SLOANE MARSHALL M
Form 4
April 08, 2005

FORM 4

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

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
SLOANE MARSHALL M

(Last) (First) (Middle)

400 MYSTIC AVENUE

(Street)

MEDFORD, MA 02155

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CENTURY BANCORP INC [CNBKA]

3. Date of Earliest Transaction (Month/Day/Year)
03/16/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director __X__ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman of the Board and CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
401(k) Company Stock Fund	03/16/2005		P		0.0033	A	$ 39.51	514.2767	D	
Class A Common								6,030	D	
Class A Common								5,603	I	MMS & BJS FBO Joshua Benjamin Kay
								5,324	I	

Class A Common				MMS & BJS FBO Rachel Sloane Kay
Class A Common	3,700	I		MMS & BJS FBO Tallen Kendall Sloane
Class A Common	180	I		MMS & BJS trustees of children of JGS
Class A Common	2,500	I		Owned by wife Barbara J. Sloane
Class B Common	1,694,430	D		
Class B Common	1,500	I		Owned by wife Barbara J. Sloane

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. P Der Sec (Ins
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	

Century Bancorp Class A Chairman	$ 16.57	01/16/2002	01/16/2006	Class A Common	5,646
Century Bancorp Class A Chairman	$ 24.75	04/01/2003	04/01/2007	Class A Common	12,000
Century Bancorp Class A Chairman	$ 35.01	09/17/2004	09/17/2009	Class A Common	12,000
Century Bancorp Class A Chairman 3	$ 29.35	01/21/2004	01/21/2008	Class A Common	12,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SLOANE MARSHALL M 400 MYSTIC AVENUE MEDFORD, MA 02155	X	X	Chairman of the Board and CEO	

Signatures

By: Paul V. Cusick, Jr., Attorney-In-Fact	04/07/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. rs, beginning after December 15, 2012. As such, ASU 2013-02 will be effective October 1, 2013 for the company and will be applied prospectively. The company does not believe the adoption will have a significant impact on the company's consolidated financial statements.

4. Discontinued Operations

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Sales	$—	$—	$—	$2
Loss before income taxes	$—	$(10)	(5)	(19)

Benefit for income taxes	—	1	—	1
Loss from discontinued operations attributable to Meritor, Inc.	$—	$(9)	$(5)	$(18)

Loss from discontinued operations for the six months ended March 31, 2013 was primarily due to environmental remediation costs. Loss from discontinued operations for the three and six months ended March 31, 2012 related to changes in estimates and adjustments related to certain assets and liabilities retained from previously divested businesses and indemnities provided at the time of sale.

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5. Goodwill

As discussed in Note 22, "Business Segment Information," the company reorganized its management reporting structure in the first quarter of fiscal year 2013 resulting in two reportable segments. The company reviews goodwill for impairment annually during the fourth quarter of the fiscal year, or whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. 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.

As a result of the change in reporting segments, the company's reporting units changed. The Commercial Truck and Industrial segment now contains two reporting units. The Aftermarket and Trailer segment remains a single reporting unit. Goodwill was reassigned to the new reporting units using a relative fair value allocation. Giving specific consideration to the changes in reporting units, the company did not observe any factors which caused the company to believe that goodwill is more likely than not impaired.

A summary of the changes in the carrying value of goodwill by reportable segment is presented below (in millions):

	Commercial Truck & Industrial	Aftermarket & Trailer	Commercial Truck	Industrial	Total
Balance at September 30, 2012	$—	$171	$153	$109	$433
Segment reorganization	262	—	(153)	(109)	—
Foreign currency translation	(4)	(2)	—	—	(6)
Balance at March 31, 2013	$258	$169	$—	$—	$427

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6. Restructuring Costs

At both March 31, 2013 and September 30, 2012, $18 million and $15 million, respectively, of restructuring reserves primarily related to unpaid employee termination benefits remained in the consolidated balance sheet. The changes in restructuring reserves for the six months ended March 31, 2013 and 2012 are as follows (in millions):

	Employee Termination Benefits	Asset Impairment	Plant Shutdown & Other	Total
Balance at September 30, 2012	$15	$—	$—	$15
Activity during the period:				
Charges to continuing operations	15	1	1	17
Asset write-offs	—	(1)	—	(1)
Cash payments – continuing operations	(12)	—	—	(12)
Other	—	—	(1)	(1)
Total restructuring reserves at March 31, 2013	18	—	—	18
Less: non-current restructuring reserves	(3)	—	—	(3)
Restructuring reserves – current, at March 31, 2013	$15	$—	$—	$15
Balance at September 30, 2011	$19	$—	$—	$19
Activity during the period:				
Charges to continuing operations	6	19	2	27
Charges to discontinued operations(1)	—	—	1	1
Asset write-offs	(1)	(19)	—	(20)
Cash payments – continuing operations	(9)	—	(1)	(10)
Cash payments – discontinued operations	(1)	—	(1)	(2)
Total restructuring reserves at March 31, 2012	14	—	1	15
Less: non-current restructuring reserves	(5)	—	—	(5)
Restructuring reserves – current, at March 31, 2012	$9	$—	$1	$10

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

Variable Labor Reductions: The company is executing 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 expects to eliminate 375 hourly and 50 salaried positions and incur approximately $9 million of restructuring costs in the Commercial Truck & Industrial segment. The company has recognized cumulative costs of approximately $8 million, primarily severance benefits, as of March 31, 2013, of which approximately $5 million was recognized in fiscal year 2012 and $3 million was recognized in fiscal year 2013. The remaining restructuring costs for this program are expected to be incurred in fiscal year 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 upcoming closure of one remanufacturing plant in Canada. The closure will result in the elimination of 85 hourly positions including approximately 65 positions which will be transferred to the company's facility in Indiana. The company expects to incur approximately $4 million of restructuring costs in relation to this program related to employee severance and a lease termination. During the six months ended March 31, 2013, the company recorded cumulative restructuring charges of approximately $2 million associated with employee severance charges and lease termination costs.

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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 its business segment rationalization. On March 26, 2013, the company announced plans to restructure its Commercial Truck & Industrial segment in China resulting in the transfer of manufacturing operations from the Wuxi, China facility to the company's off-highway facility in China.

The company currently estimates charges in the range of $20 million to $25 million associated with these restructuring actions, which are expected to be incurred by the end of the fiscal year 2013. Of these charges, $15 million are expected to be for employee severance costs associated with the elimination of 200 salaried positions (including contract employees) and 50 hourly positions, $6 million related to lease terminations, and the remainder associated with other exit costs. The company has recognized cumulative costs of approximately $12 million under these actions. During the six months ended March 31, 2013, the company recorded employee severance charges and other exit costs of approximately $6 million and $3 million in the Commercial Truck & Industrial and Aftermarket & Trailer segments, respectively, as well as approximately $3 million at our corporate locations primarily for employee severance benefits.

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

Cumulative restructuring costs recorded for this program as of March 31, 2012 are $186 million, including $93 million reported in discontinued operations in the consolidated statement of operations. These costs primarily relate to employee severance and related costs of $117 million, asset impairment charges of $41 million and $28 million primarily associated with pension termination benefits. The company’s Commercial Truck & Industrial segment has recognized cumulative restructuring costs associated with Performance Plus of $82 million. Cumulative restructuring costs of $11 million were recognized by corporate locations and the company’s Aftermarket & Trailer segment. All restructuring actions associated with Performance Plus were complete as of September 30, 2012.

7. Other Income, Net

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

8. Income Taxes

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

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

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For the first six months of fiscal years 2013 and 2012, the company had approximately $52 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.

9. 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 19, 2012 and which now terminates on June 28, 2013, the company can sell up to, at any point in time, €150 million of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €103 million ($133 million) and €119 million ($154 million) of this accounts receivable factoring facility as of March 31, 2013 and September 30, 2012, respectively.

