MERITOR INC
Form 10-Q
January 30, 2014
Index

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

FORM 10-Q

QUARTERLY REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended December 29, 2013
Commission File No. 1-15983

MERITOR, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Yes X No

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

Yes X No

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

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

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

Yes No X

97,757,436 shares of Common Stock, $1.00 par value, of Meritor, Inc. were outstanding on December 29, 2013.

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MERITOR, INC.

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements
CONSOLIDATED STATEMENT OF OPERATIONS
(in millions, except per share amounts)

	Three Months Ended December 31,	
	2013	2012
	(Unaudited)	
Sales	$907	$891
Cost of sales	(804)	(808)
GROSS MARGIN	103	83
Selling, general and administrative	(59)	(62)
Restructuring costs	(1)	(6)
Other operating expense	(1)	(1)
OPERATING INCOME	42	14
Equity in earnings of affiliates	8	9
Interest expense, net	(27)	(29)
INCOME (LOSS) BEFORE INCOME TAXES	23	(6)
Provision for income taxes	(10)	(10)
INCOME (LOSS) FROM CONTINUING OPERATIONS	13	(16)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	(5)
NET INCOME (LOSS)	13	(21)
Less: Net income attributable to noncontrolling interests	(2)	—
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	$11	$(21)
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.		
Net income (loss) from continuing operations	$11	$(16)
Loss from discontinued operations	—	(5)
Net income (loss)	$11	$(21)
BASIC EARNINGS (LOSS) PER SHARE		
Continuing operations	$0.11	$(0.17)
Discontinued operations	—	(0.05)
Basic earnings (loss) per share	$0.11	$(0.22)
DILUTED EARNINGS (LOSS) PER SHARE		
Continuing operations	$0.11	$(0.17)
Discontinued operations	—	(0.05)
Diluted earnings (loss) per share	$0.11	$(0.22)
Basic average common shares outstanding	97.3	96.7
Diluted average common shares outstanding	98.7	96.7

See notes to consolidated financial statements.

MERITOR, INC.

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

	Three Months Ended December 31,	
	2013	2012
	(Unaudited)	
Net income (loss)	$13	$(21)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(10)	(4)
Pension and other postretirement benefit related adjustments	10	—
Unrealized losses on investments:		
Unrealized loss on investments and foreign exchange contracts	—	(1)
Other comprehensive loss, net of tax	—	(5)
Total comprehensive income (loss)	13	(26)
Less: Comprehensive income attributable to noncontrolling interest	(2)	(1)
Comprehensive income (loss) attributable to Meritor, Inc.	$11	$(27)

See notes to consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

	December 31, 2013 (Unaudited)	September 30, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$300	$318
Receivables, trade and other, net	534	596
Inventories	432	414
Other current assets	57	56
TOTAL CURRENT ASSETS	1,323	1,384
NET PROPERTY	410	417
GOODWILL	436	434
OTHER ASSETS	328	335
TOTAL ASSETS	$2,497	$2,570
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Short-term debt	$12	$13
Accounts and notes payable	651	694
Other current liabilities	323	339
TOTAL CURRENT LIABILITIES	986	1,046
LONG-TERM DEBT	1,126	1,125
RETIREMENT BENEFITS	875	886
OTHER LIABILITIES	318	335
TOTAL LIABILITIES	3,305	3,392
COMMITMENTS AND CONTINGENCIES (NOTE 18)		
EQUITY (DEFICIT):		
Common stock (December 31, 2013 and September 30, 2013, 97.8 and 97.4 shares issued and outstanding, respectively)	97	97
Additional paid-in capital	915	914
Accumulated deficit	(1,116)	(1,127)
Accumulated other comprehensive loss	(734)	(734)
Total deficit attributable to Meritor, Inc.	(838)	(850)
Noncontrolling interests	30	28
TOTAL DEFICIT	(808)	(822)
TOTAL LIABILITIES AND DEFICIT	$2,497	$2,570

See notes to consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)

