the 2026 convertible notes are convertible into is approximately 3 million shares.

Prior to February 15, 2025 (for the 2027 convertible notes) and March 1, 2024 (for the 2026 convertible notes), holders may convert their notes only under the following circumstances:

during any calendar quarter, if the closing price of the company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120 percent of the applicable conversion price;

during the five business day period after any five consecutive trading day period in which the average trading price per \$1,000 initial principal amount of notes is equal to or less than 97 percent of the average conversion value of the notes during such five consecutive trading day period;

upon the occurrence of specified corporate transactions; or

if the notes are called by the company for redemption.

On or after February 15, 2019, the company may redeem the 2027 convertible notes, in whole or in part, for cash at a redemption price equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest. On each of February 15, 2019 and 2022, or upon certain fundamental changes, holders may require the company to purchase all or a portion of their 2027 convertible notes at a purchase price in cash equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest. On or after March 1, 2016, the company may redeem the 2026 convertible notes, in whole or in part, for cash at a redemption price equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest. On each of March 1, 2016, 2018, 2020, 2022 and 2024, or upon certain fundamental changes, holders may require the company to purchase all or a portion of their 2026 convertible notes at a purchase price in cash equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest.

Both the 2027 convertible notes and 2026 convertible notes are fully and unconditionally guaranteed by certain subsidiaries of the company that currently guarantee the company's obligations under its senior secured credit facility and other publicly held notes (see Revolving Credit Facility above).

The estimated aggregate fair value of the equity component of the 2026 convertible notes and 2027 convertible notes of \$108 million was recognized in additional paid-in capital upon adoption of the accounting guidance for cash-settled convertible debt mentioned above. In addition, the company allocated \$4 million of unamortized debt issuance costs to the equity component and recognized this amount as a reduction to additional paid-in capital. The company also recognized a discount on convertible notes of \$108 million, which is being amortized as non-cash interest expense over periods of ten and twelve years for the 2026 convertible notes and 2027 convertible notes, respectively. Upon recognition of the equity component of the convertible notes, the company also recognized a deferred tax liability of \$39 million as the tax effect of the basis difference between carrying and notional values of the convertible notes. The carrying value of this deferred tax liability was offset with certain net deferred tax assets in the first quarter of fiscal year 2009 for determining valuation allowances against those deferred tax assets (see Note 21).

The following table summarizes the principal amounts and related unamortized discount on all convertible notes (in millions):

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	September 30, 2014	September 30, 2013
Principal amount of convertible notes	\$467	\$505
Unamortized discount on convertible notes	(52) (66
Net carrying value	\$415	\$439

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table summarizes other information related to the convertible notes:

	2026 convertible notes	2027 convertible notes	2013 convertible notes	
Total amortization period for debt discount (in years):	10	12	8	
Remaining amortization period for debt discount (in years):	2	5	6	
Effective interest rates on convertible notes:	7.0	% 7.7	% 10.9	%

The following table summarizes interest costs recognized on convertible notes (in millions):

	Year Ended September 30,		
	2014	2013	2012
Contractual interest coupon	\$30	\$29	\$22
Amortization of debt discount	9	8	10
Repurchase of convertible notes	5	5	—
Total	\$44	\$42	\$32

At September 30, 2014 and 2013, the carrying amount of the equity component related to convertible debt was \$70 million and \$73 million, respectively.

Debt Maturities

As of September 30, 2014, the company is 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

(1) Total debt excludes the unamortized discount on convertible notes of \$31 million and discount of \$21 million on the 7.875 percent notes due March 1, 2026.

(2) Includes the company's 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.

Capital Leases

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

As of September 30, 2014, the future minimum lease payments for noncancelable capital leases with initial terms in excess of one year were as follows:

	Total	2015	2016	2017	2018	2019	Thereafter
Capital lease obligation	\$35	\$7	\$7	\$6	\$4	\$3	\$8
Less amounts representing interest	(9)	(2)	(2)	(1)	(1)	(1)	(2)
Principal on capital lease	\$26	\$5	\$5	\$5	\$3	\$2	\$6

Letter of Credit Facilities

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

Export financing arrangements

The company entered into a number of export financing arrangements through its 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, the company had another \$2 million outstanding through a similar arrangement through its India subsidiary at September 30, 2014.

Interest Rate Swap Agreements

In August 2012, the company entered into a four-year interest rate swap arrangement that effectively converted the variable interest rate on its term loan expressed as a LIBOR-based rate into a variable interest rate based on U.S. federal funds rate. In February 2014, the company repaid the outstanding balance on the term loan and then subsequently terminated the interest rate swap arrangement.

In September 2014, the company recognized \$1 million of the remaining unamortized gain on an interest rate swap termination upon the repurchase of \$84 million of principal of the 8.125 percent notes due September 15, 2015, which is included in net loss on debt extinguishment.

Operating Leases

The company has various operating leasing arrangements. Future minimum lease payments under these operating leases are \$16 million in 2015, \$14 million in 2016, \$13 million in 2017, \$13 million in 2018, \$12 million in 2019 and \$24 million thereafter.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

16. FINANCIAL INSTRUMENTS

The company's financial instruments include cash and cash equivalents, short-term debt, long-term debt, and foreign exchange forward and options contracts. The company uses derivatives for hedging and non-trading purposes in order to manage its foreign exchange rate exposures.

Foreign Exchange Contracts

As a result of the company's substantial international operations, it is exposed to foreign currency risks that arise from normal business operations, including in connection with transactions that are denominated in foreign currencies. In addition, the company translates sales and financial results denominated in foreign currencies into U.S. dollars for purposes of its consolidated financial statements. As a result, appreciation of the U.S. dollar against these foreign currencies generally will have a negative impact on 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, the company's reported financial results were adversely affected by appreciation of the U.S. dollar against foreign currencies relative to the prior years.

The company has a foreign currency cash flow hedging program to reduce the company's exposure to changes in exchange rates on foreign currency purchases and sales. The company uses 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. Under this foreign currency cash flow hedging program, the company has designated the foreign exchange contracts (the "contracts") as cash flow hedges of underlying forecasted foreign currency 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 consolidated balance sheet and is recognized in operating income when the underlying forecasted transaction impacts earnings. The terms of the foreign exchange contracts generally require the company to place cash on deposit as collateral if the fair value of these contracts represents a liability for the company. The fair values of the foreign exchange derivative instruments and any related collateral cash deposits are presented on a net basis as the derivative contracts are subject to master netting arrangements. The company's foreign exchange contracts generally mature within twelve months.

At September 30, 2014, 2013 and 2012, the notional amount of the company's foreign exchange contracts outstanding under its foreign currency cash flow hedging program were \$47 million, \$75 million, and \$113 million respectively. The company classifies the cash flows associated with the contracts in cash flows from operating activities in the consolidated statement of cash flows. This is consistent with the classification of the cash flows associated with the underlying hedged item.

The company generally does not hedge against its foreign currency exposure related to translations to U.S. dollars of its financial results denominated in foreign currencies. However, due to increasing foreign currency exchange risk associated with purchasing economics related to the Indian Rupee, the company 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.

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The following table summarizes the impact of the company's derivatives instruments on comprehensive income for fiscal years ended September 30 (in millions):

	Location of Gain (Loss)	2014	2013	2012
Derivatives designated as hedging instruments:				
Amount of gain recognized in AOCL (effective portion)	AOCL	\$3	\$—	\$3
Amount of gain (loss) reclassified from AOCL into income (effective portion)	Cost of Sales	1	1	3
Derivatives not designated as hedging instruments:				
Amount of gain recognized in income	Cost of Sales	—	—	—

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Fair Value

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

	September 30, 2014		September 30, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$247	\$247	\$318	\$318
Short-term debt	7	7	13	13
Long-term debt	965	1,143	1,125	1,266
Foreign exchange forward contracts (asset)	2	2	—	—
Foreign exchange forward contracts (liability)	—	—	1	1
Short-term foreign currency option contracts (asset)	2	2	—	—
Long-term foreign currency option contracts (asset)	1	1	—	—

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

	September 30, 2014			September 30, 2013		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Reported	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Reported
Derivative Asset						
Foreign exchange forward contract	2	—	2	—	—	—
Derivative Liabilities						
Foreign exchange forward contract	—	—	—	1	—	1

Fair Value

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

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$247	\$—	\$—
Short-term debt	—	—	7
Long-term debt	—	1,093	50
Foreign exchange forward contracts (asset)	—	2	—
Short Term foreign currency option contracts	—	—	2
Long Term foreign currency option contracts	—	—	1

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

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

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

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

17. SHAREOWNERS' EQUITY

Common Stock

The company is authorized to issue 500 million shares of Common Stock, with a par value of \$1 per share, and 30 million shares of Preferred Stock, without par value, of which 2 million shares are designated as Series A Junior Participating Preferred Stock (Junior Preferred Stock). No shares of Preferred Stock and Junior Preferred Stock have been issued.

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

The company has reserved approximately 10 million shares of Common Stock in connection with its 2010 Long-Term Incentive Plan, as amended (LTIP) for grants of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, restricted share units and stock awards to key employees and

directors. At September 30, 2014, there were 4.8 million shares available for future grants under these plans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Accumulated Other Comprehensive Loss (AOCL)

The components of AOCL as reported in the Consolidated Balance Sheet and Statement of Equity (Deficit), and the changes in AOCL by components, net of tax, are as follows (in millions):

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss, net of tax	Total
Balance at September 30, 2013	\$61	\$ (792)	\$ (3)	\$ (734)
Other comprehensive income (loss) before reclassification	(20)	(21)	2	(39)
Amounts reclassified from accumulated other comprehensive loss - net of tax	—	24	—	24
Net current-period other comprehensive income (loss)	\$ (20)	\$ 3	\$ 2	\$ (15)
Balance at September 30, 2014	\$41	\$ (789)	\$ (1)	\$ (749)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Operations
Employee Benefit Related Adjustment		
Amortization of prior service costs	\$ (7)	) (a)
Amortization of actuarial losses	46	(a)
Recognized prior service costs due to curtailment	(15)	) (a)
	24	Total before tax
	—	Tax (benefit) expense
	\$24	Net of tax
Total reclassifications for the period	24	Net of tax

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension and retiree medical expense (see Note 19 and 20 for additional details).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

18. EQUITY BASED COMPENSATION

Stock Options

Under the company's incentive plans, stock options are typically granted at prices equal to the fair value on the date of grant and have a maximum term of 10 years. Stock options generally vest over a three-year period from the date of grant. No stock options were granted or exercised during fiscal year 2014. During fiscal year 2013, the company granted 350,000 stock options to the Chief Executive Officer as a hiring incentive. These options vest based on the satisfaction of certain service and market performance conditions. The fair value of this option award was \$1.3 million at the grant date with a derived service period of 12 months. No stock options were granted during fiscal year 2012.

The following is a rollforward of stock options for fiscal year 2014 (shares in thousands, exercise price and remaining contractual term represent weighted averages and aggregate intrinsic values in millions):

	Shares	Exercise Price	Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding — beginning of year	864	\$12.27		
Cancelled or expired	(214)	18.19		
Outstanding — end of year	650	\$10.32	3.0	—
Exercisable — end of year	533	\$10.79	2.7	—

The following table provides additional information about outstanding stock options at September 30, 2014 (shares in thousands, exercise price represents a weighted average):

	Outstanding			Exercisable	
	Shares	Remaining Contractual Life (years)	Exercise Price	Shares	Exercise Price
\$8.00 to \$12.00	350	4.0	\$8.22	233	\$8.22
\$12.01 to \$16.00	300	1.8	12.78	300	12.78
Total	650			533	

Stock-based compensation is measured at the grant date based on the fair value of the award and is generally recognized as expense ratably on a straight-line basis over the requisite service period, which is generally the vesting period of the respective award. No compensation cost is ultimately recognized for awards for which employees do not render the requisite service and are forfeited.

Compensation expense is recognized for the non-vested portion of previously issued stock options. During fiscal year 2014, the company recognized \$1.2 million in compensation expense associated with the expensing of stock options. Compensation expense associated with the expensing of stock options was not significant in fiscal years 2013. No compensation expense associated with the expensing of stock options was recognized in fiscal year 2012. No options were exercised in fiscal years 2014, 2013 and 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The fair market value of the service and market performance-based option award was determined using the Monte Carlo simulation method. The Monte Carlo simulation method is subject to variability as several factors utilized must be estimated, including the derived service period, which is estimated based on the company's judgment of likely future stock price performance as well as the company's stock price volatility. The weighted-average fair value of options granted in fiscal year 2013 was \$3.69 per share. The fair value of each option was estimated using following assumptions:

	2013	
Risk-free interest rate	1.7	%
Expected dividend yield	—	%
Expected volatility	60.4	%
Expected life (years)	5.0	

Restricted Stock and Restricted Units

The company has granted shares of restricted stock and restricted share units to certain employees and non-employee members of the Board of Directors in accordance with the existing plans. The company measures the grant price fair value of these stock-based awards at the market price of the company's common stock as of the date of the grant. Employee awards typically vest at the end of three years and are subject to continued employment by the employee. Compensation cost associated with stock-based awards is recognized ratably over the vesting period. Cash dividends on the restricted stock, if any, are reinvested in additional shares of common stock during the vesting period.

In fiscal years 2014, 2013 and 2012, the company granted 218,816, 1,003,723, and 1,325,447 shares of restricted share units, respectively. The grant date weighted average fair value of these shares was \$9.23, \$4.43, and \$6.14 for shares granted in fiscal years 2014, 2013 and 2012, respectively. The number of non-vested restricted shares and restricted share units as of September 30, 2014 was 2,038,853. The per share weighted average fair value of these non-vested shares was \$7.16.