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 September 28, 2012, and which now terminates on October 29, 2013, the company can sell up to, at any point in time, €65 million ($83 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 €40 million ($51 million) and €51 million ($66 million) of this accounts receivable factoring facility as of March 31, 2013 and September 30, 2012, respectively.

The above facilities are backed by 364-day liquidity commitments from Nordea Bank which were renewed through October 2013. The commitments are subject to standard terms and conditions for these types of arrangements. The company believes both facilities will be successfully renewed prior to maturity.

United Kingdom Factoring Facility: The company entered into an arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of its United Kingdom subsidiaries. Under this arrangement, which 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 of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €6 million ($8 million) and €9 million ($12 million) of this accounts receivable factoring facility as of March 31, 2013 and September 30, 2012, 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.

Italy Factoring Facility: The company entered into an arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of its Italian subsidiaries. Under this arrangement, which expires in June 2017, the company can sell up to, at any point in time, €30 million of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €9 million ($11 million) and €13 million ($16 million) of this accounts receivable factoring facility as of March 31, 2013 and September 30, 2012. The commitment is subject to standard terms and conditions for these types of arrangements including a sole discretion clause whereby the bank retains the right to not purchase receivables, 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 $10 million and $7 million at March 31, 2013 and September 30, 2012, respectively.

Total costs associated with all of the off-balance sheet arrangements described above were $3 million and $6 million in the six months ended March 31, 2013 and 2012, respectively, and are included in selling, general and administrative expenses in the consolidated statement of operations.

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On-balance sheet arrangements

The company has a $100 million U.S. accounts receivables securitization facility, which expires on June 18, 2015. This program is provided by PNC Bank, National Association (PNC), as Administrator, Market Street Funding, LLC, 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 March 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 March 31, 2013, the company was in compliance with all covenants under its credit agreement (see Note 17).

10. Operating Cash Flow

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

	Six Months Ended March 31, 2013	2012
OPERATING ACTIVITIES		
Net income (loss)	$(25)	$6
Less: Loss from discontinued operations, net of tax	(5)	(18)
Income (loss) from continuing operations	(20)	24
Adjustments to income (loss) from continuing operations to arrive at cash used for operating activities:		
Depreciation and amortization	33	33
Restructuring costs	17	27
Loss on debt extinguishment	5	—
Equity in earnings of affiliates	(19)	(29)
Pension and retiree medical expense	22	26
Other adjustments to income from continuing operations	7	7
Dividends received from affiliates	7	8
Pension and retiree medical contributions	(48)	(50)
Restructuring payments	(12)	(10)
Changes in off-balance sheet accounts receivable factoring	(44)	8
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations	(44)	(82)
Operating cash flows used for continuing operations	(96)	(38)
Operating cash flows used for discontinued operations	(13)	(8)
CASH USED FOR OPERATING ACTIVITIES	$(109)	$(46)

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11. Inventories

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

	March 31, 2013	September 30, 2012
Finished goods	$172	$185
Work in process	50	48
Raw materials, parts and supplies	198	205
Total	$420	$438

12. Other Current Assets

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

	March 31, 2013	September 30, 2012
Current deferred income tax assets, net	$23	$27
Asbestos-related recoveries (see Note 20)	11	11
Deposits and collateral	5	4
Prepaid and other	15	19
Other current assets	$54	$61

13. Net Property

Net property is summarized as follows (in millions):

	March 31, 2013	September 30, 2012
Property at cost:		
Land and land improvements	$36	$39
Buildings	224	253
Machinery and equipment	899	909
Company-owned tooling	150	156
Construction in progress	49	65
Total	1,358	1,422
Less accumulated depreciation	(963)	(1,005)
Net property	$395	$417

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14. Other Assets

Other assets are summarized as follows (in millions):

	March 31, 2013	September 30, 2012
Investments in non-consolidated joint ventures	$175	$169
Asbestos-related recoveries (see Note 20)	63	63
Non-current deferred income tax assets, net	13	12
Unamortized debt issuance costs	30	29
Capitalized software costs, net	30	29
Prepaid pension costs	22	11
Other	36	40
Other assets	$369	$353

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

The company holds a variable interest in a joint venture accounted for under the equity method of accounting. The joint venture manufactures components for commercial vehicle applications primarily on behalf of the company. The variable interest relates to a supply arrangement between the company and the joint venture whereby the company supplies certain components to the joint venture on a cost-plus basis. The company is not the primary beneficiary of the joint venture, as the joint venture partner has shared or absolute control over key manufacturing operations, labor relationships, financing activities and certain other functions of the joint venture. Therefore, the company does not consolidate the joint venture. At March 31, 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.

15. Other Current Liabilities

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

	March 31, 2013	September 30, 2012
Compensation and benefits	$122	$136
Income taxes	14	15
Taxes other than income taxes	39	41
Accrued interest	10	5
Product warranties	17	16
Restructuring (see Note 6)	15	11
Asbestos-related liabilities (see Note 20)	19	19
Other	61	70
Other current liabilities	$297	$313

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

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

	Six Months Ended March 31, 2013	2012
Total product warranties – beginning of period	$44	$48
Accruals for product warranties	12	10
Payments	(8)	(7)
Change in estimates and other	(2)	(5)
Total product warranties – end of period	46	46
Less: Non-current product warranties	(29)	(29)
Product warranties – current	$17	$17

16. Other Liabilities

Other liabilities are summarized as follows (in millions):

	March 31, 2013	September 30, 2012
Asbestos-related liabilities (see Note 20)	$93	$93
Non-current deferred income tax liabilities	98	101
Liabilities for uncertain tax positions	25	27
Product warranties (see Note 15)	29	28
Environmental	10	10
Indemnity obligations	28	32
Other	44	47
Other liabilities	$327	$338

17. Long-Term Debt

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

	March 31, 2013	September 30, 2012
8-1/8 percent notes due 2015	$250	$250
10-5/8 percent notes due 2018 (net of original issuance discount of $3)	247	247
4.625 percent convertible notes due 2026(1)	55	300
4.0 percent convertible notes due 2027(1)	200	200
7.875 percent convertible notes due 2026(1) (net of original issuance discount of $25)	225	—
Term loan	95	98
Lines of credit and other	20	13
Unamortized gain on interest rate swap termination	9	10
Unamortized discount on convertible notes	(46)	(58)
Subtotal	1,055	1,060
Less: current maturities	(25)	(18)
Long-term debt	$1,030	$1,042

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

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Revolving Credit Facility

On April 23, 2012, the company amended and restated its revolving credit facility. Pursuant to the revolving credit facility agreement as amended, the company has a $429 million revolving credit facility, $14 million of which matures in January 2014 for a bank not electing to extend its commitments under the revolving credit facility existing at March 31, 2012 and the remaining $415 million of which matures in April 2017. The April 2017 maturity date is also subject to the following springing maturity condition: if on June 1, 2015, the outstanding principal amount of the company's $250 million bonds due 2015 is greater than $100 million, the maturity date becomes June 10, 2015. The availability under this facility is dependent upon various factors, including principally performance against certain financial covenants as highlighted below.

The availability under the revolving credit facility is subject to certain financial covenants based on (i) the ratio of the company's priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. The company is required to maintain a total priority-debt-to-EBITDA ratio, as defined in the agreement, of (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 March 31, 2013, the company was in compliance with all covenants under its credit agreement with a ratio of approximately 0.61x for the priority debt-to-EBITDA covenant.

Availability under the amended and extended revolving credit facility is also subject to a collateral test, pursuant to which borrowings on the revolving credit facility cannot exceed 1.0x the collateral test value. The collateral test is performed on a quarterly basis. At March 31, 2013, the revolving credit facility was collateralized by approximately $589 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 March 31, 2013, the margin over LIBOR rate was 425 basis points and the commitment fee was 50 basis points. Although a majority of our revolving credit loans are LIBOR based, 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 credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the publicly-held notes outstanding under the company's indentures (see Note 24).