	Three Months Ended December 31,	
	2013	2012
	(Unaudited)	
OPERATING ACTIVITIES		
CASH USED FOR OPERATING ACTIVITIES (See Note 8)	$(4)	$(91)
INVESTING ACTIVITIES		
Capital expenditures	(12)	(15)
CASH USED FOR INVESTING ACTIVITIES	(12)	(15)
FINANCING ACTIVITIES		
Repayment of notes and term loan	(4)	(233)
Proceeds from debt issuance	—	225
Debt issuance costs	—	(5)
Other financing activities	3	1
CASH USED FOR FINANCING ACTIVITIES	(1)	(12)
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(1)	—
CHANGE IN CASH AND CASH EQUIVALENTS	(18)	(118)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	318	257
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$300	$139

See notes to consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)
(In millions)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Deficit Attributable to Meritor, Inc.	Noncontrolling Interests	Total
Beginning balance at September 30, 2013	$97	$914	$ (1,127)	$ (734)	$(850)	$ 28	$(822)
Comprehensive income	—	—	11	—	11	2	13
Equity based compensation expense	—	1	—	—	1	—	1
Ending Balance at December 31, 2013	$97	$915	$ (1,116)	$ (734)	$(838)	$ 30	$(808)
Beginning balance at September 30, 2012	$96	$901	$ (1,105)	$ (915)	$(1,023)	$ 41	$(982)
Comprehensive income (loss)	—	—	(21)	(6)	(27)	1	(26)
Vesting of restricted stock	1	(1)	—	—	—	—	—
Repurchase of convertible notes	—	(2)	—	—	(2)	—	(2)
Issuance of convertible notes	—	9	—	—	9	—	9
Equity based compensation expense	—	2	—	—	2	—	2
Noncontrolling interest dividends	—	—	—	—	—	(12)	(12)
Ending Balance at December 31, 2012	$97	$909	$ (1,126)	$ (921)	$(1,041)	$ 30	$(1,011)

See notes to consolidated financial statements.

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

1. Basis of Presentation

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

Certain businesses are reported in discontinued operations in the consolidated statement of operations, statement of cash flows and related notes for all periods presented.

In the opinion of the company, the unaudited financial statements contain all adjustments, consisting solely of adjustments of a normal, recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These statements should be read in conjunction with the company’s audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K, for the fiscal year ended September 30, 2013. The results of operations for the three months ended December 31, 2013, are not necessarily indicative of the results for the full year.

The company’s fiscal year ends on the Sunday nearest September 30. The first quarter of fiscal years 2014 and 2013 ended on December 29, 2013 and December 30, 2012, respectively. All year and quarter references relate to the company’s fiscal year and fiscal quarters, unless otherwise stated. For ease of presentation, September 30 and December 31 are used consistently throughout this report to represent the fiscal year end and first quarter end, respectively.

The company has evaluated subsequent events through the date that the consolidated financial statements were issued.

2. Earnings per Share

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

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

	Three Months Ended December 31,	
	2013	2012
Basic average common shares outstanding	97.3	96.7
Impact of stock options	—	—
Impact of restricted and performance shares	1.4	—
Diluted average common shares outstanding	98.7	96.7

For the three months ended December 31, 2013 and 2012, options to purchase 0.8 million and 0.6 million shares of common stock, respectively, were excluded from the computation of diluted earnings per share because their exercise price exceeded the average market price for the period and thus their inclusion would be anti-dilutive. The company’s convertible senior unsecured notes are excluded from the computation of diluted earnings per share, as the company's average stock price during each period is less than the conversion price.

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

The actual number of performance units that will vest will depend upon the company's performance relative to the established M2016 goals for the three-year performance period of October 1, 2013 to September 30, 2016, measured at the end of the performance period. The number of shares that vest will be between 0% and 200% of the estimated grant date amount of 1.5 million shares. Compensation cost recognized for the three months ended December 31, 2013 related to the performance shares was not material. As of December 31, 2013 the dilutive impact of previously issued restricted shares and the performance shares was 1.4 million shares.

3. New Accounting Standards

Accounting standards implemented during fiscal year 2014

In January 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU 2013-01 clarifies which instruments and transactions are subject to the offsetting disclosure requirements established by ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The company has adopted this guidance effective first quarter of fiscal year 2014 within Note 16.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires that reclassification adjustments for items that are reclassified from accumulated other comprehensive income to net income be presented on the financial statements or in a note to the financial statements. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The company has adopted this guidance effective first quarter of fiscal year 2014 within Note 19.