As of September 30, 2014, there was \$2 million of total unrecognized compensation costs related to non-vested restricted shares and restricted share units. These costs are expected to be recognized over a weighted average period of one year. Total compensation expense recognized for restricted stock and restricted share units was \$4 million for fiscal year 2014, \$5 million in fiscal year 2013, and \$6 million in fiscal year 2012.

Performance Share Units

The company has granted performance share units to all executives eligible to participate in the long-term incentive plan. The company measures the grant price fair value of these units based awards at the market price of the company's common stock as of the date of the grant. Compensation cost associated with these stock based awards is recognized ratably over the vesting period.

On November 7, 2013, the Board of Directors approved a grant of performance share units to all executives eligible to participate in the long-term incentive plan. Each performance share unit represents the right to receive one share of

common stock upon achievement of certain performance and time vesting criteria. The fair value of each share unit is \$7.97, the company's share price on the grant date of December 1, 2013. The number of shares that vest will be between 0% and 200% of the estimated grant date amount of 1.5 million shares. The plan allows for incremental performance share units to be issued for executive promotions on a quarterly basis.

The actual number of performance share units that will vest will depend upon the company's performance relative to the established M2016 goals for the three-year performance period of October 1, 2013 to September 30, 2016, measured at the end of the performance period. The number of potential performance units will depend on meeting the established M2016 goals at the following weights: 50% associated with achieving the Adjusted EBITDA margin targets, 25% associated with reducing net debt including retirement benefit liabilities targets, and 25% associated with generating incremental booked revenue targets.

There were 1.8 million performance share units granted during fiscal 2014, of which 1,634,561 were not vested as of September 30, 2014. The per share weighted average fair value of the performance share units was \$8.27 as of September 30, 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

For the year ended September 30, 2014, compensation cost recognized related to the performance share units was \$4 million. As of September 30, 2014, there were \$10 million of total unrecognized compensation costs related to non-vested performance share unit equity compensation arrangements. These costs are expected to be recognized over a weighted average period of 2 years.

19. RETIREMENT MEDICAL PLANS

The company has retirement medical plans that cover certain of its U.S. and non-U.S. employees, including certain employees of divested businesses, and provide for medical payments to eligible employees and dependents upon retirement. These plans are unfunded.

The company approved amendments to certain retiree medical plans in fiscal years 2002 and 2004. Certain of these plan amendments were challenged in lawsuits that were filed in the United States District Court for the Eastern District of Michigan (District Court) alleging the changes breached the terms of various collective bargaining agreements entered into with the United Auto Workers (the UAW lawsuit) at facilities that have either been closed or sold and alleging a companion claim under the Employee Retirement Income Security Act of 1974 (ERISA).

On December 22, 2005, the District Court issued a preliminary injunction enjoining the company from implementing the changes to retiree health benefits and ordered the company to reinstate and resume paying the full cost of health benefits for the UAW retirees at the levels existing prior to the changes made in 2002 and 2004. On August 17, 2006, the District Court granted a motion by the UAW for summary judgment and granted the UAW's request to make the terms of the preliminary injunction permanent (the injunction). The company accounted for the injunction as a rescission of the 2002 and 2004 plan amendments and began recording the impact of the injunction in March 2006. In addition, the injunction ordered the defendants to reimburse the plaintiffs for out-of-pocket expenses incurred since the date of the earlier benefit modifications. The company has recorded a \$2 million reserve at September 30, 2014 and 2013, as the best estimate of its liability for these retroactive benefits. The company continues to believe it has meritorious defenses to these actions and has appealed the District Court's order to the U.S. Court of Appeals for the Sixth Circuit. The ultimate outcome of the UAW lawsuit may result in future plan amendments. The impact of any future plan amendments cannot be currently estimated.

On September 26, 2014, Meritor amended its 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. The amendment triggered a curtailment in the fourth quarter of fiscal year 2014 which immediately reduced the 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.

The company's retiree medical obligations were measured as of September 30, 2014 and 2013. The following are the assumptions used in the measurement of the APBO and retiree medical expense:

	2014	2013	2012	
Discount rate	4.20	% 4.80	% 3.90	%

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Health care cost trend rate	7.40	%	7.00	%	7.20	%
Ultimate health care trend rate	5.00	%	5.00	%	5.00	%
Year ultimate rate is reached	2022		2022		2023	

The assumptions noted above are used to calculate the APBO for each fiscal year end and retiree medical expense for the subsequent fiscal year.

The discount rate is used to calculate the present value of the APBO. This rate is determined based on high-quality fixed income investments that match the duration of expected retiree medical benefits. The company has 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 company's projection for fiscal year 2015 is an increase in health care costs of 7.40 percent.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The APBO as of the September 30, 2014 and 2013 measurement dates are summarized as follows (in millions):

	2014	2013
Retirees	\$465	\$495
Employees eligible to retire	4	8
Employees not eligible to retire	8	8
Total	\$477	\$511

The following reconciles the change in APBO and the amounts included in the consolidated balance sheet for years ended September 30, 2014 and 2013, respectively (in millions):

	2014	2013
APBO — beginning of year	\$511	\$554
Service cost	—	1
Interest cost	23	21
Participant contributions	2	3
Actuarial gain	(2)	(20)
Foreign currency rate changes	(1)	(1)
Curtailment gain	(16)	(5)
Benefit payments	(40)	(42)
APBO — end of year	477	511
Other ⁽¹⁾	2	2
Retiree medical liability	\$479	\$513

(1) The company recorded a \$2 million reserve for retiree medical liabilities at September 30, 2014 and 2013 as its best estimate for retroactive benefits related to the previously mentioned injunction.

Actuarial losses/(gains) relate to changes in the discount rate and other actuarial assumptions. In accordance with FASB ASC Topic 715, “Compensation – Retirement Benefits”, a portion of the actuarial losses is not subject to amortization. The actuarial losses that are subject to amortization are generally amortized over the average expected remaining service life, which is approximately 8 years. Union plan amendments are generally amortized over the contract period, or 3 years.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit at least actuarially equivalent to the benefit established by the law. The company provides retiree medical benefits under certain plans that exceed the value of the benefits that are provided by the Medicare Part D plan. Therefore, management concluded that these plans are at least actuarially equivalent to the Medicare Part D plan and the company is eligible for the federal subsidy. The impact of the subsidy was a reduction in the fiscal year 2013 and 2012 retiree medical expense of \$9 million and \$12 million, respectively. In September 2011, in connection with the Health Care and Education Reconciliation Act of 2010, the company converted its current prescription drug program for certain retirees to a group-based, company-sponsored Medicare Part D program, or Employer Group Waiver Plan (EGWP). In September 2012, the company converted certain additional groups of retirees to EGWP and as a result, reduced its APBO by an additional amount of approximately \$25 million. These reductions to APBO are being amortized over an average expected remaining service life of approximately 8 years. In 2013, the company began using the Part D subsidies delivered through EGWP to reduce its net retiree medical costs. As a result of this change in assumption, the company reduced its

APBO by approximately \$35 million.

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The retiree medical liability is included in the consolidated balance sheet as follows (in millions):

	September 30,	
	2014	2013
Current — included in compensation and benefits	\$33	\$37
Long-term — included in retirement benefits	446	476
Retiree medical liability	\$479	\$513

The following table summarizes the amounts included in Accumulated Other Comprehensive Loss net of tax related to retiree medical liabilities as of September 30, 2014 and 2013 and changes recognized in Other Comprehensive Income (Loss) net of tax for the years ended September 30, 2014 and 2013.

	Net Actuarial Loss	Prior Service Cost (Benefit)	Total
Balance at September 30, 2013	\$169	\$(19)	\$150
Net actuarial gain for the year	(3)	—	(3)
Curtailment gain	—	(16)	(16)
Recognized prior service costs due to curtailment	—	15	15
Amortization for the year	(23)	7	(16)
Deferred tax impact	(1)	—	(1)
Balance at September 30, 2014	\$142	\$(13)	\$129
Balance at September 30, 2012	\$197	\$(6)	\$191
Net actuarial (gain) loss for the year	1	(21)	(20)
Amortization for the year	(27)	8	(19)
Curtailment gain	(5)	—	(5)
Deferred tax impact	3	—	3
Balance at September 30, 2013	\$169	\$(19)	\$150

The net actuarial loss and prior service benefit that are estimated to be amortized from accumulated other comprehensive loss into net periodic retiree medical expense in fiscal year 2015 are \$22 million and \$1 million, respectively.

The components of retiree medical expense for years ended September 30 are as follows (in millions):

	2014	2013	2012
Service cost	\$—	\$1	\$1
Interest cost	23	21	24
Amortization of:			
Prior service benefit	(7)	(8)	(9)
Actuarial losses	23	27	26
Recognized prior service costs due to curtailment	\$(15)	\$—	\$—
Retiree medical expense	\$24	\$41	\$42

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

The company expects future benefit payments as follows (in millions):

	Gross Benefit Payments	Gross Receipts ⁽¹⁾
Fiscal 2015	\$38	\$5
Fiscal 2016	39	6
Fiscal 2017	39	6
Fiscal 2018	40	7
Fiscal 2019	40	7
Fiscal 2020 – 2024	202	41

(1) Consists of subsidies and rebates available under EGWP.

20. RETIREMENT PENSION PLANS

The company sponsors defined benefit pension plans that cover certain of its U.S. and non-U.S. employees. Pension benefits for salaried employees are based on years of credited service and compensation. Pension benefits for hourly employees are based on years of service and specified benefit amounts. The company's funding policy 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.

On August 1, 2010, Meritor amended its defined benefit pension plan in the United Kingdom to cease the accrual of future benefits for all of its active plan participants. Subsequent to the freeze date, the company began making contributions to its defined contribution savings plan on behalf of the affected employees. The amount of the savings plan contribution is based on a percentage of the employees' pay. These changes did not affect then-current retirees. The company began recording the impact of the plan freeze in the fourth quarter of fiscal year 2010. The amendment to freeze the plan triggered a curtailment in the fourth quarter of fiscal year 2010 reducing pension expense by \$7 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 pension expense over the active participants remaining average service life. Subsequent to the plan freeze, accumulated actuarial losses are being amortized into net periodic pension expense over the average life expectancy of inactive plan participants of approximately 28 years rather than over their remaining average service life.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In April 2007, the company announced a freeze of its defined benefit pension plan for salaried and non-represented employees in the United States, effective January 1, 2008. The change affected approximately 3,800 employees including certain employees who continued to accrue benefits for an additional transition period, ending June 30, 2011. After these freeze dates, the company started making additional contributions to its defined contribution savings plan on behalf of the affected employees. The amount of the savings plan contribution is based on a percentage of the employees' pay, with the contribution percentage increasing as a function of employees' age. These changes do not affect plan participants who had retired prior to the freeze dates or represented employees. Accumulated actuarial losses are being amortized into net periodic pension expense over the average life expectancy of inactive plan participants of approximately 22 years.

During the third quarter of fiscal year 2013, the company settled five Canadian pension plans via lump-sum payments out of plan assets to participants and annuity contract purchases with an insurance company. A non-cash pre-tax settlement loss of approximately \$36 million associated with the annuity purchase and lump-sum actions was recognized. In accordance with settlement accounting, \$68 million of benefit obligations and \$72 million of pension plan assets associated with the actions were derecognized during the quarter ended June 30, 2013.

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

Additionally, in June 2013, the company announced a special election window to offer voluntary lump-sum pension payouts to eligible terminated vested participants with an accrued benefit in the U.S. Retirement Plan that settled the company's obligation to those who accepted the offer. The program provided participants with a one-time choice of electing to receive a lump-sum settlement of their remaining pension benefit. Lump-sum distributions under this election window were paid in September 2013. The company recognized a \$73 million non-cash settlement loss during the fourth quarter of fiscal year 2013 associated with these payouts. In addition, pension plan assets and pension benefit obligations of \$157 million and \$178 million, respectively, were derecognized as a result of the U.S. lump-sum settlements.

The company's pension obligations were measured as of September 30, 2014, 2013 and 2012, except for the five Canadian pension plans which were settled in the third quarter of fiscal year 2013. The pension obligation associated with the settled Canadian pension plans were measured as of June 30, 2013 and September 30, 2012. The U.S. plans include qualified and non-qualified pension plans. The company's most significant non-U.S. plan is located in the United Kingdom. Other non-U.S. plans include plans primarily 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:

	U.S. Plans			
	2014	2013	2012	
Discount Rate	4.20 % — 4.30 %	4.75 % — 4.95 %	4.20 %	
Assumed return on plan assets (beginning of the year)	8.00%	8.00%	8.00 %	
	Non-U.S. Plans			
	2014	2013	2012	
Discount Rate ⁽¹⁾	1.90 % — 4.10 %	2.40 % — 4.70 %	2.10 % — 4.60 %	
	2.25 % — 7.25 %	2.50 % — 7.25 %	2.50 % — 7.50 %	

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Assumed return on plan assets (beginning of the year) ⁽¹⁾

Rate of compensation increase ⁽²⁾ 2.00 % — 3.00 % 2.00 % — 3.00 % 2.00 % — 3.00 %

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The discount rate for the company's U.K. pension plan was 4.10 percent, 4.70 percent and 4.60 percent for 2014, (1) 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.