No borrowings were outstanding under the revolving credit facility at March 31, 2013 and September 30, 2012. The amended and extended revolving credit facility includes $100 million of availability for the issuance of letters of credit. At March 31, 2013, no letters of credit were outstanding under the revolving credit facility, while $1 million in letters of credit were outstanding on September 30, 2012.

Convertible Securities

In December 2012, the company issued $250 million of 7.875 percent convertible senior unsecured notes due 2026 (the “Notes”). The 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 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 will pay 7.875% cash interest on the principal amount at maturity of the 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 Notes for payment. Interest will accrue on the principal amount at maturity thereof from and including the date the 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. Cash interest at a rate of 7.875 percent per annum on the principal amount at maturity of the convertible notes from the date of issuance through maturity is payable semi-annually in arrears on June 1 and December 1 of each year.

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The Notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of the company's subsidiaries. The 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 Notes will be convertible in certain circumstances into cash up to the principal amount at maturity of the Note 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 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% 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% 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% 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% 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% convertible senior notes due 2026 (the “4.625% notes”) in transactions that settled concurrently with the closing of the 7.875% note offering. Approximately $245 million of $300 million principal amount of the 4.625% 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 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.
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. The maturity date of April 23, 2017 is also subject to the springing maturity condition discussed under "Revolving Credit Facility" above. The term loan will

amortize over a period of 5 years from the effective date as follows: $5 million principal to be repaid during year one, $10 million principal to be repaid in each of the years two, three and four; and the remaining principal balance to be paid in year five. Payments will be made on a quarterly basis for the duration of the term loan. As of March 31, 2013, the margin over LIBOR rate was 425 basis points. The company has the ability to prepay the term loan at any time without penalty or premium. At March 31, 2013, the outstanding balance on the term loan was $95 million.

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Capital Leases

On March 20, 2012, the company entered into an arrangement to finance equipment acquisitions for various U.S. locations. Under this arrangement, the company can request financing from GE Capital Commercial, Inc. (GE Capital) for progress payments for equipment under construction, not to exceed $10 million at any point in time. The financing rate is equal to the 30-day LIBOR plus 575 basis points per annum. Under this arrangement, the company can also enter into lease arrangements with GE Capital for completed equipment. The lease term is 60 months and the lease interest rate is equal to the 5-year Swap Rate published by the Federal Reserve Board plus 564 basis points. As of March 31, 2013, the company had $12 million outstanding under these arrangements.

Letter of Credit Facilities

The company entered into a five-year credit agreement dated as of November 18, 2010 with Citicorp USA, Inc., as administrative agent and issuing bank, the other lenders party thereto and the Bank of New York Mellon, as paying agent. Under the terms of this credit agreement, as amended, the company has the right to obtain the issuance, renewal, extension and increase of letters of credit up to an aggregate availability of $30 million. This facility contains covenants and events of default generally similar to those existing in our public debt indentures. There were $27 million and $30 million of letters of credit outstanding under this facility at March 31, 2013 and September 30, 2012, respectively. In addition, the company had another $9 million and $18 million of letters of credit outstanding through other letter of credit facilities at March 31, 2013 and September 30, 2012, respectively.

Accounts Receivable Securitization

The company has a $100 million U.S. accounts receivables securitization facility, which expires on June 18, 2015. This program is provided by PNC Bank, National Association (PNC), as Administrator, Market Street Funding, LLC, 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 March 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 identical to the corresponding covenant in the company's revolving credit facility as it exists on the date of the agreement. In addition, this securitization program contains and a cross default to the company's revolving credit facility. The weighted average interest rate on borrowings under this arrangement was approximately 1.55 percent at March 31, 2013.

18. Financial Instruments

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

	March 31, 2013		September 30, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$117	$117	$257	$257
Short-term debt	25	23	18	17
Long-term debt	1,030	1,081	1,042	1,036
Foreign exchange forward contracts (asset)	2	2	3	3

Foreign exchange forward contracts (liability)	—	—	1	1

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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 March 31, 2013 is as follows (in millions):

	Level 1	Level 2	Level 3
Short-term debt	$—	$—	$23
Long-term debt	—	991	90
Foreign exchange forward contracts (asset)	—	2	—
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 March 31, 2013 or September 30, 2012.
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.

19. Retirement Benefit Liabilities
Retirement benefit liabilities consisted of the following (in millions):

	March 31, 2013	September 30, 2012
Retiree medical liability	$557	$559
Pension liability	522	540
Other	25	24
Subtotal	1,104	1,123
Less: current portion (included in compensation and benefits, Note 15)	(48)	(48)
Retirement benefit liabilities	$1,056	$1,075

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

	2013		2012	
	Pension	Retiree Medical	Pension	Retiree Medical
Service cost	$—	$1	$—	$—
Interest cost	22	5	23	6
Assumed return on plan assets	(28)	—	(26)	—
Amortization of prior service costs	—	(2)	—	(2)
Recognized actuarial loss	6	6	5	6
Settlement charge	2	—	—	—
Total expense	$2	$10	$2	$10

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

	2013		2012	
	Pension	Retiree Medical	Pension	Retiree Medical
Service cost	$1	$1	$1	$—
Interest cost	43	10	46	12
Assumed return on plan assets	(57)	—	(52)	—
Amortization of prior service costs	—	(4)	—	(4)
Recognized actuarial loss	13	13	10	13
Settlement charge	2	—	—	—
Total expense	$2	$20	$5	$21

20. Contingencies
Environmental

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

The company has been designated as a potentially responsible party at nine Superfund sites, excluding sites as to which the company's records disclose no involvement or as to which the company's liability has been finally determined. Management estimates the total reasonably possible costs the company could incur for the remediation of Superfund sites at March 31, 2013 to be approximately $19 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.

Explanation of Responses:

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In addition to the Superfund sites, various other lawsuits, claims and proceedings have been asserted against the company, alleging violations of federal, state and local environmental protection requirements, or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. For these matters, management has estimated the total reasonably possible costs the company could incur at March 31, 2013 to be approximately $42 million, of which $18 million is recorded as a liability.

Included in the company's environmental liabilities are costs for on-going operation, maintenance and monitoring at environmental sites in which remediation has been put into place. This liability is discounted using discount rates in the range of 0.25 to 3 percent and is approximately $10 million at March 31, 2013. 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, 2012	$2	$15	$17
Payments and other	(1)	(3)	(4)
Accruals[1]	1	6	7
Balance at March 31, 2013	$2	$18	$20

(1) Includes $5 million recognized in loss from discontinued operations in the consolidated statement of operations.

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

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

Asset Retirement Obligations

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

Asbestos

Maremont Corporation ("Maremont"), a subsidiary of Meritor, manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. Arvin Industries, Inc., a predecessor of the company, acquired Maremont in 1986. Maremont and many other companies are defendants in suits brought by individuals claiming personal injuries as a result of exposure to asbestos-containing products. Maremont had approximately 5,000 pending asbestos-related claims at March 31, 2013 and September 30, 2012. Although Maremont has been named in these cases, in the cases where actual injury has been alleged, very few claimants have established that a Maremont product caused their injuries. Plaintiffs' lawyers often sue dozens or even hundreds of defendants in individual lawsuits on behalf of hundreds or thousands of claimants, seeking damages against all named defendants irrespective of the disease or injury and irrespective of any causal connection with a particular product. For these reasons, Maremont does not consider the number of claims filed or the damages alleged to be a meaningful factor in determining its asbestos-related liability.