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

4. Goodwill

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

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

	Commercial Truck & Industrial	Aftermarket & Trailer	Total

Beginning balance at September 30, 2013	$262	$172	$434
Foreign currency translation	1	1	2
Balance at December 31, 2013	$263	$173	$436

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5. Restructuring Costs

At both December 31, 2013 and September 30, 2013, $10 million and $12 million, respectively, of restructuring reserves primarily related to unpaid employee termination benefits remained in the consolidated balance sheet. The changes in restructuring reserves for the three months ended December 31, 2013 and 2012 are as follows (in millions):

	Employee Termination Benefits	Asset Impairment	Plant Shutdown & Other	Total
Beginning balance at September 30, 2013	$12	$—	$—	$12
Activity during the period:				
Charges to continuing operations	1	—	—	1
Cash payments – continuing operations	(3)	—	—	(3)
Total restructuring reserves at December 31, 2013	10	—	—	10
Less: non-current restructuring reserves	(3)	—	—	(3)
Restructuring reserves – current, at December 31, 2013	$7	$—	$—	$7
Balance at September 30, 2012	$15	$—	$—	$15
Activity during the period:				
Charges to continuing operations	6	—	—	6
Cash payments – continuing operations	(5)	—	—	(5)
Total restructuring reserves at December 31, 2012	16	—	—	16
Less: non-current restructuring reserves	(4)	—	—	(4)
Restructuring reserves – current, at December 31, 2012	$12	$—	$—	$12

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

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

Segment Reorganization and Asia Pacific Realignment: On November 12, 2012, the company announced a revised management reporting structure resulting in two business segments to drive efficiencies. On January 8, 2013, the company announced restructuring actions related to this business segment rationalization. On March 26, 2013, the company announced plans to consolidate its operations in China by transferring manufacturing operations to the company's off-highway facility and closing its facility in Wuxi, China.

During fiscal year 2013, the company recorded employee severance charges and other exit costs associated with the elimination of approximately 200 salaried positions (including contract employees) and 50 hourly positions of $8 million and $3 million in the Commercial Truck & Industrial and Aftermarket & Trailer segments, respectively, as well as $3 million at a corporate location. The company also recognized $2 million within the Commercial Truck & Industrial segment related to a lease termination. Restructuring actions associated with this program were substantially complete as of September 30, 2013.

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

6. Income Taxes

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

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

For the first three months of fiscal years 2014 and 2013, the company had approximately $8 million and $31 million, respectively, of net pre-tax losses in tax jurisdictions in which a tax benefit is not recorded. Losses arising from these jurisdictions resulted in increasing the valuation allowance, rather than reducing income tax expense.

7. Accounts Receivable Factoring & Securitization

Off-balance sheet arrangements

Swedish Factoring Facility: The company has an arrangement to sell trade receivables due from AB Volvo through one of its European subsidiaries. Under this arrangement, which was renewed on June 10, 2013 and which now terminates on June 28, 2014, the company can sell up to, at any point in time, €150 million ($205 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €165 million ($226 million) and €148 million ($199 million) of this accounts receivable factoring facility as of December 31, 2013 and September 30, 2013, respectively. In the first quarter of fiscal year 2014, the company utilized more than the committed eligible trade receivable amount of $205 million. The arrangement allows the purchaser to exceed the committed amount at its own discretion, but is not obligated to do so.

U.S. Factoring Facility: The company has an arrangement to sell trade receivables from AB Volvo and its subsidiaries. Under this arrangement, which was renewed on October 29, 2013, and which now terminates on October 29, 2014, the company can sell up to, at any point in time, €65 million ($89 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €52 million ($71 million) and €48 million ($65 million) of this accounts receivable factoring facility as of December 31, 2013 and September 30, 2013, respectively.

The above facilities are backed by 364-day liquidity commitments from Nordea Bank which were renewed through October 2014. The commitments are subject to standard terms and conditions for these types of arrangements.

United Kingdom Factoring Facility: The company has an arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of its United Kingdom subsidiaries. Under this arrangement, which was renewed on January 24, 2013 and now expires in February 2018, the company can sell up to, at any point in time, €25 million ($34 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €9 million ($12 million) and €7 million ($9 million) of this accounts receivable factoring facility as of December 31, 2013 and September 30, 2013, respectively. The commitment is subject to standard terms and conditions for these types of arrangements including a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the program.