The rate of compensation increase for the company's Canadian pension plans was 3.00 percent for 2014, 2013 and (2) 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 at the balance sheet date and net periodic pension expense for the subsequent fiscal year. The rate used reflects a rate of return 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 active plan asset management and diversification, 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. The accompanying disclosures include pension obligations associated with businesses classified as discontinued operations.

The following table reconciles the change in the PBO, the change in plan assets and amounts included in the consolidated balance sheet for the years ended September 30, 2014 and 2013, respectively (in millions):

	2014			2013		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
PBO — beginning of year	\$1,017	\$691	\$1,708	\$1,312	\$754	\$2,066
Service cost	1	1	2	1	2	3
Interest cost	49	31	80	54	29	83
Actuarial loss (gain)	67	38	105	(102)	17	(85)
Curtailment gain	—	—	—	(4)	(1)	(5)
Settlements	—	—	—	(178)	(70)	(248)
Amendments	(4)	—	(4)	—	—	—
Benefit payments	(71)	(28)	(99)	(66)	(33)	(99)
Foreign currency rate changes	—	2	2	—	(7)	(7)
PBO — end of year	\$1,059	\$735	\$1,794	\$1,017	\$691	\$1,708
Change in plan assets						
Fair value of assets — beginning of year	\$710	\$657	\$1,367	\$864	\$673	\$1,537
Actual return on plan assets	94	69	163	3	53	56
Employer contributions	99	38	137	66	49	115
Settlements	—	—	—	(157)	(74)	(231)
Benefit payments	(71)	(28)	(99)	(66)	(33)	(99)
Foreign currency rate changes	—	7	7	—	(11)	(11)

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Fair value of assets — end of year	\$832	\$743	\$1,575	\$710	\$657	\$1,367
Funded status	\$(227)	\$8	\$(219)	\$(307)	\$(34)	\$(341)

Amounts included in the consolidated balance sheet at September 30 are comprised of the following (in millions):

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2014			2013		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Non-current assets	\$—	\$ 104	\$ 104	\$—	\$ 55	\$ 55
Current liabilities	(5)	(3)	(8)	(6)	(3)	(9)
Retirement benefits-non-current	(222)	(93)	(315)	(301)	(86)	(387)
Net amount recognized	\$(227)	\$ 8	\$(219)	\$(307)	\$(34)	\$(341)

The following tables summarize the amounts included in Accumulated Other Comprehensive Loss net of tax related to pension liabilities as of September 30, 2014 and 2013 and changes recognized in Other Comprehensive Income (Loss) net of tax for the year ended September 30, 2014.

	Net Actuarial Loss		
	U.S.	Non-U.S.	Total
Balance at September 30, 2013	\$408	\$234	\$642
Net actuarial loss for the year	26	16	42
Amortization for the year	(15)	(8)	(23)
Deferred tax impact	—	(1)	(1)
Balance at September 30, 2014	\$419	\$241	\$660
Balance at September 30, 2012	\$560	\$259	\$819
Net actuarial loss (gain) for the year	(58)	13	(45)
Amortization for the year	(17)	(9)	(26)
Curtailement gain	(4)	—	(4)
Deferred tax impact	—	9	9
Settlements	(73)	(38)	(111)
Balance at September 30, 2013	\$408	\$234	\$642

The company estimates that \$27 million of net actuarial losses will be amortized from accumulated other comprehensive loss into net periodic pension expense during fiscal year 2015. The non-current portion of the pension liability is included in Retirement Benefits in the consolidated balance sheet as follows (in millions):

	September 30,	
	2014	2013
Pension liability	\$315	\$387
Retiree medical liability — long term (see Note 19)	446	476
Other	14	23
Total retirement benefits	\$775	\$886

In accordance with FASB guidance, the PBO, accumulated benefit obligation (ABO) and fair value of plan assets are required to be disclosed for all plans where the ABO is in excess of plan assets. The difference between the PBO and ABO is that the PBO includes projected compensation increases.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Additional information is as follows (in millions):

	2014			2013		
	ABO Exceeds Assets	Assets Exceed ABO	Total	ABO Exceeds Assets	Assets Exceed ABO	Total
PBO	\$1,180	\$614	\$1,794	\$1,116	\$592	\$1,708
ABO	1,180	613	1,793	1,115	592	1,707
Plan Assets	857	718	1,575	719	648	1,367

The components of net periodic pension expense are as follows (in millions):

	2014	2013	2012
Service cost	\$2	\$3	\$2
Interest cost	80	83	91
Assumed rate of return on plan assets	(104)	(112)	(105)
Amortization of —			
Actuarial losses	23	26	22
Curtailed gain	—	(1)	—
Settlement loss	—	111	1
Net periodic pension expense	1	110	11

Disclosures on investment policies and strategies, categories of plan assets, fair value measurements of plan assets, and significant concentrations of risk are included below.

Investment Policy and Strategy

The company's primary investment objective for its pension plan assets is to generate a total investment return sufficient to meet present and future benefit payments while minimizing the company's cash contributions over the life of the plans. In order to accomplish this objective, the company maintains target allocations to identify and manage exposures. The target 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.

Investment strategies and policies for the company's pension plan assets reflect a balance of risk-reducing and return-seeking considerations. The objective of minimizing the volatility of assets relative to liabilities is addressed primarily through asset diversification. Assets are broadly diversified across several asset classes to achieve risk-adjusted returns that accomplish this objective.

The majority of pension plan assets are externally managed through active managers. Managers are only permitted to invest within established asset classes and follow the strategies for which they have been appointed. The company uses investment guidelines and reviews assets returns and investment decisions made by the managers to ensure that

they are in accordance with the company's strategies.

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Concentration of Risk

The company seeks to mitigate risks relative to performance of the plan assets. Assets are invested in various classes with different risk and return characteristics in order to ensure that they are sufficient to pay benefits. The company's investment strategies incorporate a return-seeking approach through equity and alternative investments, while seeking to minimize the volatility of the plans' assets relative to its liabilities through investments in fixed income securities. The significant areas of risk related to these strategies include equity, interest rate, and operating risk.

A portion of plan assets is allocated to equity and alternative investments that are expected, over time, to earn higher returns. Within this return seeking portfolio, asset diversification is utilized to reduce uncompensated risk.

Plan assets are also allocated to fixed income investments, which seek to minimize interest rate risk volatility relative to pension liabilities. The fixed income portfolio partially matches the long-dated nature of the pension liabilities reducing interest rate risk. Interest rate decreases generally increase the value of fixed income assets, partially offsetting the related increase in the liabilities, while interest rate increases generally result in a decline in the value of fixed income assets while reducing the present value of the liabilities.

Operating risks consist of the risks of inadequate diversification and weak controls. The company has established policies and procedures in order to mitigate this risk by monitoring investment manager performance, reviewing periodic compliance information, and ensuring that the plans' managers invest in accordance with the company's investment strategies.

Fair Value of Investments

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 assets (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 assets that the Plan has the ability to access.

Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets 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 asset.

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

Following are descriptions, valuation methodologies and other information related to plan assets.

Cash and cash equivalents: The fair value of cash and cash equivalents is valued at cost.

Equity Securities: The overall equity category includes common and preferred stocks issued by U.S. and international companies as well as equity funds that invest in these instruments. All investments generally allow near-term (within

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90 days of the measurement date) liquidity and are held in issues that are actively traded to facilitate transactions at minimum cost. The aggregate equity portfolio is diversified to avoid exposure to any investment strategy, single economic sector, industry group, or individual security.

The fair value of equity securities is determined by either direct or indirect quoted market prices. When the value of assets held in separate accounts is not published, the value is based on the underlying holdings, which are primarily direct quoted market prices on regulated financial exchanges.

Most of the equity investments allow daily redemptions, with some providing monthly liquidity or requiring a 30-day notice.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Fixed Income Securities: The overall fixed income category includes U.S. dollar-denominated and international marketable bonds and convertible debt securities as well as fixed income funds that invest in these instruments. All assets generally allow near-term liquidity and are held in issues which are actively traded to facilitate transactions at minimum cost. The aggregate fixed income portfolio is diversified to avoid exposure to any investment strategy, maturity, issuer or credit quality.

The fair value of fixed income securities is determined by either direct or indirect quoted market prices. When the value of assets held in separate accounts is not published, the value is based on the underlying holdings, which are primarily direct quoted market prices on regulated financial exchanges.

U.S. fixed income securities typically offer daily liquidity, with only one Level 2 investment allowing quarterly redemptions. International and emerging fixed income investment vehicles generally provide daily liquidity.

Commingled Funds: The fair value of commingled funds is accounted for by a custodian. The custodian obtains valuations from underlying managers based on market quotes for the most liquid assets and alternative methods for assets that do not have sufficient trading activity to derive prices. The company and custodian review the methods used by the underlying managers to value the assets.

Real Estate: Real estate provides an indirect investment into a diversified and multi-sector portfolio of property assets. The fair value of real estate investments is valued by the fund managers. The fund managers value the real estate investments via independent third-party appraisals on a periodic basis. Assumptions used to revalue the properties are updated every quarter. For the component of the real estate portfolio under development, the investments are carried at cost, which approximates fair value, until they are completed and valued by a third-party appraiser.

Due to the long-term nature of real estate investments, liquidity is provided on a quarterly to semi-annual basis. These investments were classified accordingly to reflect these restrictions.

Partnerships/Private Equity: This category includes investments in private equity and hedge funds. Such investments may be made directly or through pooled funds, including fund of funds structures. The fair market value of the company's interest in partnerships and private equity is valued by the fund managers. The valuation is based on the net present value of observable inputs (dividends, cash flows, earnings, etc.), which are discounted at applicable discount rates. The company and custodian review the methods used by the underlying managers to value the assets.

Most of these investments offer quarterly redemption opportunities. Some partnerships and private equity investments, due to the nature of their investment strategy and underlying holdings, offer less frequent liquidity. When available, liquidity events are closely evaluated.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The fair value of plan assets at September 30, 2014 by asset category is as follows (in millions):

U.S. Plans	2014			
Asset Category	Level 1	Level 2	Level 3	Total
Equity investments				
U.S. – Large cap	\$104	\$—	\$—	\$104
U.S. – Small cap	25	—	—	25
Emerging equity	—	22	—	22
Private equity	—	—	80	80
International equity	65	12	—	77
Partnerships – equity	—	57	1	58
Total equity investments	\$194	\$91	\$81	\$366
Fixed income investments				
U.S. fixed income	\$24	\$252	\$—	\$276
Emerging fixed income	—	22	—	22
International fixed income	—	—	11	11
U.S. high yield	—	15	—	15
Partnerships fixed income	—	—	18	18
Total fixed income	\$24	\$289	\$29	\$342
Alternatives – Partnerships	—	63	60	123
Cash and cash equivalents	—	1	—	1
Total assets at fair value	\$218	\$444	\$170	\$832
Non-U.S. Plans	2014			
Asset Category	Level 1	Level 2	Level 3	Total
Equity investments				
International equity	\$103	\$112	\$—	\$215
Fixed income investments				
Corporate bonds	—	139	—	139
Other fixed income investments	—	205	—	205
Total fixed income	\$—	\$344	\$—	\$344
Real estate	—	—	67	67
Commingled funds	—	9	—	9
Alternative investments	—	—	61	61
Cash and cash equivalents	—	47	—	47
Total assets at fair value	\$103	\$512	\$128	\$743

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The fair value of plan assets at September 30, 2013 by asset category is as follows (in millions):

U.S. Plans Asset Category	2013			
	Level 1	Level 2	Level 3	Total
Equity investments				
U.S. – Large cap	\$97	\$—	\$—	\$97
U.S. – Small cap	29	—	—	29
Emerging equity	—	22	—	22
Private equity	—	—	50	50
International equity	81	—	—	81
Partnerships – equity	—	41	—	41
Total equity investments	\$207	\$63	\$50	\$320
Fixed income investments				
U.S. fixed income	\$21	\$173	\$—	\$194
Emerging fixed income	—	20	—	20
International fixed income	—	—	9	9
U.S. high yield	—	—	12	12
Partnerships fixed income	—	—	19	19
Total fixed income	\$21	\$193	\$40	\$254
Alternatives – Partnerships	—	71	53	124
Cash and cash equivalents	—	12	—	12
Total assets at fair value	\$228	\$339	\$143	\$710
 Non-U.S. Plans	 2013			
Asset Category	Level 1	Level 2	Level 3	Total
Equity investments				
International equity	\$94	\$102	\$—	\$196
Fixed income investments				
Corporate bonds	—	145	—	145
Other fixed income investments	—	137	—	137
Total fixed income	\$—	\$282	\$—	\$282
Real estate	—	—	59	59
Commingled funds	—	9	—	9
Alternative investments	—	—	56	56
Cash and cash equivalents	—	55	—	55
Total assets at fair value	\$94	\$448	\$115	\$657

Unfunded Commitment

As of September 30, 2014, the U.S. plan had \$20 million of unfunded investment commitments related to plan assets. The majority of this amount is attributed to partnership investments that the plan will invest in gradually over the course of several years. Non-U.S. plans currently do not have any unfunded commitments.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table summarizes the changes in Level 3 pension plan assets measured at fair value on a recurring basis for the year ended September 30, 2014 (in millions):