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

	March 31, 2013	September 30, 2012
Pending and future claims	$75	$75
Asbestos-related insurance recoveries	67	67

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

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

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

Bates White provided an estimate of the reasonably possible range of Maremont's obligation for asbestos personal injury claims over the next ten years of $72 million to $88 million. Maremont recognized a liability of $75 million at March 31, 2013 and September 30, 2012. 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.

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

- Pending and future claims were estimated for a ten-year period ending in fiscal year 2022. The ten-year assumption is considered appropriate as Maremont has reached certain longer-term agreements with key plaintiff law firms and filings of mesothelioma claims have been relatively stable over the last few years resulting in an improvement in the reliability of future projections over a longer time period;
- Maremont believes that the litigation environment will change significantly beyond ten years and that the reliability of estimates of future probable expenditures in connection with asbestos-related personal injury claims will decline for each year further in the future. As a result, estimating a probable liability beyond ten years is difficult and uncertain;
- Defense and processing costs for pending and future claims filed outside of Madison County, Illinois will be at the level consistent with Maremont's prior experience;
- 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 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 coverage also reimburses Maremont for any indemnity paid on those claims. The coverage is provided by several insurance carriers based on insurance agreements in place. Incorporating historical information with respect to buy-outs and settlements of coverage, and excluding any policies in dispute, the insurance receivable related to asbestos-related liabilities is $67 million as of March 31, 2013 and September 30, 2012. The difference between the estimated liability and insurance receivable is primarily related to proceeds received from settled insurance policies. Certain insurance policies have been settled in cash prior to the ultimate settlement of the related asbestos liabilities. Amounts received from insurance settlements generally reduce recorded insurance receivables. Receivables for policies in dispute are not recorded.

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The amounts recorded for the asbestos-related reserves and recoveries from insurance companies are based upon assumptions and estimates derived from currently known facts. All such estimates of liabilities and recoveries for asbestos-related claims are subject to considerable uncertainty because such liabilities and recoveries are influenced by variables that are difficult to predict. The future litigation environment for Maremont could change significantly from its past experience, due, for example, to changes in the mix of claims filed against Maremont in terms of plaintiffs' law firm, jurisdiction and disease; legislative or regulatory developments; Maremont's approach to defending claims; or payments to plaintiffs from other defendants. Estimated recoveries are influenced by coverage issues among insurers and the continuing solvency of various insurance companies. If the assumptions with respect to the estimation period, 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. At March 31, 2013 and September 30, 2012, there were approximately 2,500 pending active asbestos claims in lawsuits that name AM, together with many other companies, as defendants. 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. For these reasons, the company does not consider the number of claims filed or the damages alleged to be a meaningful factor in determining asbestos-related liabilities. The company defends these cases vigorously.

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

	March 31, 2013	September 30, 2012
Pending and future claims	$37	$37
Asbestos-related insurance recoveries	7	7

The company engages Bates White to assist with determining whether it would be possible to estimate the cost of resolving pending and future Rockwell legacy asbestos-related claims that have been, and could reasonably be expected to be, filed against the company. Bates White provided an estimate of the reasonably possible range of Rockwell's obligation for asbestos personal injury claims over the next ten years of $37 million to $45 million. The company recognized a liability of $37 million at March 31, 2013 and September 30, 2012. 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 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 2022. The ten year assumption is considered appropriate as Rockwell has reached certain longer-term agreements with key plaintiff law firms. In addition, filings of mesothelioma claims have been relatively stable over the last few years resulting in an improvement in the reliability of future projections over a longer time period;

- The company believes that the litigation environment will change significantly beyond ten years, and that the reliability of estimates of future probable expenditures in connection with asbestos-related personal injury claims declines for each year further in the future. As a result, estimating a probable liability beyond ten years is difficult and uncertain;
- Defense and processing costs for pending and future claims will be at the level consistent with the company's longer-term experience and will not have the significant volatility experienced in the recent years;
- 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.

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In addition to the probable liability for pending and future claims discussed above, the company also recognized a liability of approximately $7 million in fiscal year 2012 associated with a previously disclosed asbestos-related claim (Gordon Bankhead) which was settled during the fourth quarter of fiscal year 2012. The payment required by this settlement agreement was made in the first quarter of fiscal year 2013.

Rockwell maintained insurance coverage that management believes covers indemnity and defense costs, over and above self-insurance retentions, for most of these claims. The company has initiated claims against certain of these carriers to enforce the insurance policies, which are currently being disputed. The company expects to recover some portion of defense and indemnity costs it has incurred to date, over and above self-insured retentions, and some portion of the costs for defending asbestos claims going forward. Based on consultation with advisors and underlying analysis performed by management, the company has recorded an insurance receivable related to Rockwell legacy asbestos-related liabilities of $7 million at March 31, 2013 and September 30, 2012. If the assumptions with respect to the estimation period, nature of pending claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of liability for Rockwell asbestos-related claims, and the effect on the company, could differ materially from current estimates and, therefore, could have a material impact on the company's financial condition and results of operations.

Indemnifications

In December 2005, the company guaranteed a third party's obligation to reimburse another party for payment of health and prescription drug benefits to a group of retired employees. The retirees were former employees of a wholly-owned subsidiary of the company prior to it being acquired by the company. The wholly-owned subsidiary, which was part of the company's light vehicle aftermarket business, was sold by the company in fiscal year 2006. Prior to May 2009, except as set forth hereinafter, the third party met its obligations to reimburse the other party. In May 2009, the third party filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code requiring the company to recognize its obligations under the guarantee. The company recorded a $28 million liability in fiscal year 2009 for this matter. At March 31, 2013 and September 30, 2012, the remaining estimated liability for this matter was approximately $19 million.

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 March 31, 2013 and September 30, 2012 the company has recognized estimates for such indemnities, primarily related to income tax matters, of $3 million and $4 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 March 31, 2013 and September 30, 2012 is approximately $11 million and $14 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.

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Other

On March 31, 2008, S&E Quick Lube, a filter distributor, filed suit in U.S. District Court for the District of Connecticut alleging that several filter manufacturers and their affiliated corporate entities, including a prior subsidiary of the company, engaged in a conspiracy to fix prices, rig bids and allocate U.S. customers for aftermarket automotive filters. This suit was a purported class action on behalf of direct purchasers of filters from the defendants. Several parallel purported class actions, including on behalf of indirect purchasers of filters, were filed by other plaintiffs in a variety of jurisdictions in the United States and Canada. The U.S. cases were consolidated into a multi-district litigation proceeding in Federal court for the Northern District of Illinois. On April 16, 2009, the Attorney General of the State of Florida filed a complaint with the U.S. District Court for the Northern District of Illinois based on these same allegations. In April 2012, the company settled with indirect purchasers for $3.1 million. In August 2012, the company entered into a settlement agreement for the remaining claims with the U.S. direct purchasers for $8.3 million. The settlement payment was made during the first quarter of fiscal year 2013. Following this settlement, the only remaining plaintiffs in the litigation are those who filed their actions in Canada. The company believes any liability associated with the claims of such plaintiffs will be immaterial.

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. The company recorded $6 million as its estimate of the probable liability at March 31, 2013 and September 30, 2012.

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.

21. Accumulated Other Comprehensive Loss (AOCL)

The components of AOCL as reported in the consolidated balance sheet are as follows (in millions):

	March 31, 2013	September 30, 2012
Foreign currency translation	$91	$93
Employee benefit related adjustments	(1,012)	(1,010)
Unrealized gains, net	2	2
Accumulated Other Comprehensive Loss	$(919)	$(915)

22. Business Segment Information

The company defines its operating segments as components of its business where separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The company’s chief operating decision maker (CODM) is the Chief Executive Officer. 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 March 31, 2013, as follows:

- The Commercial Truck & Industrial segment supplies drivetrain systems and components, including axles, drivelines and braking and suspension systems, for medium- and heavy-duty trucks, off-highway, military, construction, bus and coach, fire and emergency and other applications in North America, South America, Europe and Asia Pacific. This segment also includes the company's aftermarket businesses in Asia Pacific and South America; and

- The Aftermarket & Trailer segment supplies axles, brakes, drivelines, suspension parts and other replacement and remanufactured parts, including transmissions, to commercial vehicle aftermarket customers in North America and Europe. This segment also supplies a wide variety of undercarriage products and systems for trailer applications in North America.