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Italy Factoring Facility: The company has an arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of its Italian subsidiaries. Under this arrangement, which expires in June 2017, the company can sell up to, at any point in time, €30 million ($41 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €13 million ($18 million) and €10 million ($14 million) of this accounts receivable factoring facility as of December 31, 2013 and September 30, 2013, respectively. The commitment is subject to standard terms and conditions for these types of arrangements including a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the program.

In addition, several of the company’s subsidiaries, primarily in Europe, factor eligible accounts receivable with financial institutions. Certain receivables are factored without recourse to the company and are excluded from accounts receivable in the consolidated balance sheet. The amount of factored receivables excluded from accounts receivable was $19 million and $18 million at December 31, 2013 and September 30, 2013, respectively.

Brazil Factoring Facility: The company entered into an arrangement to sell trade receivables from MAN and its subsidiaries. Under this arrangement, which began in October 2013 and expires in March 2014, the company can sell up to, at any point in time, R$100 million ($43 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized R$86 million ($37 million) of this accounts receivable factoring facility as of December 31, 2013. The commitment is subject to standard terms and conditions for these types of arrangements including a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the program.

Total costs associated with all of the off-balance sheet arrangements described above were $3 million and $1 million in the three months ended December 31, 2013 and 2012, respectively, and are included in selling, general and administrative expenses in the consolidated statement of operations.

On-balance sheet arrangements

The company has a $100 million U.S. accounts receivables securitization facility. On June 21, 2013, the company entered into a one-year extension of the facility expiration date, which after the amendment, expires on June 18, 2016. On October 11, 2013, the company entered into an amendment whereby Market Street Funding, LLC assigned its purchase commitment to PNC Bank National Association (PNC). This program is provided by PNC, as Administrator and Purchaser, and the other Purchasers and Purchaser Agents from time to time (participating lenders), which are party to the agreement. Under this program, the company has the ability to sell an undivided percentage ownership interest in substantially all of its trade receivables (excluding the receivables due from AB Volvo and subsidiaries eligible for sale under the U.S. Factoring Facility) of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation (ARC), a wholly-owned, special purpose subsidiary. ARC funds these purchases with borrowings from participating lenders under a loan agreement. This program also includes a letter of credit facility pursuant to which ARC may request the issuance of letters of credit issued for the company's U.S. subsidiaries (originators) or their designees, which when issued will constitute a utilization of the facility for the amount of letters of credit issued. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the consolidated balance sheet. At December 31, 2013, no amounts, including letters of credit, were outstanding under this program. This program contains a financial covenant related to the company's priority-debt-to-EBITDA ratio, which is the same as the corresponding covenant in the company's revolving credit facility as it exists on the date of the agreement and a cross default to the revolving credit facility. At December 31, 2013, the company was in compliance with all covenants under its credit agreement (see Note 15).

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(Unaudited)

8. Operating Cash Flow

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

	Three Months Ended December 31,	
	2013	2012
OPERATING ACTIVITIES		
Net income (loss)	$13	$(21)
Less: Loss from discontinued operations, net of tax	—	(5)
Income (loss) from continuing operations	13	(16)
Adjustments to income (loss) from continuing operations to arrive at cash used for operating activities:		
Depreciation and amortization	16	16
Restructuring costs	1	6
Loss on debt extinguishment	—	5
Equity in earnings of affiliates	(8)	(9)
Pension and retiree medical expense	10	10
Other adjustments to income (loss) from continuing operations	4	4
Dividends received from affiliates	5	3
Pension and retiree medical contributions	(9)	(15)
Restructuring payments	(3)	(5)
Changes in off-balance sheet accounts receivable factoring	81	33
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations	(111)	(113)
Operating cash flows used for continuing operations	(1)	(81)
Operating cash flows used for discontinued operations	(3)	(10)
CASH USED FOR OPERATING ACTIVITIES	$(4)	$(91)

9. Inventories

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

	December 31, 2013	September 30, 2013
Finished goods	$187	$184
Work in process	39	32
Raw materials, parts and supplies	206	198
Inventories	$432	$414

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(Unaudited)

10. Other Current Assets

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

	December 31, 2013	September 30, 2013
Current deferred income tax assets	$22	$23
Asbestos-related recoveries (see Note 18)	12	12
Deposits and collateral	3	4
Prepaid and other	20	17
Other current assets	$57	$56

11. Net Property

Net property is summarized as follows (in millions):