U.S. Plans	2014					
	Fair Value at October 1, 2013	Return on Plan Assets: Attributable to Assets Held at September 30, 2014	Purchases	Settlements	Net Transfers Into (Out of) Level 3	Fair Value at September 30, 2014
Asset Category						
Private equity	\$50	\$23	\$13	\$(6)	\$—	\$80
U.S. high yield	12	1	2	—	(15)	—
International fixed income	9	2	—	—	—	11
Partnerships –						
Fixed income	19	1	2	(4)	—	18
Equity	—	—	—	—	1	1
Alternatives –						
Partnerships	53	9	—	(2)	—	60
Total Level 3 fair value	\$143	\$36	\$17	\$(12)	\$(14)	\$170
Non-U.S. Plans	2014					
	Fair Value at October 1, 2013	Return on Plan Assets: Attributable to Assets Held at September 30, 2014	Purchases	Settlements	Net Transfers Into (Out of) Level 3	Fair Value at September 30, 2014
Asset Category						
Real estate	\$59	\$9	\$—	\$(1)	\$—	\$67
Alternative investments	56	5	—	—	—	61
Total Level 3 fair value	\$115	\$14	\$—	\$(1)	\$—	\$128

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table summarizes the changes in Level 3 pension plan assets measured at fair value on a recurring basis for the year ended September 30, 2013 (in millions):

U.S. Plans	2013					
	Fair Value at October 1, 2012	Return on Plan Assets: Attributable to Assets Held at September 30, 2013	Purchases	Settlements	Net Transfers Into (Out of) Level 3	Fair Value at September 30, 2013
Asset Category						
Private equity	\$48	\$1	\$3	\$(2)	\$—	\$50
U.S. high yield	10	2	—	—	—	12
International fixed income	10	(1)	—	—	—	9
Partnerships –						
Fixed income	13	1	9	(4)	—	19
Equity	13	—	—	—	(13)	—
Alternatives –						
Partnerships	49	7	—	(3)	—	53
Total Level 3 fair value	\$143	\$10	\$12	\$(9)	\$(13)	\$143
Non-U.S. Plans	2013					
	Fair Value at October 1, 2012	Return on Plan Assets: Attributable to Assets Held at September 30, 2011	Purchases	Settlements	Net Transfers Into (Out of) Level 3	Fair Value at September 30, 2013
Asset Category						
Real estate	\$50	\$1	\$10	\$(2)	\$—	\$59
Alternative investments	64	4	—	(12)	—	56
Total Level 3 fair value	\$114	\$5	\$10	\$(14)	\$—	\$115

Information about the expected cash flows for the U.S. and non-U.S. pension plans is as follows (in millions):

	U.S.	Non U.S.	Total
Expected employer contributions:			
Fiscal 2015	\$5	\$5	\$10
Expected benefit payments:			
Fiscal 2015	77	28	105
Fiscal 2016	76	29	105
Fiscal 2017	74	30	104
Fiscal 2018	73	31	104
Fiscal 2019	72	32	104

Fiscal 2020-2024

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175

520

114

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The company also sponsors certain defined contribution savings plans for eligible employees. Expense related to these plans, including company matching contributions, was \$14 million, \$13 million and \$14 million for fiscal years 2014, 2013 and 2012, respectively.

21. INCOME TAXES

The income tax provisions were calculated based upon the following components of income (loss) before income taxes (in millions):

	2014	2013	2012
U.S. income (loss)	\$204	\$(59)	) \$23
Foreign income	111	110	114
Total	\$315	\$51	\$137

The components of the benefit (provision) for income taxes are summarized as follows (in millions):

	2014	2013	2012
Current tax benefit (expense):			
U.S.	\$(1)	) \$(11)	) \$4
Foreign	(32)	) (59)	) (47)
State and local	—	2	(1)
Total current tax expense	(33)	) (68)	) (44)
Deferred tax benefit (expense):			
U.S.	(1)	) (6)	) (7)
Foreign	3	13	(5)
State and local	—	(3)	) (1)
Total deferred tax benefit (expense)	2	4	(13)
Income tax expense	\$(31)	) \$(64)	) \$(57)

The deferred tax expense or benefit represents tax effects of current year deductions or items of income that will be recognized in future periods for tax purposes. The foreign current tax expense in fiscal year 2013 includes the tax effect of the Suspensys JV sale. The foreign deferred tax benefit in fiscal year 2013 primarily relates to the benefit received from the Canadian pension settlement charge.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Net current and non-current deferred income tax assets (liabilities) included in the consolidated balance sheet consist of the tax effects of temporary differences related to the following (in millions):

	September 30,	
	2014	2013
Accrued compensation and benefits	\$18	\$18
Accrued product warranties	18	22
Inventory costs	19	17
Receivables	13	12
Accrued retiree healthcare benefits	190	209
Retirement pension plans	102	131
Property	4	1
Loss and credit carryforwards	678	733
Other	64	90
Sub-total	1,106	1,233
Less: Valuation allowances	(1,030)	(1,166)
Deferred income taxes - asset	\$76	\$67
Taxes on undistributed income	\$(46)	\$(32)
Intangible assets	(88)	(89)
Debt basis difference	(12)	(16)
Deferred income taxes - liability	\$(146)	\$(137)
Net deferred income tax liabilities	\$(70)	\$(70)

Net current and non-current deferred income tax assets (liabilities) are included in the consolidated balance sheet as follows (in millions):

	September 30,	
	2014	2013
Other current assets (see Note 9)	\$21	\$23
Other current liabilities	(3)	(6)
Net current deferred income taxes — asset	18	17
Other assets (see Note 11)	15	13
Other liabilities (see Note 14)	(103)	(100)
Net non-current deferred income taxes — liability	\$(88)	\$(87)

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%-owned subsidiaries in France, Germany, Italy, Sweden, U.K. and certain other countries. The company evaluates deferred income taxes quarterly to determine if valuation allowances are required. The company is required to assess whether valuation allowances should be established against its deferred tax assets based on the consideration of all available evidence using a “more-likely-than-not” standard. As of September 30, 2014 and 2013, the company continues to maintain valuation allowances in these jurisdictions.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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. Realization of deferred tax assets representing net operating loss carryforwards for which a valuation allowance has not been provided is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of such deferred tax assets will be realized. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if the company is unable to generate sufficient future taxable income during the carryforward period.

For fiscal years 2014 and 2013, no provision has been made for U.S., state or additional foreign income taxes related to approximately \$666 million and \$661 million of undistributed earnings of foreign subsidiaries that have been or are intended to be permanently reinvested. Quantification of the deferred tax liability, if any, associated with permanently reinvested earnings is not practicable.

The company's provision for income taxes was different from the provision for income taxes calculated at the U.S. statutory rate for the reasons set forth below (in millions):

	2014	2013	2012
Expense for income taxes at statutory tax rate of 35%	\$(110)	\$(18)	\$(48)
State and local income taxes	—	1	(2)
Foreign income taxed at rates other than 35%	13	3	7
Joint venture equity income	5	6	13
Tax effect of Suspensys JV sale	—	(16)	—
Refunds of prior year taxes	—	—	5
Goodwill	(1)	(8)	(6)
Medicare Part D subsidy	—	1	4
U.S. tax impact on distributions from subsidiaries and joint ventures	(18)	19	(90)
Nondeductible expenses	(10)	(9)	(11)
Valuation allowances	89	(44)	68
Other	1	1	3
Income tax expense	\$(31)	\$(64)	\$(57)

In fiscal year 2014, the company recorded \$210 million of earnings related to the antitrust lawsuit settlement with Eaton Corporation. The earnings did not impact U.S. federal income tax expense, since they were offset by a corresponding release of a valuation allowance in the U.S.

In fiscal year 2013, the company changed its permanently reinvested assertion in certain jurisdictions, which resulted in a non-cash benefit of \$42 million. This benefit does not impact income tax expense, since it is offset by a corresponding release of a valuation allowance in the U.S.

In fiscal year 2012, the company recorded a non-cash charge of \$90 million primarily related to the impact of foreign distributions as a result of legal entity restructuring actions. This charge does not impact income tax expense, since it is offset by a corresponding release of a valuation allowance in the U.S.

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The total amount of gross unrecognized tax benefits the company recorded in accordance with FASB ASC Topic 740 as of September 30, 2014 was \$88 million, of which \$9 million represents the amount, if recognized, would favorably affect the effective income tax rate in future periods.

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

A reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period is as follows (in millions):

	2014	2013	2012
Balance at beginning of the period	\$94	\$107	\$109
Additions to tax positions recorded during the current year	3	3	11
Additions to tax positions recorded during the prior year	—	—	—
Reduction to tax position recorded in prior years	(2	) (6	) (5
Reductions to tax positions due to lapse of statutory limits	(7	) (10	) (8
Translation, other	—	—	—
Balance at end of the period	\$88	\$94	\$107

The company's continuing practice is to recognize interest and penalties on uncertain tax positions in the provision for income taxes in the consolidated statement of operations. At September 30, 2014 and September 30, 2013, the company recorded \$3 million and \$2 million, respectively, of interest on uncertain tax positions in the consolidated balance sheet. In addition, penalties of \$2 million were recorded at each of September 30, 2014 and September 30, 2013. The company recorded an income tax benefit of \$3 million related to interest for the year end September 30, 2013. The amount was immaterial for years ended September 30, 2014 and September 30, 2012. The company recorded an income tax benefit of \$2 million related to penalties for year ended September 30, 2013. The amount was immaterial for the years ended September 30, 2014 and 2012.

The company files tax returns in multiple jurisdictions and is subject to examination by taxing authorities throughout the world. The company's Canadian federal income tax returns for fiscal years 2008 through 2010 are currently under audit. The company's Brazil subsidiary is currently under audit for calendar year 2008. The company's German subsidiary is currently under audit for fiscal years 2009 through 2013. In addition, the company is under audit in various U.S. state tax jurisdictions for various years. It is reasonably possible that audit settlements, the conclusion of current examinations or the expiration of the statute of limitations in several jurisdictions could change the company's unrecognized tax benefits during the next twelve months. Due to the expected expiration of the statute of limitations in several jurisdictions, the company estimates that the unrecognized tax benefits could decrease in the next twelve months between \$2 million and \$4 million.

In addition to the audits listed above, the company has open tax years primarily from 1999-2013 with various significant taxing jurisdictions including the United States, Brazil, Canada, China, France, Mexico and the U.K. These open years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as they relate to the amount, timing or inclusion of revenue and expenses or the sustainability of income tax credits for a given audit cycle. The company has recorded a tax benefit only for those positions that meet the more-likely-than-not standard.

22. 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.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 September 30, 2014 to be approximately \$18 million, of which \$2 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. Environmental remediation costs recorded with respect to the Superfund sites were \$1 million, \$1 million, and \$1 million in fiscal years 2014, 2013, and 2012, respectively.

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 September 30, 2014 to be approximately \$38 million, of which \$17 million is probable and recorded as a liability. During fiscal years 2014, 2013 and 2012, the company recorded environmental remediation costs of \$5 million, \$7 million and \$6 million, respectively, with respect to these matters, resulting from revised estimates to remediate these sites.

Included in the company's environmental liabilities are costs for on-going operation, maintenance and monitoring at environmental sites in which remediation has been put into place. This liability is discounted using discount rates in the range of 0.25 to 3.75 percent and is approximately \$10 million at September 30, 2014. The undiscounted estimate of these costs is approximately \$11 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, 2013	\$2	\$17	\$19
Payments	(1	) (5	) (6
Accruals	1	5	6
Balance at September 30, 2014	\$2	\$17	\$19

There were \$2 million, \$3 million, and \$4 million of environmental remediation costs recognized in other operating expense in the consolidated statement of operations in fiscal years 2014, 2013 and 2012, respectively. In addition, \$4 million, \$5 million and \$3 million of environmental remediation costs were recorded in loss from discontinued operations in the consolidated statement of operations for fiscal years 2014, 2013 and 2012, respectively. Environmental reserves are included in Other Current Liabilities (see Note 13) and Other Liabilities (see Note 14) 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.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Asbestos

Maremont Corporation (“Maremont”), a subsidiary of Meritor, manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. Arvin Industries, Inc., a predecessor of the company, acquired Maremont in 1986. Maremont and many other companies are defendants in suits brought by individuals claiming personal injuries as a result of exposure to asbestos-containing products. Maremont had approximately 5,700 and 5,400 pending asbestos-related claims at September 30, 2014 and 2013, respectively. Although Maremont has been named in these cases, in the cases where actual injury has been alleged, very few claimants have established that a Maremont product caused their injuries. Plaintiffs’ lawyers often sue dozens or even hundreds of defendants in individual lawsuits, 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’s asbestos-related reserves and corresponding asbestos-related recoveries are summarized as follows (in millions):

	September 30,	
	2014	2013
Pending and future claims	\$73	\$73
Billed but unpaid claims	3	1
Asbestos-related liabilities	\$76	\$74
Asbestos-related insurance recoveries	49	58

A portion of the asbestos-related recoveries and reserves are included in Other Current Assets and Liabilities , with the majority of the amounts recorded in Other Assets and Liabilities (see Notes 9, 11, 13 and 14).

Pending and Future Claims: 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. Although it is not possible to estimate the full range of costs because of various uncertainties, Bates White advised Maremont that it would be possible to determine an estimate of a reasonable forecast of the cost of the probable settlement and defense costs of resolving pending and future asbestos-related claims, based on historical data and certain assumptions with respect to events that may occur in the future.