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(Unaudited)

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.

Segment information is summarized as follows (in millions):

	Commercial Truck & Industrial	Aftermarket & Trailer	Eliminations	Total
Three Months Ended March 31, 2013				
External Sales	$689	$219	$—	$908
Intersegment Sales	23	5	(28)	—
Total Sales	$712	224	$(28)	$908
Three Months Ended March 31, 2012				
External Sales	$924	$236	$—	$1,160
Intersegment Sales	28	7	(35)	—
Total Sales	$952	243	$(35)	$1,160

	Commercial Truck	Aftermarket & Trailer	Eliminations	Total
Six Months Ended March 31, 2013				
External Sales	$1,383	$416	$—	$1,799
Intersegment Sales	44	11	(55)	—
Total Sales	$1,427	$427	$(55)	$1,799
Six Months Ended March 31, 2012				
External Sales	$1,872	$447	$—	$2,319
Intersegment Sales	55	14	(69)	—
Total Sales	$1,927	$461	$(69)	$2,319

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MERITOR, INC.
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(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Segment EBITDA:				
Commercial Truck & Industrial	$37	$75	$71	$136
Aftermarket & Trailer	22	24	35	41
Segment EBITDA	59	99	106	177
Unallocated legacy and corporate costs, net[1]	(1)	(4)	(2)	(3)
Interest expense, net	(25)	(23)	(54)	(47)
Provision for income taxes	(7)	(17)	(17)	(37)
Depreciation and amortization	(17)	(16)	(33)	(33)
Loss on sale of receivables	(2)	(3)	(3)	(6)
Restructuring costs	(11)	(3)	(17)	(27)
Noncontrolling interests	—	(4)	—	(8)
Income (loss) from continuing operations attributable to Meritor, Inc.	$(4)	$29	$(20)	$16

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

Segment Assets:	March 31, 2013	September 30, 2012
Commercial Truck & Industrial[1]	$1,737	$—
Aftermarket & Trailer	469	505
Commercial Truck [1]	—	1,341
Industrial[1]	—	423
Total segment assets	2,206	2,269
Corporate[2]	344	487
Less: Accounts receivable sold under off-balance sheet factoring programs[3]	(213)	(255)
Total assets	$2,337	$2,501

(1) In fiscal year 2013, the company reorganized its management structure resulting in two reportable segments.

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

(3) At March 31, 2013 and September 30, 2012 segment assets include $213 million and $255 million, respectively, of accounts receivable sold under off-balance sheet accounts receivable factoring programs (See Note 9). These sold receivables are included in segment assets as the CODM reviews segment assets inclusive of these balances.

23. Subsequent Events

On April 29, 2013, subsidiaries of the company entered into a purchase and sale agreement (the “Agreement”) to sell the company's overall 50 percent ownership interest in Suspensys Sistemas Automotivos LTDA (the “Suspensys JV”) to the company's joint venture partner, Randon S.A. Implementos E Participações (“Randon”). The Suspensys JV was formed in 2002 and is primarily engaged in the manufacture and sale of air and mechanical suspension systems for trucks, buses and trailers, trailer axles, third axles, hubs and drums for trucks, buses and trailers.

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The purchase price for the sale is $195 million, which is composed of $190 million in cash (approximately $5 million of which is expected be in the form of a pre-closing cash dividend) and $5 million in lease abatements for a facility in Brazil leased by one of the sellers from Randon. The Agreement is subject to regulatory approvals (including the clearance of applicable competition law waiting periods in Brazil). The sale is expected to be consummated as soon as practicable after closing conditions are met and in any event by September 1, 2013. Under the Agreement, the closing date will be automatically extended to the extent the closing conditions have not been met (provided such conditions are not in the control of the parties) and in any event can be extended by mutual agreement of the parties. As a result of this transaction, the company is expecting to record a gain on sale.

24. Supplemental Guarantor Condensed Consolidating Financial Statements

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

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

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MERITOR, INC.
CONSOLIDATING STATEMENT OF OPERATIONS AND COMPRHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Three Months Ended March 31, 2013				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$—	$ 355	$ 553	$—	$ 908
Subsidiaries	—	33	20	(53)	—
Total sales	—	388	573	(53)	908
Cost of sales	(14)	(335)	(517)	53	(813)
GROSS MARGIN	(14)	53	56	—	95
Selling, general and administrative	(23)	(21)	(21)	—	(65)
Restructuring costs	(3)	(3)	(5)	—	(11)
Other operating expense	(1)	—	—	—	(1)
OPERATING INCOME (LOSS)	(41)	29	30	—	18
Other income (loss), net	39	(13)	(26)	—	—
Equity in earnings of affiliates	—	5	5	—	10
Interest income (expense), net	(32)	8	(1)	—	(25)
INCOME (LOSS) BEFORE INCOME TAXES	(34)	29	8	—	3
Provision for income taxes	—	(1)	(6)	—	(7)
Equity income (loss) from continuing operations of subsidiaries	30	(4)	—	(26)	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	(4)	24	2	(26)	(4)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	$—	$—	$—	$ —
Net income (loss)	(4)	24	2	(26)	(4)
Less: Net income attributable to noncontrolling interests	—	—	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	$(4)	$ 24	$ 2	$(26)	$ (4)
Other comprehensive income (loss)	3	(16)	15	—	2
Comprehensive income (loss) attributable to noncontrolling interests	—	—	—	—	—
Total comprehensive income (loss)	$(1)	$ 8	$ 17	$(26)	$ (2)

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MERITOR, INC.
CONSOLIDATING STATEMENT OF OPERATIONS AND COMPRHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Three Months Ended March 31, 2012				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$—	$448	$712	$—	$ 1,160
Subsidiaries	—	40	24	(64)	—
Total sales	—	488	736	(64)	1,160
Cost of sales	(13)	(418)	(659)	64	(1,026)
GROSS MARGIN	(13)	70	77	—	134
Selling, general and administrative	(21)	(24)	(27)	—	(72)
Restructuring costs	—	—	(3)	—	(3)
Other operating expense	—	—	(1)	—	(1)
OPERATING INCOME (LOSS)	(34)	46	46	—	58
Other income (loss), net	41	(8)	(32)	—	1
Equity in earnings of affiliates	—	10	4	—	14
Interest income (expense), net	(30)	5	2	—	(23)
INCOME (LOSS) BEFORE INCOME TAXES	(23)	53	20	—	50
Benefit (provision) for income taxes	(1)	(2)	(14)	—	(17)
Equity income (loss) from continuing operations of subsidiaries	53	(2)	—	(51)	—
INCOME FROM CONTINUING OPERATIONS	29	49	6	(51)	33
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(9)	$(2)	$—	$2	$ (9)
NET INCOME	20	47	6	(49)	24
Less: Net income attributable to noncontrolling interests	—	—	(4)	—	(4)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	$20	$47	$2	$(49)	$ 20
Other comprehensive income (loss)	(4)	14	4	—	14
Comprehensive income (loss) attributable to noncontrolling interests	—	—	5	—	5
Total comprehensive income (loss)	$16	$61	$11	$(49)	$ 39