	December 31, 2013	September 30, 2013
Property at cost:		
Land and land improvements	$34	$35
Buildings	239	239
Machinery and equipment	917	915
Company-owned tooling	154	152
Construction in progress	48	48
Total	1,392	1,389
Less: Accumulated depreciation	(982)	(972)
Net property	$410	$417

12. Other Assets

Other assets are summarized as follows (in millions):

	December 31, 2013	September 30, 2013
Investments in non-consolidated joint ventures	$105	$102
Asbestos-related recoveries (see Note 18)	59	59
Non-current deferred income tax assets, net	6	13
Unamortized debt issuance costs	30	32
Capitalized software costs, net	27	28
Prepaid pension costs	56	55
Other	45	46
Other assets	$328	$335

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

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The company holds a variable interest in a joint venture accounted for under the equity method of accounting. The joint venture manufactures components for commercial vehicle applications primarily on behalf of the company. The variable interest relates to a supply arrangement between the company and the joint venture whereby the company supplies certain components to the joint venture on a cost-plus basis. The company is not the primary beneficiary of the joint venture, as the joint venture partner has shared or absolute control over key manufacturing operations, labor relationships, financing activities and certain other functions of the joint venture. Therefore, the company does not consolidate the joint venture. At December 31, 2013, the company's investment in the joint venture was $36 million representing the company's maximum exposure to loss. This amount is included in investments in non-consolidated joint ventures in the table above.

13. Other Current Liabilities

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

	December 31, 2013	September 30, 2013
Compensation and benefits	$123	$141
Income taxes	10	8
Taxes other than income taxes	46	47
Accrued interest	17	16
Product warranties	24	20
Restructuring (see Note 5)	7	9
Asbestos-related liabilities (see Note 18)	18	18
Indemnity obligations (see Note 18)	12	12
Other	66	68
Other current liabilities	$323	$339

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

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

	Three Months Ended December 31,	
	2013	2012
Total product warranties – beginning of period	$57	$44
Accruals for product warranties	4	5
Payments	(4)	(3)
Change in estimates and other	1	(2)
Total product warranties – end of period	58	44
Less: Non-current product warranties	(34)	(28)
Product warranties – current	$24	$16

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14. Other Liabilities

Other liabilities are summarized as follows (in millions):

	December 31, 2013	September 30, 2013
Asbestos-related liabilities (see Note 18)	$96	$96
Restructuring (see Note 5)	3	3
Non-current deferred income tax liabilities	101	100
Liabilities for uncertain tax positions	13	17
Product warranties (see Note 13)	34	37
Environmental	9	11
Indemnity obligations	21	26
Other	41	45
Other liabilities	$318	$335

15. Long-Term Debt

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

	December 31, 2013	September 30, 2013
8.125 percent notes due 2015	$84	$84
10.625 percent notes due 2018 (net of issuance discount of $3) [1]	247	247
4.625 percent convertible notes due 2026 [2]	55	55
4.0 percent convertible notes due 2027 [2]	200	200
7.875 percent convertible notes due 2026 (net of issuance discount of $23) [2]	227	227
6.75 percent notes due 2021 [1]	275	275
Term loan	41	45
Capital lease obligation	27	28
Lines of credit and other borrowings	21	18
Unamortized gain on interest rate swap termination	2	2
Unamortized discount on convertible notes	(41)	(43)
Subtotal	1,138	1,138
Less: current maturities	(12)	(13)
Long-term debt	$1,126	$1,125

(1) The 6.75 percent and 10.625 percent notes contain a call option, which allows for early redemption.

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

Revolving Credit Facility

On April 23, 2012, the company amended and restated its revolving credit facility. Pursuant to the revolving credit agreement as amended, the company has a $429 million revolving credit facility, $14 million of which matured in January 2014 for a bank not electing to extend its commitments under the revolving credit facility existing at March 31, 2012 and the remaining $415 million of which matures in April 2017. The availability under this facility is dependent upon various factors, including principally performance against certain financial covenants as highlighted below.

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The availability under the revolving credit facility is subject to certain financial covenants based on (i) the ratio of the company's priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. The company is required to maintain a total priority-debt-to-EBITDA ratio, as defined in the agreement, of (i) 2.50 to 1.00 as of the last day of the fiscal quarter commencing with the fiscal quarter ending on or about March 31, 2012 through and including the fiscal quarter ending on or about September 30, 2012, (ii) 2.25 to 1.00 as of the last day of each fiscal quarter commencing with the fiscal quarter ending on or about December 31, 2012 through and including the fiscal quarter ending on or about September 30, 2013, and (iii) 2.00 to 1.00 as of the last day of each fiscal quarter thereafter. At December 31, 2013, the company was in compliance with all covenants under the revolving credit agreement with a ratio of approximately 0.52x for the priority debt-to-EBITDA covenant.