Bates White provided a reasonable and probable estimate that consisted of a range of equally likely possibilities of Maremont’s obligation for asbestos personal injury claims over the next ten years of \$73 million to \$105 million. 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 (see “Recoveries” below). 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

• Pending and future claims were estimated for a ten-year period ending in fiscal year 2024;

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

• On a per claim basis, defense and processing costs for pending and future claims will be at the level consistent with Maremont's prior experience;

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

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

Recoveries: Maremont has insurance that reimburses a substantial portion of the costs incurred defending against asbestos-related claims. The insurance receivable related to asbestos-related liabilities is \$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. During fiscal year 2013, Maremont reinitiated a lawsuit against these carriers, seeking a declaration of its rights to insurance for asbestos claims and to facilitate an orderly and timely collection of insurance proceeds. The difference between the estimated liability and insurance receivable is primarily related to exhaustion of settled insurance coverage within the forecasted period and proceeds from settled insurance policies. Certain insurance policies have been settled in cash prior to the ultimate settlement of the related asbestos liabilities. Amounts received from insurance settlements generally reduce recorded insurance receivables.

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

Rockwell International ("Rockwell") — ArvinMeritor, Inc. (AM), a subsidiary of Meritor, along with many other companies, has also been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos used in certain components of Rockwell products many years ago. Liability for these claims was transferred at the time of the spin-off of the automotive business from Rockwell in 1997. Rockwell had approximately 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.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	September 30,	
	2014	2013
Pending and future claims	\$48	\$39
Billed but unpaid claims	2	1
Asbestos-related liabilities	\$50	\$40
Asbestos-related insurance recoveries	11	13

Pending and Future Claims: The company 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. As of September 30, 2014, Bates White provided a reasonable and probable estimate that consisted of a range of equally likely possibilities of Rockwell's obligation for asbestos personal injury claims over the next ten years of \$48 million to \$62 million. 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.

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

- Pending and future claims were estimated for a ten-year period ending in fiscal year 2024;

- The company believes that the litigation environment could change significantly beyond ten years and that the reliability of estimates of future probable expenditures in connection with asbestos-related personal injury claims 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.

Recoveries: 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

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consultation with advisors, status of settlement negotiations with certain insurers and underlying analysis performed by management. The remaining receivable recognized is related to coverage provided by one carrier based on a coverage-in-place insurance. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Indemnifications

In December 2005, the company guaranteed a third party's obligation to reimburse another party for payment of health and prescription drug benefits to a group of retired employees. The retirees were former employees of a wholly-owned subsidiary of the company prior to it being acquired by the company. The wholly-owned subsidiary, which was part of the company's light vehicle aftermarket business, was sold by the company in fiscal year 2006. Prior to May 2009, except as set forth hereinafter, the third party met its obligations to reimburse the other party. In May 2009, the third party filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code requiring the company to recognize its obligations under the guarantee. The company recorded a \$28 million liability in fiscal year 2009 for this matter. At September 30, 2014 and September 30, 2013, the remaining estimated liability for this matter was approximately \$14 million and \$17 million, respectively.

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

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

In connection with the sale of its interest in MSSC in October 2009, the company provided certain indemnifications to the buyer for its share of potential obligations related to pension funding shortfall, environmental and other contingencies, and valuation of certain accounts receivable and inventories. The company's estimated exposure under these indemnities at September 30, 2014 and September 30, 2013 is approximately \$5 million and \$11 million, respectively, and is included in other current liabilities and other liabilities in the condensed consolidated balance sheet.

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

Other

As a result of performing ongoing product conformance testing in the ordinary course of business, the company identified a non-safety related, potential product performance issue arising from a defective supplier component. During fiscal year 2013, the company notified all major customers and initiated a sampling campaign. Management estimated the total costs the company could incur for a full campaign to be in the range of \$12 million to \$20 million, of which \$12 million was recorded as a specific warranty contingency reserve (see Note 13). In the fourth quarter of fiscal 2013, the company received \$5 million of non-cash cost recovery from the component supplier. As of September 30, 2014, no field failures were identified during the sampling campaign, and only minor defects were found in a small number of components tested. During the second half of fiscal year 2014, the company worked with customers to determine the appropriate next steps. As a result, in the fourth quarter of fiscal year 2014, the company determined a full campaign to be unnecessary and moved to a fix-as-find approach with an extended warranty. As of September 30, 2014, the estimated cost the company could incur for this non-safety related, potential product performance issue was reduced significantly to \$3 million.

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

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In the fourth quarter of fiscal year 2013, the company identified additional sales transactions for which value-added tax was required to be remitted. At September 30, 2014 and 2013, the company recorded a \$5 million liability primarily associated with tax years 2009 through 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

23. 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. On November 12, 2012, the company announced a revised management reporting structure resulting in two business segments. Prior period segment financial information presented has been recast to reflect the revised reporting structure.

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

The Commercial Truck & Industrial segment supplies drivetrain systems and components, including axles, drivelines and braking and suspension systems, primarily for medium- and heavy-duty trucks, 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 business in Asia-Pacific and South America; and The Aftermarket & Trailer segment supplies axles, brakes, drivelines, suspension parts and other replacement parts to commercial vehicle and industrial aftermarket customers. This segment also supplies a wide variety of undercarriage products and systems for trailer applications in North America.

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

The accounting policies of the segments are the same as those applied in the Consolidated Financial Statements, except for the use of Segment EBITDA. The company may allocate certain common costs, primarily corporate functions, between the segments differently than the company would for stand alone financial information prepared in accordance with GAAP. These allocated costs include expenses for shared services such as information technology, finance, communications, legal and human resources. The company does not allocate interest expense and certain legacy and other corporate costs not directly associated with the Segments' EBITDA. Amounts related to prior quarters have been recast to reflect Mascot in discontinued operations (see Note 3).

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Segment information is summarized as follows (in millions):

	Commercial Truck & Industrial	Aftermarket & Trailer	Elims	Total	
Fiscal year 2014 Sales:					
External Sales	\$2,876	\$890	\$—	\$3,766	
Intersegment Sales	104	30	(134)) —	
Total Sales	\$2,980	\$920	\$(134)	) \$3,766	
Fiscal year 2013 Sales:					
External Sales	\$2,825	\$847	\$—	\$3,672	
Intersegment Sales	95	24	(119)) —	
Total Sales	\$2,920	\$871	\$(119)	) \$3,672	
Fiscal year 2012 Sales:					
External Sales	\$3,508	\$876	\$—	\$4,384	
Intersegment Sales	105	30	(135)) —	
Total Sales	\$3,613	\$906	\$(135)	) \$4,384	
Segment EBITDA:					
Commercial Truck & Industrial			2014	2013	2012
Aftermarket & Trailer			\$218	\$192	\$270
Segment EBITDA			106	87	81
Unallocated legacy and corporate expense, net ⁽¹⁾			324	279	351
Interest expense, net			(10	) (15	) (24
Provision for income taxes			(130	) (126	) (95
Depreciation and amortization			(31	) (64	) (57
Loss on sale of receivables			(67	) (67	) (63
Restructuring costs			(8	) (6	) (9
Antitrust settlement with Eaton, net of tax ⁽²⁾			(10	) (23	) (39
Specific warranty contingency, net of supplier recovery			208	—	—
Pension settlement losses			8	(7) —
Gain on sale of equity investment			—	(109) —
Gain on sale of property			—	125	—
Noncontrolling interests			—	—	16
Income (loss) from continuing operations attributable to Meritor, Inc.			(5	) (2	) (11
			\$279	\$(15	) \$69

Unallocated legacy and corporate costs, net represents items that are not directly related to the company's business segments. These costs primarily include asbestos-related charges associated with the company's year-end liability (1)remeasurement, pension and retiree medical costs associated with sold businesses and other legacy costs for environmental and product liability. In fiscal year 2013, unallocated legacy and corporate costs, net includes approximately \$4 million of executive severance related to the company's former Chief Executive Officer.

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

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Depreciation and Amortization:	2014	2013	2012
Commercial Truck & Industrial ⁽¹⁾	\$61	\$60	\$58
Aftermarket & Trailer ⁽¹⁾	6	7	5
Total depreciation and amortization	\$67	\$67	\$63
Capital Expenditures:	2014	2013	2012
Commercial Truck & Industrial ⁽¹⁾	\$71	\$46	\$79
Aftermarket & Trailer ⁽¹⁾	6	8	10
Total capital expenditures	\$77	\$54	\$89
Segment Assets:	2014	2013	2012
Commercial Truck & Industrial ⁽¹⁾	\$1,755	\$1,822	\$1,799
Aftermarket & Trailer ⁽¹⁾	458	485	470
Total segment assets	2,213	2,307	2,269
Corporate ⁽²⁾	533	568	
Less: Accounts receivable sold under off-balance sheet factoring programs ⁽³⁾	(244)	(305)	
Total assets	\$2,502	\$2,570	

(1) In fiscal year 2013, the company reorganized its management structure resulting in two reportable segments. Prior period segment financial information presented has been recast to reflect the revised reporting structure.

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

At September 30, 2014 and September 30, 2013, segment assets include \$244 million and \$305 million, respectively, of accounts receivable sold under off-balance sheet accounts receivable factoring programs (See Note (3) 6). These sold receivables are included in segment assets as the CODM reviews segment assets inclusive of these balances.

Sales by geographic area are based on the location of the selling unit. Information on the company's geographic areas is summarized as follows (in millions):

Sales by Geographic Area:

	2014	2013	2012
U.S.	\$1,466	\$1,408	\$1,679
Canada	68	68	72
Mexico	652	615	726
Total North America	2,186	2,091	2,477
Sweden	369	366	403
Italy	234	216	189
United Kingdom	82	82	84
Other Europe	111	108	198
Total Europe	796	772	874
Brazil	408	449	470
China	146	138	255
India	114	114	194
Other Asia-Pacific	116	108	114
Total sales	\$3,766	\$3,672	\$4,384

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Assets by Geographic Area:

	2014	2013
U.S.	\$1,067	\$1,130
Canada	50	81
Mexico	251	240
Total North America	1,368	1,451
Sweden	104	125
United Kingdom	216	157
Italy	81	86
Other Europe	182	192
Total Europe	583	560
Brazil	272	297
China	154	153
Other Asia-Pacific	125	109
Total	\$2,502	\$2,570

Sales to AB Volvo represented approximately 27 percent, 24 percent and 22 percent of the company's sales in each of fiscal years 2014, 2013 and 2012, respectively. Sales to Daimler AG represented approximately 18 percent, 15 percent and 15 percent of the company's sales in fiscal years 2014, 2013 and 2012, respectively. Sales to Navistar International Corporation represented approximately 12 percent of the company's sales in fiscal year 2014, 10 percent in fiscal year 2013 and 11 percent in fiscal year 2012, respectively. No other customer comprised 10 percent or more of the company's sales in any of the three fiscal years ended September 30, 2014.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

24. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following is a condensed summary of the company's unaudited quarterly results of continuing operations for fiscal years 2014 and 2013. Amounts related to prior quarters have been recast to reflect Mascot in discontinued operations (see Note 3). Per share amounts are based on the weighted average shares outstanding for that quarter. Earnings per share for the year may not equal the sum of the four fiscal quarters' earnings per share due to changes in basic and diluted shares outstanding.

	2014 Fiscal Quarters (Unaudited)				2014
	First	Second	Third	Fourth	
	(In millions, except share related data)				
Sales	\$900	\$954	\$979	\$933	\$3,766
Cost of sales	(795)	(836)	(855)	(793)	(3,279)
Gross margin	105	118	124	140	487
Provision for income taxes	(11)	(8)	(12)	—	(31)
Net income	13	3	234	4	254
Net income from continuing operations attributable to Meritor, Inc.	12	1	237	29	279
Net income attributable to Meritor, Inc.	11	1	234	3	249
Basic income per share from continuing operations	\$0.12	\$0.01	\$2.43	\$0.30	\$2.86
Diluted income per share from continuing operations	\$0.12	\$0.01	\$2.34	\$0.29	\$2.81

The company recognized restructuring costs in its continuing operations during fiscal year 2014 as follows: \$1 million in the first quarter, \$2 million in the second quarter and \$7 million in the fourth quarter (see Note 5). During the fourth quarter of fiscal year 2014, the company reduced retiree medical expense by \$15 million, in cost of sales on the consolidated statement of operations, due to a triggered curtailment (see Note 19). Net income in the third quarter of fiscal year 2014 includes after-tax proceeds of \$209 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.

	2013 Fiscal Quarters (Unaudited)				2013
	First	Second	Third	Fourth	
	(In millions, except share related data)				
Sales	\$884	\$900	\$986	\$902	\$3,672
Cost of sales	(802)	(805)	(877)	(793)	(3,277)
Gross margin	82	95	109	109	395
Provision for income taxes	(11)	(7)	(1)	(45)	(64)
Net income	(20)	(4)	(39)	43	(20)
Net income (loss) from continuing operations attributable to Meritor, Inc.	(15)	(3)	(37)	40	(15)
Net income (loss) attributable to Meritor, Inc.	(21)	(3)	(39)	41	(22)
Basic income (loss) per share from continuing operations	\$(0.16)	\$(0.03)	\$(0.38)	\$0.41	\$(0.15)
Diluted income (loss) per share from continuing operations	\$(0.16)	\$(0.03)	\$(0.38)	\$0.41	\$(0.15)

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The company recognized restructuring costs in its continuing operations during fiscal year 2013 as follows: \$3 million in the first quarter, \$11 million in the second quarter, \$12 million in the third quarter and a reversal of \$3 million in the fourth quarter (see Note 5). Net loss in the third quarter of fiscal year 2013 includes an after-tax settlement loss of approximately \$27 million associated with the company settling five of its Canadian pension plans via lump-sum payments out of plan assets to participants and annuity contract purchases with an insurance company. During the fourth quarter of fiscal year 2013, the company recognized a \$73 million non-cash settlement loss associated with lump-sum settlements to participants of its U.S. Retirement Plan. Also, the fourth quarter includes a \$92 million gain (net of tax) associated with the sale of the company's 50-percent ownership interest in the Suspensys joint venture.