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MERITOR, INC.
CONSOLIDATING STATEMENT OF OPERATIONS AND COMPRHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Six Months Ended March 31, 2013				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$—	$ 709	$ 1,090	$—	$ 1,799
Subsidiaries	—	67	37	(104)	—
Total sales	—	776	1,127	(104)	1,799
Cost of sales	(26)	(680)	(1,019)	104	(1,621)
GROSS MARGIN	(26)	96	108	—	178
Selling, general and administrative	(44)	(41)	(42)	—	(127)
Restructuring costs	(3)	(6)	(8)	—	(17)
Other operating expense	(2)	—	—	—	(2)
OPERATING INCOME (LOSS)	(75)	49	58	—	32
Other income (loss), net	35	(13)	(22)	—	—
Equity in earnings of affiliates	—	10	9	—	19
Interest income (expense), net	(69)	16	(1)	—	(54)
INCOME (LOSS) BEFORE INCOME TAXES	(109)	62	44	—	(3)
Provision for income taxes	—	(3)	(14)	—	(17)
Equity income (loss) from continuing operations of subsidiaries	89	19	—	(108)	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	(20)	78	30	(108)	(20)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(5)	$ (4)	$ (4)	$ 8	$ (5)
Net income (loss)	(25)	74	26	(100)	(25)
Less: Net income attributable to noncontrolling interests	—	—	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	$ (25)	$ 74	$ 26	$ (100)	$ (25)
Other comprehensive income (loss)	1	(1)	(4)	—	(4)
Comprehensive income (loss) attributable to noncontrolling interests	—	—	1	—	1
Total comprehensive income (loss)	$ (24)	$ 73	$ 23	$ (100)	$ (28)

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MERITOR, INC.
CONSOLIDATING STATEMENT OF OPERATIONS AND COMPRHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Six Months Ended March 31, 2012				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$—	$819	$1,500	$—	$ 2,319
Subsidiaries	—	72	47	(119)	—
Total sales	—	891	1,547	(119)	2,319
Cost of sales	(25)	(784)	(1,389)	119	(2,079)
GROSS MARGIN	(25)	107	158	—	240
Selling, general and administrative	(43)	(43)	(51)	—	(137)
Restructuring costs	—	—	(27)	—	(27)
Other operating expense	(1)	—	(1)	—	(2)
OPERATING INCOME (LOSS)	(69)	64	79	—	74
Other income (loss), net	41	(8)	(28)	—	5
Equity in earnings of affiliates	—	19	10	—	29
Interest income (expense), net	(61)	12	2	—	(47)
INCOME (LOSS) BEFORE INCOME TAXES	(89)	87	63	—	61
Provision for income taxes	(1)	(5)	(31)	—	(37)
Equity income from continuing operations of subsidiaries	106	17	—	(123)	—
INCOME FROM CONTINUING OPERATIONS	16	99	32	(123)	24
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(18)	$(7)	$(3)	$10	$ (18)
NET INCOME (LOSS)	(2)	92	29	(113)	6
Less: Net income attributable to noncontrolling interests	—	—	(8)	—	(8)
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	$(2)	$92	$21	$(113)	$ (2)
Other comprehensive income (loss)	—	(16)	25	—	9
Comprehensive income (loss) attributable to noncontrolling interests	—	—	8	—	8
Total comprehensive income (loss)	$(2)	$76	$54	$(113)	$ 15

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MERITOR, INC.
CONDENSED CONSOLIDATING BALANCE SHEET
(In millions)
(Unaudited)

	March 31, 2013				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	$45	$3	$69	$—	$ 117
Receivables trade and other, net	—	27	528	—	555
Inventories	—	166	254	—	420
Other current assets	2	18	34	—	54
TOTAL CURRENT ASSETS	47	214	885	—	1,146
NET PROPERTY	9	140	246	—	395
GOODWILL	—	275	152	—	427
OTHER ASSETS	72	173	124	—	369
INVESTMENTS IN SUBSIDIARIES	1,494	96	—	(1,590)	—
TOTAL ASSETS	$1,622	$898	$1,407	$(1,590)	$ 2,337
CURRENT LIABILITIES					
Short-term debt	$10	$7	$8	$—	$ 25
Accounts payable	50	150	416	—	616
Other current liabilities	93	57	147	—	297
TOTAL CURRENT LIABILITIES	153	214	571	—	938
LONG-TERM DEBT	1,025	5	—	—	1,030
RETIREMENT BENEFITS	933	—	123	—	1,056
INTERCOMPANY PAYABLE (RECEIVABLE)	483	(1,085)	602	—	—
OTHER LIABILITIES	70	186	71	—	327
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	(1,042)	1,578	12	(1,590)	(1,042)
NONCONTROLLING INTERESTS	—	—	28	—	28
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$1,622	$898	$1,407	$(1,590)	$ 2,337

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MERITOR, INC.
CONDENSED CONSOLIDATING BALANCE SHEET
(In millions)
(Unaudited)

	September 30, 2012				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	$91	$3	$163	$—	$ 257
Receivables trade and other, net	—	35	507	—	542
Inventories	—	183	255	—	438
Other current assets	6	20	35	—	61
TOTAL CURRENT ASSETS	97	241	960	—	1,298
NET PROPERTY	12	143	262	—	417
GOODWILL	—	275	158	—	433
OTHER ASSETS	70	176	107	—	353
INVESTMENTS IN SUBSIDIARIES	1,468	85	—	(1,553)	—
TOTAL ASSETS	$1,647	$920	$1,487	$(1,553)	$ 2,501
CURRENT LIABILITIES					
Short-term debt	$10	$1	$7	$—	$ 18
Accounts payable	49	195	453	—	697
Other current liabilities	96	62	155	—	313
TOTAL CURRENT LIABILITIES	155	258	615	—	1,028
LONG-TERM DEBT	1,039	3	—	—	1,042
RETIREMENT BENEFITS	950	—	125	—	1,075
INTERCOMPANY PAYABLE (RECEIVABLE)	445	(1,053)	608	—	—
OTHER LIABILITIES	81	185	72	—	338
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	(1,023)	1,527	26	(1,553)	(1,023)
NONCONTROLLING INTERESTS	—	—	41	—	41
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$1,647	$920	$1,487	$(1,553)	$ 2,501

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

	Six Months Ended March 31, 2013				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$(36)	$4	$(77)	$—	$ (109)
INVESTING ACTIVITIES					
Capital expenditures	(2)	(8)	(13)	—	(23)
Net investing cash flows provided by discontinued operations	—	3	3	—	6
CASH USED FOR INVESTING ACTIVITIES	(2)	(5)	(10)	—	(17)
FINANCING ACTIVITIES					
Repayment of notes and term loan	(236)	—	—	—	(236)
Proceeds from debt issuance	225	—	—	—	225
Debt issuance costs	(6)	—	—	—	(6)
Intercompany advances	9	—	(9)	—	—
Other financing activities	—	1	1	—	2
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(8)	1	(8)	—	(15)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	1	—	1
CHANGE IN CASH AND CASH EQUIVALENTS	(46)	—	(94)	—	(140)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	91	3	163	—	257
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$45	$3	$69	$—	$ 117

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

	Six Months Ended March 31, 2012				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$(36)	$21	$(31)	$—	$ (46)
INVESTING ACTIVITIES					
Capital expenditures	(2)	(18)	(23)	—	(43)
Proceeds from sale of property	—	—	18	—	18
Other investing activities	—	1	(3)	—	(2)
Net investing cash flows provided by discontinued operations	—	—	28	—	28
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(2)	(17)	20	—	1
FINANCING ACTIVITIES					
Borrowings on accounts receivable securitization program, net	—	—	19	—	19
Repayment of notes	(84)	—	—	—	(84)
Intercompany advances	40	—	(40)	—	—
CASH USED FOR FINANCING ACTIVITIES	(44)	—	(21)	—	(65)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	2	—	2
CHANGE IN CASH AND CASH EQUIVALENTS	(82)	4	(30)	—	(108)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	92	4	121	—	217
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$10	$8	$91	$—	$ 109

MERITOR, INC.