Availability under the revolving credit facility is also subject to a collateral test, pursuant to which borrowings on the revolving credit facility cannot exceed 1.0x the collateral test value. The collateral test is performed on a quarterly basis. At December 31, 2013, the revolving credit facility was collateralized by approximately $573 million of the company's assets, primarily consisting of eligible domestic U.S. accounts receivable, inventory, plant, property and equipment, intellectual property and the company's investment in all or a portion of certain of its wholly-owned subsidiaries.

Borrowings under the revolving credit facility are subject to interest based on quoted LIBOR rates plus a margin and a commitment fee on undrawn amounts, both of which are based upon the company's current corporate credit rating for senior secured facilities. At December 31, 2013, the margin over LIBOR rate was 425 basis points and the commitment fee was 50 basis points. Overnight revolving credit loans are at the prime rate plus a margin of 325 basis points.

Certain of the company's subsidiaries, as defined in the revolving credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the notes outstanding under the company's indentures (see Note 21).

No borrowings were outstanding under the revolving credit facility at December 31, 2013 and September 30, 2013. The amended and extended revolving credit facility includes $100 million of availability for the issuance of letters of credit. At December 31, 2013 and September 30, 2013, there were no letters of credit outstanding under the revolving credit facility.

Term Loan

As part of the amendment and restatement of the revolving credit facility, on April 23, 2012 the company entered into a $100 million term loan agreement with a maturity date of April 23, 2017. On December 27, 2013, the company made a payment of $4 million on the principal of the term loan. The remaining term loan balance will amortize over the next three years in annual payments of $3 million, $5 million and $5 million, respectively, with a $28 million principal payment due in fiscal year 2017. Principal payments will be made on a quarterly basis for the duration of the term loan. As of December 31, 2013, the margin over LIBOR rate was 425 basis points. The company may prepay the term loan at any time without penalty or premium. At December 31, 2013, the outstanding balance on the term loan was $41 million.

Debt Securities

In February 2012, the company filed a shelf registration statement with the Securities and Exchange Commission, which was amended in November 2012, registering up to $750 million of debt and/or equity securities that may be offered in one or more series on terms to be determined at the time of sale. The amount remaining at December 31, 2013 is $475 million.

Issuance of Debt Securities

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

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

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

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

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

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

Repurchase of Debt Securities

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

2013 Convertible Senior Unsecured Notes

In December 2012, the company issued $250 million of 7.875 percent convertible senior unsecured notes due 2026 (the “2013 Convertible Notes”). The 2013 Convertible Notes were sold by the company to qualified institutional buyers in a private placement exempt from the registration requirements of the Securities Act of 1933. The 2013 Convertible Notes have an initial principal amount of $900 per note and will accrete to $1,000 per note on December 1, 2020 at an effective interest rate of 10.9 percent. Net proceeds received by the company, after issuance costs and discounts, were approximately $220 million.

The company pays 7.875 percent cash interest on the principal amount at maturity of the 2013 Convertible Notes semi-annually in arrears on June 1 and December 1 of each year to holders of record at the close of business on the preceding May 15 and November 15, respectively, and at maturity to the holders that present the 2013 Convertible Notes for payment. Interest accrues on the principal amount at maturity thereof from and including the date the 2013 Convertible Notes are issued or from, and including, the last date in respect of which interest has been paid or provided for, as the case may be, to, but excluding, the next interest payment date.

The 2013 Convertible Notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of the company's subsidiaries. The 2013 Convertible Notes are senior unsecured obligations and rank equally in right of payment with all of the company's existing and future senior unsecured indebtedness and are junior to any of the company existing and future secured indebtedness.