25. OPERATING CASH FLOWS AND OTHER SUPPLEMENTAL FINANCIAL INFORMATION

	Year Ended September 30,		
	2014	2013	2012
OPERATING ACTIVITIES			
Net income (loss)	\$254	\$(20)	\$63
Less: Loss from discontinued operations, net of tax	(30)	(7)	(17)
Income (loss) from continuing operations	284	(13)	80
Adjustments to income (loss) from continuing operations to arrive at cash provided by (used for) operating activities:			
Depreciation and amortization	67	67	63
Deferred income tax expense (benefit)	(2)	(4)	13
Restructuring costs	10	23	39
Loss on debt extinguishment	31	24	—
Equity in earnings of ZF Meritor	(190)	—	—
Equity in earnings of other affiliates	(38)	(42)	(52)
Stock compensation expense	8	5	6
Provision for doubtful accounts	—	3	2
Pension and retiree medical expense	25	151	53
Gain on sale of equity investment	—	(125)	—
Gain on sale of property	—	—	(16)
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)
Changes in off-balance sheet receivable securitization and factoring programs	(46)	43	(24)
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations:			
Receivables	34	(87)	150
Inventories	(9)	18	11
Accounts payable	(5)	(31)	(118)
Other current assets and liabilities	19	37	(20)
Other assets and liabilities	—	(1)	24
Operating cash flows provided by (used by) continuing operations	227	(78)	96
Operating cash flows used for discontinued operations	(12)	(18)	(19)
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$215	\$(96)	\$77

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	September 30, 2014 2013 2012 (In millions)		
Balance sheet data:			
Allowance for doubtful accounts	\$6	\$9	\$7
Statement of operations data:			
Maintenance and repairs expense	59	61	44
Research, development and engineering expense	71	71	73
Depreciation expense	62	61	59
Rental expense	16	25	20
Interest income	2	2	2
Interest expense	(132)	(128)	(97)
Statement of cash flows data:			
Interest payments	84	77	83
Income tax payments, net of refunds	26	63	51
Non-cash investing activities - capital asset additions from capital leases	5	22	19

26. SUPPLEMENTAL PARENT AND GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Article 3-10 of Regulation S-X (S-X Rule 3-10) requires that separate financial information for issuers and guarantors of registered securities be filed in certain circumstances. Certain of the company's 100% owned subsidiaries, as defined in the credit agreement (the Guarantors) irrevocably and unconditionally guarantee amounts outstanding under the senior secured revolving credit facility. Similar subsidiary guarantees were provided for the benefit of the holders of the publicly-held notes outstanding under the company's indentures (see Note 15).

Schedule I of Article 5-04 of Regulation S-X (S-X Rule 5-04) requires that condensed financial information of the registrant (Parent) be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. As of September 30, 2014, net assets that exceed 25 percent of the consolidated net assets of Meritor, Inc. of certain subsidiaries in China and India and certain unconsolidated subsidiaries are restricted by law from transfer by cash dividends, loans or advances to Meritor, Inc. As of September 30, 2014 the amount of the net assets restricted from transfer by law was \$57 million.

In lieu of providing separate audited financial statements for the Parent and Guarantors, the company has included the accompanying condensed consolidating financial statements as permitted by S-X Rules 3-10 and 5-04. These condensed consolidating financial statements are presented on the equity method. Under this method, the investments in subsidiaries are recorded at cost and adjusted for the parent's share of the subsidiary's cumulative results of operations, capital contributions and distribution and other equity changes. The Guarantor subsidiaries are combined in the condensed consolidated financial statements.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
 (In millions)

	Fiscal Year Ended September 30, 2014				Consolidated	
	Parent	Guarantors	Non-Guarantors	Elims		
Sales						
External	\$—	\$1,467	\$2,299	\$—	\$ 3,766	
Subsidiaries	—	142	62	(204) —	
Total sales	—	1,609	2,361	(204	) 3,766
Cost of sales	(56) (1,343) (2,084) 204	(3,279)
GROSS MARGIN	(56	) 266	277	—	487
Selling, general and administrative	(65) (102) (91) —	(258)
Restructuring costs	—	(1) (9) —	(10)
Other operating expense, net	(1) (1) —	—	(2)
OPERATING INCOME (LOSS)	(122	) 162	177	—	217
Other income (expense), net	35	23	(58) —	—	
Equity in earnings of ZF Meritor	—	190	—	—	190	
Equity in earnings of affiliates	—	30	8	—	38	
Interest income (expense), net	(159) 35	(6) —	(130)
INCOME (LOSS) BEFORE INCOME TAXES	(246	) 440	121	—	315
Provision for income taxes	—	(1) (30) —	(31)
Equity income from continuing operations of subsidiaries	525	71	—	(596) —	
INCOME FROM CONTINUING OPERATIONS	279	510	91	(596	) 284
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(30) \$(31) \$(12) \$43	\$ (30)
NET INCOME	249	479	79	(553	) 254
Less: Net income attributable to noncontrolling interests	—	—	(5) —	(5)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$249	\$479	\$74	\$(553) \$ 249	

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
 (In millions)

	Fiscal Year Ended September 30, 2014				
	Parent	Guarantors	Non- Guarantors	Elims	Consolidated
Net income	\$249	\$479	\$79	\$(553)	) \$ 254
Other comprehensive income (loss)	(15)	) (54)	) 25	29	(15)
Total comprehensive income	234	425	104	(524)	) 239
Less: Comprehensive income attributable to noncontrolling interests	—	—	(5)) —	(5)
Comprehensive income attributable to Meritor, Inc.	\$234	\$425	\$99	\$(524)) \$ 234

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
 (In millions)

	Fiscal Year Ended September 30, 2013				Consolidated
	Parent	Guarantors	Non-Guarantors	Elims	
Sales					
External	\$—	\$ 1,409	\$ 2,263	\$—	\$ 3,672
Subsidiaries	—	136	56	(192)) —
Total sales	—	1,545	2,319	(192)	) 3,672
Cost of sales	(54)	) (1,339)	) (2,076)	) 192	(3,277)
GROSS MARGIN	(54)	) 206	) 243	—	395
Selling, general and administrative	(72)	) (87)	) (94)	) —	(253)
Pension Settlement losses	(73)	) —	) (36)	) —	(109)
Restructuring	(3)	) (8)	) (12)	) —	(23)
Other operating expense, net	(2)	) (1)	) —	—	(3)
OPERATING INCOME (LOSS)	(204)	) 110	) 101	—	7
Other income (loss), net	39	) 21	) (57)	) —	3
Gain on sale of equity investment	—	) 60	) 65	—	125
Equity in earnings of affiliates	—	) 24	) 18	—	42
Interest income (expense), net	(154)	) 34	) (6)	) —	(126)
INCOME (LOSS) BEFORE INCOME TAXES	(319)	) 249	) 121	—	51
Provision for income taxes	(1)	) (17)	) (46)	) —	(64)
Equity income from continuing operations of subsidiaries	305	) 57	) —	(362)) —
INCOME (LOSS) FROM CONTINUING OPERATIONS	(15)	) 289	) 75	(362)	) (13)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(7)	) \$(8)	) \$ (237)	) \$245	) \$(7)
NET INCOME (LOSS)	(22)	) 281	) (162)	) (117)	) (20)
Less: Net income attributable to noncontrolling interests	—	) —	) (2)	) —	) (2)
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	\$(22)	) \$281	) \$ (164)	) \$(117)	) \$(22)

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
 (In millions)

	Fiscal Year Ended September 30, 2013				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income (loss)	\$(22)	\$ 281	\$(162)	\$(117)	\$ (20)
Other comprehensive income (loss)	181	13	(12)	(1)	181
Total comprehensive income (loss)	159	294	(174)	(118)	161
Less: Comprehensive income attributable to noncontrolling interests	—	—	(2)	—	(2)
Comprehensive income (loss) attributable to Meritor, Inc.	\$ 159	\$ 294	\$(176)	\$(118)	\$ 159

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
 (In millions)

	Fiscal Year Ended September 30, 2012				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	\$—	\$ 1,679	\$ 2,705	\$—	\$ 4,384
Subsidiaries	—	149	71	(220)	—
Total sales	—	1,828	2,776	(220)	4,384
Cost of sales	(50)	(1,579)	(2,493)	220	(3,902)
GROSS MARGIN	(50)	249	283	—	482
Selling, general and administrative	(75)	(102)	(105)	—	(282)
Restructuring costs	—	—	(39)	—	(39)
Gain on sale of property	—	—	16	—	16
Other operating income (expense), net	(2)	—	(2)	—	(4)
OPERATING INCOME (LOSS)	(127)	147	153	—	173
Other income (expense), net	42	27	(62)	—	7
Equity in earnings of affiliates	—	34	18	—	52
Interest income (expense), net	(121)	22	4	—	(95)
INCOME (LOSS) BEFORE INCOME TAXES	(206)	230	113	—	137
Provision for income taxes	—	(5)	(52)	—	(57)
Equity income from continuing operations of subsidiaries	275	35	—	(310)	—
INCOME FROM CONTINUING OPERATIONS	69	260	61	(310)	80
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(17)	(5)	(1)	6	(17)
NET INCOME	52	255	60	(304)	63
Less: Net income attributable to noncontrolling interests	—	—	(11)	—	(11)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$ 52	\$ 255	\$ 49	\$ (304)	\$ 52

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
 (In millions)

	Fiscal Year Ended September 30, 2012				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income	\$52	\$255	\$60	\$(304)	) \$63
Other comprehensive loss	(86)	) (41)	) (1)	) 41	(87)
Total comprehensive income (loss)	(34)	) 214	59	(263)	) (24)
Less: Comprehensive income attributable to noncontrolling interests	—	—	(10)) —	(10)
Comprehensive income (loss) attributable to Meritor, Inc.	\$(34)) \$214	\$49	\$(263)) \$(34)

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONDENSED CONSOLIDATING BALANCE SHEET
 (In millions)

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

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONDENSED CONSOLIDATING BALANCE SHEET
 (In millions)

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

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 (In millions)

	Fiscal Year Ended September 30, 2014				Consolidated	
	Parent	Guarantors	Non-Guarantors	Elims		
CASH FLOWS PROVIDED BY (USED FOR)						
OPERATING ACTIVITIES	\$245	34	(64	) \$—	\$ 215
INVESTING ACTIVITIES						
Capital expenditures	(4) (37) (36) —	(77)
Net investing cash flows provided by discontinued operations	—	4	3	—	7	
CASH USED FOR INVESTING ACTIVITIES	(4) (33) (33) —	(70)
FINANCING ACTIVITIES						
Proceeds from debt issuances	225	—	—	—	225	
Repayment of notes and term loan	(439) —	—	—	(439)
Other financing cash flows	—	(2	) 14	—	12
Debt issuance costs	(10) —	—	—	(10)
Intercompany advances	(90	) —	90	—	—
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(314) (2) 104	—	(212)
EFFECT OF CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	(4) —	(4)
CHANGE IN CASH AND CASH EQUIVALENTS	(73) (1) 3	—	(71)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	144	6	168	—	318	
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$71	\$5	\$ 171	\$—	\$ 247	

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MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 (In millions)

	Fiscal Year Ended September 30, 2013				Consolidated
	Parent	Guarantors	Non-Guarantors	Elims	
CASH FLOWS PROVIDED BY (USED FOR)					
OPERATING ACTIVITIES	\$34	\$(63)	\$(67)	\$—	\$(96)
INVESTING ACTIVITIES					
Capital expenditures	(3)	(26)	(25)	—	(54)
Proceeds from sale of equity investment	—	87	95	—	182
Other investing activities	2	1	—	—	3
Net investing cash flows provided by discontinued operations	—	3	3	—	6
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(1)	65	73	—	137
FINANCING ACTIVITIES					
Proceeds from debt issuance	500	—	—	—	500
Repayment of notes and term loan	(475)	—	—	—	(475)
Debt issuance costs	(12)	—	—	—	(12)
Other financing cash flows	—	1	10	—	11
Intercompany advances	7	—	(7)	—	—
CASH PROVIDED BY FINANCING ACTIVITIES	20	1	3	—	24
EFFECT OF CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	(4)	—	(4)
CHANGE IN CASH AND CASH EQUIVALENTS	53	3	5	—	61
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	91	3	163	—	257
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$144	\$6	\$168	\$—	\$318

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 (In millions)

	Fiscal Year Ended September 30, 2012				Consolidated
	Parent	Guarantors	Non-Guarantors	Elims	
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (13)	\$ 31	\$ 59	\$—	\$ 77
INVESTING ACTIVITIES					
Capital expenditures	(3)	(33)	(53)	—	(89)
Proceeds from sale of property	—	—	18	—	18
Other investing activities	—	1	2	—	3
Net investing cash flows provided by discontinued operations	—	—	28	—	28
CASH USED FOR INVESTING ACTIVITIES	(3)	(32)	(5)	—	(40)
FINANCING ACTIVITIES					
Proceeds from debt issuance	100	—	—	—	100
Repayment of notes and term loan	(86)	—	—	—	(86)
Debt issuance costs	(12)	—	—	—	(12)
Intercompany advances	13	—	(13)	—	—
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	15	—	(13)	—	2
EFFECT OF FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	1	—	1
CHANGE IN CASH AND CASH EQUIVALENTS	(1)	(1)	42	—	40
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	92	4	121	—	217
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 91	\$ 3	\$ 163	\$—	\$ 257

Basis of Presentation

Certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the SEC. As of September 30, 2014 and 2013, parent company only obligations included \$684 million and \$805 million, respectively, of pension and retiree medical benefits (see Notes 19 and 20). All debt is debt of the parent company other than \$55 million and \$45 million at September 30, 2014, and 2013 respectively (see Note 15) and is primarily related to capital lease obligations and lines of credit. Cash dividends paid to the parent by subsidiaries and investments accounted for by the equity method were \$5 million, \$54 million, \$19 million for 2014, 2013, and 2012, respectively.