Item 2. Management’s Discussion and Analysis of Financial Conditions and Results of Operations
OVERVIEW
Meritor, Inc. (the "company", "our", "we" or "Meritor"), headquartered in Troy, Michigan, is a premier global supplier of a broad range of integrated systems, modules and components to original equipment manufacturers (“OEMs”) and the aftermarket for the commercial vehicle, transportation and industrial sectors. The company serves commercial truck, trailer, off-highway, military, bus and coach and other industrial OEMs and certain aftermarkets. Meritor common stock is traded on the New York Stock Exchange under the ticker symbol MTOR.
Segment Reorganization
On November 12, 2012, we announced a revised management reporting structure resulting in two business segments: (1) Commercial Truck & Industrial and (2) Aftermarket & Trailer. We revised our reporting structure to drive efficiencies across the corporation. Prior period segment financial information has been recast to reflect the revised reporting structure.
2nd Quarter Fiscal Year 2013 results
Our sales for the second quarter of fiscal year 2013 were $908 million, down compared to $1,160 million in the prior year. This decrease was primarily driven by lower production volumes in all geographies except South America. Loss from continuing operations in the second quarter of fiscal year 2013 was $4 million, or $0.04 per diluted share, compared to income from continuing operations of $29 million, or $0.30 per diluted share, in the prior year. Net loss for the second quarter of fiscal year 2013 was $4 million compared to net income of $20 million in the prior year. Adjusted EBITDA (see Non-GAAP Financial Measures below) for the second quarter of fiscal year 2013 was $58 million compared to $95 million in the second quarter of fiscal year 2012. Our Adjusted EBITDA margin in the second quarter of fiscal year 2013 was 6.4 percent compared to 8.2 percent in the same period a year ago. Total Adjusted EBITDA and Adjusted EBITDA margin decreased compared to the prior year primarily as a result of lower sales and the corresponding lower earnings from our unconsolidated joint ventures in the second quarter of fiscal year 2013. The impact of lower sales on Adjusted EBITDA margin was partially mitigated by lower material and structural costs and the favorable impact of pricing actions.
Cash flows used by operating activities was $18 million in the second quarter of fiscal year 2013 compared to $51 million in the second quarter of the prior fiscal year. The improvement in cash flows in the second quarter of fiscal year 2013 was primarily due to an improvement in performance working capital.
2nd Quarter Restructuring Initiative (Asia-Pacific Reorganization)
On March 26, 2013, the company announced plans to restructure its on-highway business in China to improve its efficiency and reduce overhead costs by leveraging existing footprint and overhead structure. The company is transferring its manufacturing operations from Wuxi to Xuzhou Meritor Axle Co. Ltd. (XMAL), our off-highway joint venture with Xuzhou Construction Machinery Group (XCMG). The move of manufacturing operations was substantially completed by April 15, and we expect to close our plant in Wuxi in the third quarter. In addition, the Nanjing site will not be utilized as originally planned. The company is working with local officials to explore options related to the facility, including subleasing.
Sale of Ownership Interest in Suspensys Sistemas Automotivos LTDA
On April 29, 2013, subsidiaries of the company entered into a purchase and sale agreement (the “Agreement”) to sell the company's overall 50 percent ownership interest in Suspensys Sistemas Automotivos LTDA (the “Suspensys JV”) to the company's joint venture partner, Randon S.A. Implementos E Participações (“Randon”). The Suspensys JV was formed in 2002 and is primarily engaged in the manufacture and sale of air and mechanical suspension systems for trucks, buses and trailers, trailer axles, third axles, hubs and drums for trucks, buses and trailers.

The purchase price for the sale is $195 million, which is composed of $190 million in cash (approximately $5 million of which is expected be in the form of a pre-closing cash dividend) and $5 million in lease abatements for a facility in Brazil leased by one of the sellers from Randon. The Agreement is subject to regulatory approvals (including the clearance of applicable competition law waiting periods in Brazil). The sale is expected to be consummated as soon as practicable after closing conditions are met and in any event by September 1, 2013. Under the Agreement, the closing date will be automatically extended to the extent the closing conditions have not been met (provided such conditions are not in the control of the parties) and in any event can be extended by mutual agreement of the parties. As a result of this transaction, the company is expecting to record a gain on sale.

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MERITOR, INC.

Trends and Uncertainties

Production Volumes

The following table reflects estimated commercial truck production volumes for selected original equipment (OE) markets for the three months ended March 31, 2013 and 2012 based on available sources and management's estimates.

	Three Months Ended March 31,		Percent	
	2013	2012	Change	
Estimated Commercial Truck (in thousands)				
North America, Heavy-Duty Trucks	56	78	(28	)%
North America, Medium-Duty Trucks	45	48	(6	)%
Western Europe, Heavy- and Medium-Duty Trucks	81	94	(14	)%
South America, Heavy- and Medium-Duty Trucks	38	32	19	%

We expect production volumes in North America and Europe to soften compared to the levels experienced in fiscal year 2012. Beginning in second quarter of fiscal year 2012, production volumes in South America declined significantly as the industry transitioned to tighter emission standard requirements for commercial vehicles. The recovery of production volumes has been slower than previously expected although we have started to see improvement in fiscal year 2013. Production volumes in the Asia-Pacific region, more specifically China and India, have decreased compared to levels experienced in fiscal year 2012, and there is no certainty as to when these volumes will return to the levels previously experienced.

Industry-Wide Issues

Our business continues to address a number of other challenging industry-wide issues including the following:

- Uncertainty around the global market outlook;
- Volatility in price and availability of steel, components and other commodities;
- Disruptions in the financial markets and their impact on the availability and cost of credit;
- Higher energy and transportation costs;
- Impact of currency exchange rate volatility;
- Consolidation and globalization of OEMs and their suppliers; and
- Significant pension and retiree medical health care costs.

Other

Other significant factors that could affect our results and liquidity in fiscal year 2013 include:

- Significant contract awards or losses of existing contracts or failure to negotiate acceptable terms in contract renewal negotiations including, without limitation, negotiations with our largest customer, Volvo, which are ongoing regarding our contract with Volvo covering axle supply in Europe, South America and Australia, which is scheduled to expire in October 2014;
- Ability to work with our customers to manage rapidly changing production volumes;
- Ability to recover and timing of recovery of steel price and other cost increases from our customers;
- Ability to manage possible adverse effects on our European operations, or financing arrangements related thereto, in the event one or more countries exit the European monetary union;
- Any unplanned extended shutdowns or production interruptions by us, our customers or our suppliers;
- A significant deterioration or slowdown in economic activity in the key markets in which we operate;
- Higher than planned price reductions to our customers;
- Potential price increases from our suppliers;
- Additional restructuring actions and the timing and recognition of restructuring charges;
- Higher than planned warranty expenses, including the outcome of known or potential recall campaigns;
- Our ability to implement planned productivity, cost reduction, and other margin improvement initiatives; and
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Restrictive government actions by foreign countries (such as restrictions on transfer of funds and trade protection measures, including export duties and quotas and customs duties and tariffs).

MERITOR, INC.

NON-GAAP FINANCIAL MEASURES

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

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

Management believes Adjusted EBITDA and Adjusted income (loss) from continuing operations are meaningful measures of performance as they are commonly utilized by management and investors to analyze ongoing operating performance and entity valuation. Management, the investment community and banking institutions routinely use Adjusted EBITDA and Adjusted EBITDA margins, together with other measures, to measure operating performance in our industry. Further, management uses Adjusted EBITDA for planning and forecasting future periods. In addition, we use Segment EBITDA as the primary basis to evaluate the performance of each of our reportable segments. Management believes that Free cash flow is useful in analyzing our ability to service and repay debt.