The 2013 Convertible Notes will be convertible in certain circumstances into cash up to the principal amount at maturity of the 2013 Convertible Notes surrendered for conversion and, if applicable, shares of the company's common stock (subject to a conversion share cap as described below), based on an initial conversion rate, subject to adjustment, equivalent to 83.3333 shares per $1,000 principal amount at maturity of 2013 Convertible Notes (which represents an initial conversion price of $12.00 per share), only under the following circumstances:

(1) Prior to June 1, 2025, during any calendar quarter after the calendar quarter ending December 31, 2012, if the closing sale 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 in effect on the last trading day of the immediately preceding calendar quarter;

(2) Prior to June 1, 2025, during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount at maturity of Notes was equal to or less than 97 percent of the conversion value of the Notes on each trading day during such five consecutive trading day period;

(3) Prior to June 1, 2025, if the company has called the Notes for redemption;

(4) Prior to June 1, 2025, upon the occurrence of specified corporate transactions; or

(5) At any time on or after June 1, 2025.

On or after December 1, 2020, the company may redeem the Notes at its option, in whole or in part, at a redemption price in cash equal to 100 percent of the principal amount at maturity of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Further, holders may require the company to purchase all or a portion of their Notes at a purchase price in cash equal to 100 percent of the principal amount at maturity of the Notes to be purchased, plus accrued and unpaid interest, on December 1, 2020 or upon certain fundamental changes. The maximum number of shares of common stock those Notes are convertible into is 19,208,404 shares.

The company used the net proceeds of approximately $220 million from the offering of the Notes (after discounts and issuance costs) and additional cash to acquire a portion of its outstanding 4.625 percent convertible senior notes due 2026 (the “4.625 percent notes”) in transactions that settled concurrently with the closing of the 7.875 percent note offering. Approximately $245 million of $300 million principal amount of the 4.625 percent notes were acquired for an aggregate purchase price of approximately $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 company's 7.875 percent convertible senior unsecured notes due 2026, 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.

Capital Leases

On March 20, 2012, the company entered into an arrangement to finance equipment acquisitions for various U.S. locations. Under this arrangement, the company can request financing from GE Capital Commercial, Inc. (GE Capital) for progress payments for equipment under construction, not to exceed $10 million at any point in time. The financing rate is equal to the 30-day LIBOR plus 575 basis points per annum. Under this arrangement, the company can also enter into lease arrangements with GE Capital for completed equipment. The lease term is 60 months and the lease interest rate is equal to the 5-year Swap Rate published by the Federal Reserve Board plus 564 basis points. As of December 31, 2013, the company had $27 million outstanding under these and other capital lease arrangements.

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Letter of Credit Facilities

The company entered into a five-year credit agreement dated as of November 18, 2010 with Citicorp USA, Inc., as administrative agent and issuing bank, the other lenders party thereto and the Bank of New York Mellon, as paying agent. Under the terms of this credit agreement, as amended, the company has the right to obtain the issuance, renewal, extension and increase of letters of credit up to an aggregate availability of $30 million. This facility contains covenants and events of default generally similar to those existing in our public debt indentures. There were $26 million and $27 million of letters of credit outstanding under this facility at December 31, 2013 and September 30, 2013, respectively. In addition, the company had another $10 million and $9 million of letters of credit outstanding through other letter of credit facilities at December 31, 2013 and September 30, 2013, respectively.

16. Financial Instruments

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

	December 31, 2013		September 30, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$300	$300	$318	$318
Short-term debt	12	12	13	13
Long-term debt	1,126	1,323	1,125	1,266
Foreign exchange forward contracts (asset)	—	—	—	—
Foreign exchange forward contracts (liability)	—	—	1	1

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

	December 31, 2013			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	1	—	—	—	—	—
Derivative Liabilities						
Foreign exchange forward contract	1	—	—	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 level input that is significant to the valuation. The company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Fair value of financial instruments by the valuation hierarchy at December 31, 2013 is as follows (in millions):

	Level 1	Level 2	Level 3
Cash and cash equivalents	$300	$—	$—
Short-term debt	—	—	12
Long-term debt	—	1,247	76
Foreign exchange forward contracts (asset)	—	—	—
Foreign exchange forward contracts (liability)	—	—	—

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 December 31, 2013 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.

17. Retirement Benefit Liabilities

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

	December 31, 2013	September 30, 2013
Retiree medical liability	$509	$513
Pension liability	393	396
Other	21	25
Subtotal	923	934
Less: current portion (included in compensation and benefits, Note 13)	(48)	(48)
Retirement benefits	$875	$886

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The components of net periodic pension and retiree medical expense included in continuing operations for the three months ended December 31