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

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

Management Report on Internal Control over Financial Reporting

Meritor’s management is responsible for establishing and maintaining adequate internal control over financial reporting for the company, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Meritor’s internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with accounting principles generally accepted in the United States of America.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Meritor’s management, with the participation of the chief executive officer and chief financial officer, evaluated the effectiveness of its internal control over financial reporting as of September 30, 2014. This evaluation was based on the criteria set forth in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on management’s evaluation and the criteria set forth by COSO, Meritor’s management concluded that the internal control over financial reporting maintained by the company, as of September 30, 2014, was effective.

Deloitte & Touche LLP, Meritor’s independent registered public accounting firm, has issued an attestation report on Meritor’s internal control over financial reporting, which follows.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Meritor, Inc. and subsidiaries (the "Company") as of September 28, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule listed in the Index at Item 15(a)(2) as of and for the year ended September 28, 2014 of the Company, and our report dated November 19, 2014 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP

Detroit, Michigan
November 19, 2014

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Changes in Internal Control Over Financial Reporting

Management, with the participation of the chief executive officer and chief financial officer, has evaluated any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2014 and found no change that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 regarding directors is incorporated by reference from the information under the caption Election of Directors – Information as to Nominees for Director and Continuing Directors in Meritor’s definitive Proxy Statement for its 2015 Annual Meeting (the “2015 Proxy Statement”), which will be filed within 120 days after Meritor’s fiscal year end. The information required by Item 10 regarding executive officers is set forth in Item 4A of Part I of this Form 10-K. The other information required by Item 10, including regarding the audit committee, audit committee financial expert disclosure and our code of ethics, is incorporated by reference from the information under the captions Code of Ethics, Board of Directors and Committees and Director Qualifications and Nominating Procedures in the 2015 Proxy Statement. Disclosure of delinquent Section 16 filers pursuant to Item 405 of Regulation S-K will not be contained in the 2015 Proxy Statement to the best of registrant’s knowledge.

Item 11. Executive Compensation.

See the information under the captions Director Compensation in Fiscal Year 2014 and Executive Compensation in the 2015 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Security Ownership of Certain Beneficial Owners and Management

See the information under the captions Voting Securities and Ownership by Management of Equity Securities in the 2015 Proxy Statement.

Securities Authorized for Issuance under Equity Compensation Plans

The number of stock options outstanding under our equity compensation plans, the weighted average exercise price of outstanding options, and the number of securities remaining available for issuance, as of September 30, 2014, were as follows:

Plan Category	(column a) Number of securities to be issued upon exercise of outstanding options, warrants and rights ¹	(column b) Weighted average exercise price of outstanding options, warrants and rights	(column c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a)
Equity compensation plans approved by security holders	650,000	\$10.32	4,804,709
Equity compensation plans not approved by security holders	—	—	—
Total	650,000	10.32	4,804,709

In addition to stock options, shares of Common Stock, restricted shares of Common Stock, restricted share units and performance share units, which do not have an exercise price, have been awarded under the Company's equity compensation plans and were outstanding at September 30, 2014. Weighted average exercise price reported in column (b) does not take these awards into account.

All of the equity compensation plans under which grants are outstanding as shown above were approved by Meritor shareowners.

The following number of shares remained available for issuance under our equity compensation plans at September 30, 2014. Grants may be in the form of any of the listed type of awards.

Plan	Number of shares	Type of award
2010 Long-Term Incentive Plan*	4,804,709	Stock options, stock appreciation rights, stock awards and other stock-based awards

The 2010 Long-Term Incentive Plan was approved by the Company's shareowners on January 28, 2010. At that time, the 2007 Long-Term Incentive Plan and the 2004 Directors Stock Plan were terminated. No further awards will be made under those plans, and no stock awards will be made under the Incentive Compensation Plan. On January 20, *2011 and January 23, 2014, the Company's shareowners approved amendments to the 2010 Long-Term Incentive Plan to increase the maximum number of shares that may be granted under the plan. Earlier equity compensation plans were terminated on January 26, 2007, in connection with the approval of the 2007 Long-Term Incentive Plan by the Company's shareowners.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

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See the information under the captions Board of Directors and Committees and Certain Relationships and Related Transactions in the 2015 Proxy Statement.

Item 14. Principal Accountant Fees and Services.

See the information under the caption Independent Accountants' Fees in the 2015 Proxy Statement.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Financial Statements, Financial Statement Schedules and Exhibits.

(1) Financial Statements (all financial statements listed below are those of the company and its consolidated subsidiaries):

Consolidated Statement of Operations, years ended September 30, 2014, 2013 and 2012.

Consolidated Statement of Comprehensive Income (Loss), years ended September 30, 2014, 2013, and 2012.

Consolidated Balance Sheet, September 30, 2014 and 2013.

Consolidated Statement of Cash Flows, years ended September 30, 2014, 2013 and 2012.

Consolidated Statement of Shareowners' Equity (Deficit), years ended September 30, 2014, 2013 and 2012.

Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm.

(2) Financial Statement Schedule for the years ended September 30, 2014, 2013 and 2012.

Schedule II - Valuation and Qualifying Accounts

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Schedules not filed with this Annual Report on Form 10-K are omitted because of the absence of conditions under which they are required or because the information called for is shown in the financial statements or related notes.

(3) Exhibits

- 3-a Restated Articles of Incorporation of Meritor, filed as Exhibit 4.01 to Meritor's Registration Statement on Form S-4, as amended (Registration Statement No. 333-36448) ("Form S-4"), is incorporated herein by reference.
- 3-a-1 Articles of Amendment of Restated Articles of Incorporation of the Company filed as Exhibit 3-a-1 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2011, is incorporated herein by reference.
- 3-b By-laws of Meritor, filed as Exhibit 3 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2003 (File No. 1-15983), is incorporated herein by reference.
- 4-a Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank), as trustee, filed as Exhibit 4 to Meritor's Registration Statement on Form S-3 (Registration No. 333- 49777), is incorporated herein by reference.
- 4a-1 First Supplemental Indenture, dated as of July 7, 2000, to the Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank), as trustee, filed as Exhibit 4-b-1 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 30, 2000, is incorporated herein by reference.
- 4-a-2 Third Supplemental Indenture, dated as of June 23, 2006, to the Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank), as trustee (including Subsidiary Guaranty dated as of June 23, 2006), filed as Exhibit 4.2 to Meritor's Current Report on Form 8-K, filed on June 27, 2006, is incorporated herein by reference.
- 4-a-3 Sixth Supplemental Indenture, dated as of May 31, 2013, to the Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank), as trustee, filed as Exhibit 4 to Meritor's current report on Form 8-K filed on May 31, 2013 is incorporated herein by reference.
- 4-a-4 Seventh Supplemental Indenture, dated as of February 13, 2014, to the Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank), as trustee, filed as Exhibit 4.1 to Meritor's current report on Form 8-K filed on February 13, 2014, is incorporated herein by reference.
- 4-b Indenture, dated as of March 7, 2006 between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company), as trustee, filed as Exhibit 4.1 to Meritor's current report on Form 8-K files on March 9, 2006 is incorporated herein by reference.
- 4-b-1 First Supplemental Indenture, dated as of June 23, 2006, to the Indenture, dated as of March 7, 2006, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company), as trustee (including Subsidiary Guaranty dated as of June 23, 2006), filed as Exhibit 4.1 to Meritor's current report on Form 8-K, filed on June 27, 2006 is incorporated herein by reference.

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4-c Indenture, dated as of February 8, 2007, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to The Bank of New York Trust Company, N.A.), as trustee (including the note and form of subsidiary guaranty), filed as Exhibit 4-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2007, is incorporated herein by reference.

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- 4-d Indenture, dated as of December 4, 2012, between Meritor and The Bank of New York Mellon Trust Company, N.A., as trustee (including form of the note and form of subsidiary guaranty), filed as Exhibit 4.1 to Meritor's Current Report on Form 8-K filed on December 4, 2012, is incorporated herein by reference.
- 10-a-1 Second Amendment and Restatement Agreement relating to Second Amended and Restated Credit Agreement, dated as of February 13, 2014, among Meritor, ArvinMeritor Finance Ireland ("AFI"), the financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, filed as Exhibit 10 to Meritor's Current Report on Form 8-K filed on February 18, 2014, is incorporated herein by reference
- 10-a-2 Second Amended and Restated Pledge and Security Agreement, dated as of February 13, 2014, by and among Meritor, the subsidiaries named therein and JPMorgan Chase Bank, N.A., as Administrative Agent, filed as Exhibit 10.2 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2014, is incorporated herein by reference
- 10-a-3 Amendment No. 1 to Second Amended and Restated Credit Agreement and Second Amended and Restated Pledge and Security Agreement, dated as of September 12, 2014, among Meritor, AFI, the financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent filed as Exhibit 10.1 to Meritor's Current Report on Form 8-K filed on September 15, 2014, is incorporated herein by reference.
- *10-b 1997 Long-Term Incentives Plan, as amended and restated, filed as Exhibit 10 to Meritor's Current Report on Form 8-K filed on April 20, 2005, is incorporated herein by reference.
- *10-b-1 Form of Option Agreement under the 1997 Long-Term Incentives Plan, filed as Exhibit 10(a) to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1998 (File No. 1-13093), is incorporated herein by reference.
- *10-c 2007 Long-Term Incentive Plan, as amended, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2007, is incorporated herein by reference.
- *10-c-1 Form of Restricted Stock Agreement under the 2007 Long-Term Incentive Plan, filed as Exhibit 10-c-1 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 30, 2007, is incorporated herein by reference.
- *10c-2 Option Agreement under the 2007 Long-Term Incentive Plan between Meritor and Charles G. McClure filed as Exhibit 10-c to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2008, is incorporated herein by reference.
- *10-d Description of Compensation of Non-Employee Directors filed as Exhibit 10-d to Meritor's Annual Report on Form 10-K for the fiscal year ended September 30, 2012 is incorporated herein by reference.
- *10-e 2004 Directors Stock Plan, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2004, is incorporated herein by reference.
- *10-e-1 Form of Restricted Share Unit Agreement under the 2004 Directors Stock Plan, filed as Exhibit 10-c-3 to Meritor's Annual Report on Form 10-K for the fiscal year ended October 3, 2004, is incorporated herein by reference.

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- *10-e-2 Form of Restricted Stock Agreement under the 2004 Directors Stock Plan, filed as Exhibit 10-c-4 to Meritor's Annual Report on Form 10-K for the fiscal year ended October 2, 2005, is incorporated herein by reference.
- *10-f** 2010 Long-Term Incentive Plan, as amended and restated as of January 23, 2014.
- *10-f-1 Form of Restricted Stock Unit Agreement for Employees under 2010 Long-Term Incentive Plan filed as Exhibit 10.2 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended January 3, 2010 is incorporated herein by reference.

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- *10-f-2 Form of Restricted Stock Unit Agreement for Directors under 2010 Long-Term Incentive Plan filed as Exhibit 10.3 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended January 3, 2009 is incorporated herein by reference.
- *10-f-3 Form of Restricted Stock Agreement for Directors under 2010 Long-term Incentive Plan filed as Exhibit 10.4 to Meritor's Report on Form 10-Q for the fiscal quarter ended January 3, 2010 is incorporated herein by reference.
- *10-f-4 Description of Performance Goals for fiscal years 2014-2016 established in connection with Performance Plans under the 2010 Long Term Incentive Plan, filed as Exhibit 10-b-3 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 29, 2013 (the "2013 Form 10-K"), is incorporated herein by reference.
- *10-f-5 Form of Performance Share Agreement under 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-e-8 to the 2013 Form 10-K, is incorporated herein by reference.
- *10-f-6 Form of Restricted Stock Unit Agreement for Employees for grants on or after December 1, 2013 under 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-e-9 to the 2013 Form 10-K, is incorporated herein by reference
- *10-f-7 Form of Restricted Stock Unit Agreement for Directors for grants on or after January 23, 2014 under 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-e-10 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2014, is incorporated herein by reference.
- *10-f-8 Form of Restricted Stock Agreement for Directors for grants on or after on or after January 23, 2014 under 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-e-11 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2014, is incorporated herein by reference.
- *10-g Incentive Compensation Plan, as amended and restated, filed as Exhibit 10.6 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2010, is incorporated herein by reference.
- *10-g-1 Description of Annual Incentive Goals established for fiscal year 2014 under the Incentive Compensation Plan, filed as Exhibit 10-b-4 to the 2013 Form 10-K, is incorporated herein by reference.
- *10-h Deferred Compensation Plan, filed as Exhibit 10-e-1 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 30, 1998 (File No. 1-13093), is incorporated herein by reference.
- *10-i Form of Deferred Share Agreement, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended January 2, 2005, is incorporated herein by reference.
- *10-j Copy of resolution of the Board of Directors of Meritor, adopted on July 6, 2000, providing for its Deferred Compensation Policy for Non-Employee Directors, filed as Exhibit 10-f to Meritor's Annual Report on Form 10-K for the fiscal year ended September 30, 2000, is incorporated herein by reference.
- 10-k Receivables Purchase Agreement dated as of October 29, 2010, by and among ArvinMeritor Mascot, LLC, Meritor Heavy Vehicle Braking Systems (USA), Inc., Meritor Heavy Vehicle Systems, LLC, as sellers, an affiliate of Nordea Bank AB known as Viking Asset Purchaser No 7 IC, an incorporated cell of Viking Global Finance ICC, an incorporated cell company incorporated under the laws of Jersey ("Viking

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Asset Purchaser No 7 IC”), as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-c to Meritor’s Current Report on Form 8-K filed on November 2, 2010, is incorporated herein by reference.

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Amendment No. 1 dated as of June 28, 2011 to Receivables Purchase Agreement dated as of October 29, 2010, by and among Meritor Heavy Vehicle Braking Systems (USA), Inc., Meritor Heavy Vehicle Systems, LLC and Meritor Aftermarket USA, LLC (formerly known as ArvinMeritor Mascot, LLC), as sellers, Viking Asset Purchaser No 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee filed as Exhibit 10-a to Meritor’s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2011, is incorporated herein by reference.

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- 10-k-2 Amendment No. 2 dated as of September 28, 2011 to Receivables Purchase Agreement dated as of October 29, 2010, as amended, by and among Meritor Heavy Vehicle Braking Systems (USA), Inc., Meritor Heavy Vehicle Systems, LLC and Meritor Aftermarket USA, LLC, as sellers, Viking Asset Purchaser No 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2014, is incorporated herein by reference.
- 10-k-3 Amendment No. 3 dated as of September 28, 2012 to Receivables Purchase Agreement dated as of October 29, 2010, as amended, by and among Meritor Heavy Vehicle Braking Systems (USA), Inc., Meritor Heavy Vehicle Systems, LLC and Meritor Aftermarket USA, LLC, as sellers, Viking Asset Purchaser No 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-m-9 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 30, 2012, is incorporated herein by reference
- 10-k-4 Amendment No. 4 dated as of October 29, 2013 to Receivables Purchase Agreement dated as of October 29, 2010, as amended, by and among Meritor Heavy Vehicle Braking Systems (USA), Inc., Meritor Heavy Vehicle Systems, LLC and Meritor Aftermarket USA, LLC, as sellers, Viking Asset Purchaser No 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-m-18 to the 2013 Form 10-K, is incorporated herein by reference.
- 10-k-5 Amendment No. 5 dated as of June 27, 2014 to Receivables Purchase Agreement dated as of October 29, 2010, as amended, by and among Meritor Heavy Vehicle Braking Systems (USA), Inc., Meritor Heavy Vehicle Systems, LLC and Meritor Aftermarket USA, LLC, as sellers, Viking Asset Purchaser No 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-b-1 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2014, is incorporated herein by reference.
- 10-l-1 Receivables Purchase Agreement dated as of June 28, 2011, by and among Meritor HVS AB, as seller, Viking Asset Purchaser No 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2011, is incorporated herein by reference.
- 10-l-1 Extension Letter dated June 10, 2013 from Meritor HVS AB to Viking Asset Purchaser No. 7 IC and Citicorp Trustee Company Limited, filed as Exhibit 10-d to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013, is incorporated herein by reference.
- 10-l-2 Amendment No. 1 to Receivables Purchase Agreement dated as of June 28, 2011 among Meritor HVS AB, as seller, Viking Asset Purchaser No 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-c to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 29, 2013, is incorporated herein by reference.
- 10-l-3 Extension Letter dated June 27, 2014 from Meritor HVS AB to Viking Asset Purchaser No. 7 IC and Citicorp Trustee Company Limited, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2014, is incorporated herein by reference.
- 10-m Receivable Purchase Agreement dated February 2, 2012 between Meritor Heavy Vehicle Braking Systems (UK) Limited, as seller, and Viking Asset Purchaser No. 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2012, is incorporated herein by reference.

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10-m-1 Extension dated January 24, 2013 of Receivable Purchase Agreement dated February 2, 2012 between Meritor Heavy Vehicle Braking Systems (UK) Limited, as seller, and Viking Asset Purchaser No. 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-d to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 2012, is incorporated herein by reference.

10-n Receivables Purchase Agreement dated June 18, 2012 between Meritor Heavy Vehicle Systems Cameri S.P.A., as seller, and Nordea Bank AB (pbl), as purchaser, filed as Exhibit 10-d to the Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2012, is incorporated herein by reference.

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10-o Receivables Purchase Agreement dated June 18, 2012 among ArvinMeritor Receivables Corporation, as seller, Meritor, Inc., as initial servicer, the various Conduit Purchasers, Related Committed Purchasers, LC Participants and Purchaser Agents from time to time party thereto, and PNC Bank, National Association, as issuers of Letters of Credit and as Administrator filed as Exhibit 10-b to the Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2012, is incorporated herein by reference.

10-o-1 First Amendment to Receivables Purchase Agreement dated as of December 14, 2012 among ArvinMeritor Receivables Corporation, as seller, Meritor, Inc., as initial servicer, PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, and Market Street Funding, LLC, as a Conduit Purchaser, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 2012, is incorporated herein by reference.

10-o-2 Second Amendment to Receivables Purchase Agreement dated June 21, 2013 among ArvinMeritor Receivables Corporation, as seller, Meritor, Inc., as initial servicer, PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, and Market Street Funding LLC, as a Conduit Purchaser, filed as Exhibit 10 to Meritor's Current Report on Form 8-K filed on June 21, 2013, is incorporated herein by reference.

10-o-3 Third Amendment to Receivables Purchase Agreement dated as of October 11, 2013 among ArvinMeritor Receivables Corporation, as seller, Meritor, Inc., as servicer, PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank, as Administrator and as Assignee, and Market Street Funding LLC, as Conduit Purchaser and as Assignor, filed as Exhibit 10-m-16 to the 2013 Form 10-K, is incorporated herein by reference.

10-o-4 Fourth Amendment to the Receivables Purchase Agreement dated as of October 15, 2014, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10 to Meritor's Current Report on Form 8-K filed on October 20, 2014, is incorporated herein by reference.

10-p Fourth Amended and Restated Purchase and Sale Agreement dated June 18, 2012 among Meritor Heavy Vehicle Braking Systems (USA), LLC, and Meritor Heavy Vehicle Systems, LLC, as originators, Meritor, Inc., as initial servicer, and ArvinMeritor Receivables Corporation, as buyer, filed as Exhibit 10-a to the Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2012, is incorporated herein by reference.

10-p-1 Letter Agreement relating to Fourth Amended and Restated Receivables Purchase Agreement dated as of December 14, 2012 among Meritor Heavy Vehicle Braking Systems (USA), LLC, Meritor Heavy Vehicle Systems, LLC, ArvinMeritor Receivables Corporation, Meritor, Inc. and PNC Bank, National Association, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 2012, is incorporated herein by reference.

10-q Amendment, dated July 25, 2007, to Receivables Purchase Agreement dated March 13, 2006 between Meritor HVS AB, as seller, and Nordic Finance Limited, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-v to Meritor's Annual Report on Form 10-K for the fiscal year ended September 30, 2008, is incorporated herein by reference.

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10-r Purchase and Sale Agreement dated as of August 3, 2010 among Meritor France (as Seller), Meritor, Inc. (as Seller Guarantor) and 81 Acquisition LLC (as Buyer), filed as Exhibit 10 to Meritor's Current Report on Form 8-K filed on August 5, 2010, is incorporated herein by reference.

10-r-1 First Amendment dated as of December 6, 2010 to Purchase and Sale Agreement dated as of August 3, 2010 among Meritor France (as Seller), Meritor, Inc. (as Seller Guarantor) and 81 Acquisition LLC (as Buyer), filed as Exhibit 10 to Meritor's Current Report on Form 8-K filed December 8, 2010, is incorporated herein by reference.

10-r-2 Second Amendment dated as of January 3, 2011 to Purchase and Sale Agreement dated as of August 3, 2010 among Meritor France (as Seller), Meritor, Inc. (as Seller Guarantor) and Inteva Products Holding Coöperatieve U.A., as assignee of 81 Acquisition LLC (as Buyer), as amended, filed as Exhibit 10 to Meritor's Current Report on Form 8-K filed on January 3, 2011, is incorporated herein by reference.

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- 10-s Purchase and Sale Agreement dated August 4, 2009 among Meritor, Iochpe-Maxion, S.A. and the other parties listed therein, filed as Exhibit 10 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 2009, is incorporated herein by reference.
- *10-t Employment Agreement between Meritor, Inc. and Jeffrey Craig dated May 1, 2013, filed as Exhibit 10-c to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013, is incorporated herein by reference.
- *10-u Employment Agreement between Meritor, Inc. and Kevin Nowlan dated May 1, 2013, filed as Exhibit 10-f to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013, is incorporated herein by reference.
- *10-v Letter Agreement dated as of June 5, 2013 between Meritor, Inc. and Ivor J. Evans filed as Exhibit 10-a to Meritor's Current Report on Form 8-K filed on June 5, 2013, is incorporated herein by reference.
- *10-w Letter Agreement dated as of September 11, 2013 between Meritor, Inc. and Ivor J. Evans filed as Exhibit 10-a to Meritor's Current Report on Form 8-K filed on September 11, 2013, is incorporated herein by reference.
- *10-x Option Grant agreement dated as of September 11, 2013 between Meritor, Inc. and Ivor J. Evans, filed as Exhibit 10-z to the 2013 Form 10-K, is incorporated herein by reference.
- *10-y Form of Performance Share Agreement for grant from Meritor, Inc. to Jeffrey Craig on December 1, 2013, filed as Exhibit 10-zz to the 2013 Form 10-K, is incorporated herein by reference.
- *10-z Employment Agreement between Meritor, Inc. and Vernon G. Baker, II dated May 1, 2013, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013, is incorporated herein by reference.
- *10-z-1 Letter Agreement dated January 27, 2014 between Meritor, Inc. and Vernon G. Baker, II, filed as Exhibit 10.1 to Meritor's Current Report on Form 8-K filed on January 27, 2014, is incorporated herein by reference.
- *10-z-2 Support Services Agreement dated January 27, 2014 between Meritor, Inc. and Vernon G. Baker, II, filed as Exhibit 10.2 to Meritor's Current Report on Form 8-K filed on January 27, 2014, is incorporated herein by reference.
- *10-aa** Letter Agreement dated as of February 1, 2014 between Meritor, Inc. and Sandra J. Quick.
- 12** Computation of ratio of earnings to fixed charges.
- 21** List of Subsidiaries of Meritor, Inc.
- 23-a** Consent of Sandra J. Quick, Esq., Senior Vice President, General Counsel and Secretary.
- 23-b** Consent of Deloitte & Touche LLP, independent registered public accounting firm.
- 23-c** Consent of Bates White LLC.

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- 24** Power of Attorney authorizing certain persons to sign this Annual Report on Form 10-K on behalf of certain directors and officers of Meritor.
- 31-a** Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act.
- 31-b** Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act.

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- 32-a** Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350.
- 32-b** Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350.
- 101.INS XBRL INSTANCE DOCUMENT
- 101.SCH XBRL TAXONOMY EXTENSION SCHEMA
- 101.PRE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE
- 101.LAB XBRL TAXONOMY EXTENSION LABEL LINKBASE
- 101.CAL XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
- 101.DEF XBRL TAXONOMY EXTENSION DEFINITION LINKBASE

*Management contract or compensatory plan or arrangement.

** Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERITOR, INC.

By: /s/ Sandra J. Quick
Sandra J. Quick
Senior Vice President, General Counsel and Secretary

Date: November 19, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 19th day of November, 2014 by the following persons on behalf of the registrant and in the capacities indicated.

Ivor J. Evans * Chairman of the Board, Chief Executive Officer and Director
(Principal Executive Officer)

Joseph B. Anderson, Jr., Victoria B. Jackson Bridges, Directors
Rhonda L. Brooks, David W. Devonshire,
William J. Lyons, James E. Marley,
William R. Newlin, Thomas L. Pajonas,*

Kevin A. Nowlan* Senior Vice President and Chief Financial Officer (Principal
Financial Officer and Principal Accounting Officer)

* By: /s/ Sandra J. Quick
Sandra J. Quick
Attorney-in-fact **

** By authority of powers of attorney filed herewith.

SCHEDULE II
 MERITOR, INC.
 VALUATION AND QUALIFYING ACCOUNTS
 For the Year Ended September 30, 2014, 2013, 2012

Description (In millions)	Balance at Beginning of Year	Charged to costs and expenses	Other Deductions		Balance at End of year
Year ended September 30, 2014:					
Allowance for doubtful accounts	\$9	\$(2)	\$(1)	(a)	\$6
Deferred tax asset valuation allowance	1,166	(89)	(47)	(b)	1,030
Year ended September 30, 2013:					
Allowance for doubtful accounts	\$7	\$3	\$(1)	(a)	\$9
Deferred tax asset valuation allowance	1,204	44	(82)	(b)	1,166
Year ended September 30, 2012:					
Allowance for doubtful accounts	\$5	\$2	\$—	(a)	\$7
Deferred tax asset valuation allowance	1,255	(68)	17	(b)	1,204

(a)Uncollectible accounts written off.

(b)Primarily relates to revaluation of defined pension and retiree medical obligations.