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Adjusted income (loss) from continuing operations	$6	$32	$(5)	$43
Restructuring costs, net of tax	(10)	(3)	(15)	(27)
Income (loss) from continuing operations	$(4)	$29	$(20)	$16
Adjusted diluted earnings (loss) per share from continuing operations	$0.06	$0.33	$(0.05)	$0.45
Impact of adjustments on diluted earnings (loss) per share	(0.10)	(0.03)	(0.15)	(0.28)
Diluted earnings (loss) per share from continuing operations	$(0.04)	$0.30	$(0.20)	$0.17

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Explanation of Responses:

MERITOR, INC.

Free cash flow and Free cash flow from continuing operations before restructuring payments are reconciled to cash flows used for operating activities below (in millions).

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Cash used for operating activities – continuing operations	$(15)	$(46)	$(96)	$(38)
Capital expenditures – continuing operations	(8)	(18)	(23)	(43)
Free cash flow – continuing operations	(23)	(64)	(119)	(81)
Cash used for operating activities – discontinued operations	(3)	(5)	(13)	(8)
Free cash flow – discontinued operations	(3)	(5)	(13)	(8)
Free cash flow – total company	$(26)	$(69)	$(132)	$(89)
Free cash flow – continuing operations	$(23)	$(64)	$(119)	$(81)
Restructuring payments – continuing operations	7	3	12	10
Free cash flow from continuing operations before restructuring payments	$(16)	$(61)	$(107)	$(71)

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MERITOR, INC.

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

Results of Operations

The following is a summary of our financial results is (in millions, except per share amounts):

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
SALES:				
Commercial Truck & Industrial	$712	$952	$1,427	$1,927
Aftermarket & Trailer	224	243	427	461
Intersegment Sales	(28)	(35)	(55)	(69)
SALES	$908	$1,160	$1,799	$2,319
SEGMENT EBITDA:				
Commercial Truck & Industrial	$37	$75	$71	$136
Aftermarket & Trailer	22	24	35	41
SEGMENT EBITDA	59	99	106	177
Unallocated legacy and corporate costs, net (1)	(1)	(4)	(2)	(3)
ADJUSTED EBITDA	58	95	104	174
Interest expense, net	(25)	(23)	(54)	(47)
Provision for income taxes	(7)	(17)	(17)	(37)
Depreciation and amortization	(17)	(16)	(33)	(33)
Restructuring costs	(11)	(3)	(17)	(27)
Loss on sale of receivables	(2)	(3)	(3)	(6)
Noncontrolling interests	—	(4)	—	(8)
INCOME (LOSS) FROM CONTINUING OPERATIONS, attributable to Meritor, Inc.	$(4)	$29	$(20)	$16
LOSS FROM DISCONTINUED OPERATIONS, net of tax, attributable to Meritor, Inc.	—	(9)	(5)	(18)
NET INCOME (LOSS) attributable to Meritor, Inc.	$(4)	$20	$(25)	$(2)
DILUTED INCOME (LOSS) PER SHARE				
Attributable to Meritor, Inc.				
Continuing operations	$(0.04)	$0.30	$(0.20)	$0.17
Discontinued operations	—	(0.09)	(0.05)	(0.19)
Diluted income (loss) per share	$(0.04)	$0.21	$(0.25)	$(0.02)
DILUTED AVERAGE COMMON SHARES OUTSTANDING	97.2	97.2	96.9	97.2

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

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MERITOR, INC.

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Sales

The following table reflects total company and business segment sales for the three months ended March 31, 2013 and 2012. The reconciliation is intended to reflect the trend in business segment sales and to illustrate the impact that changes in foreign currency exchange rates, volumes and other factors had on sales. Business segment sales include intersegment sales (in millions).

	Three Months Ended March 31,		Dollar	%	Dollar Change Due To	
	2013	2012	Change	Change	Currency	Volume / Other
Sales:						
Commercial Truck & Industrial	$712	$952	$(240)	(25)%	$(16)	$(224)
Aftermarket & Trailer	224	243	(19)	(8)%	—	(19)
Intersegment Sales	(28)	(35)	7	(20)%	—	7
TOTAL SALES	$908	$1,160	$(252)	(22)%	$(16)	$(236)

Commercial Truck & Industrial sales were $712 million in the second quarter of fiscal year 2013, down 25 percent compared to the second quarter of fiscal year 2012, reflecting lower production volumes in all geographies except South America. North American industry-wide production volumes for heavy-duty trucks decreased 28 percent in the second quarter of fiscal year 2013 as compared to the same period a year ago. In addition, we experienced lower sales in Europe as industry-wide production volumes were down 14 percent. Also, the step-down in production in our China off-highway business unfavorably impacted sales. Furthermore, the effects of foreign currency exchange rates decreased sales by $16 million compared to the same period a year ago as the U.S. dollar strengthened against other currencies compared to the prior year. The decline in sales was slightly offset by higher sales in South America as industry-wide production increased by 19 percent in the second quarter of fiscal year 2013 as compared to the prior year.

Aftermarket & Trailer sales were $224 million in the second quarter of fiscal year 2013, down from $243 million in the second quarter of fiscal year 2012. The decrease in sales is primarily due to lower sales of core aftermarket replacement products, primarily in North America.

Cost of Sales and Gross Profit

Cost of sales primarily represents materials, labor and overhead production costs associated with the company's products and production facilities. Cost of sales for the three months ended March 31, 2013 was $813 million compared to $1,026 million in the prior year, representing a decrease of 21 percent. The decrease in costs of sales is primarily due to lower sales, which decreased by 22 percent. Total cost of sales was approximately 90 percent and 88 percent of sales for the three month periods ended March 31, 2013 and 2012, respectively.

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

	Cost of Sales
Quarter ended March 31, 2012	$1,026
Volume, mix and other, net	(200)
Foreign exchange	(13)
Quarter ended March 31, 2013	$813

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

Lower material costs	$(191)
Lower labor and overhead costs	(24)
Other, net	2
Total decrease in costs of sales	$(213)

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MERITOR, INC.

Material costs represent the majority of our cost of sales and include raw materials, composed primarily of steel and purchased components. Material costs for the three months ended March 31, 2013 decreased by approximately $191 million compared to the same period last year primarily as a result of lower sales. In addition, global steel prices were lower in the second quarter of fiscal year 2013 as compared to the second quarter of fiscal year 2012.

Labor and overhead costs decreased by $24 million compared to the same period in the prior year. The decrease was primarily due to lower sales in the second quarter of fiscal year 2013. In addition, savings associated with the rationalization of our European manufacturing operations, including the sale of our facility in France in fiscal year 2012, as well as continuous improvement initiatives contributed to the decrease in labor and overhead costs.

Gross profit for the three months ended March 31, 2013 was $95 million compared to $134 million in the same period last year. Gross profit, as a percentage of sales, for the quarter ended March 31, 2013 was 10.5 percent compared to 11.6 percent for the three months ended March 31, 2012.

Other Income Statement Items

Selling, general and administrative expenses for the three months ended March 31, 2013 and 2012 are summarized as follows (in millions):

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012		Increase (Decrease)	
SG&A	Amount	% of sales	Amount	% of sales		
Loss on sale of receivables	$(2)	(0.2)%	$(3)	(0.3)%	$(1)	(0.1)pts
Short- and long-term variable compensation	(6)	(0.7)%	(4)	(0.3)%	2	0.4pts
Charge for legal contingency	—	—%	(5)	(0.4)%	(5)	(0.4)pts
All other SG&A	(57)	(6.3)%	(60)	(5.2)%	(3)	1.1pts
Total SG&A	$(65)	(7.2)%	$(72)	(6.2)%	$(7)	1.0pts

All other SG&A represents normal selling, general and administrative expense and declined approximately 5 percent year over year. The increase in all other SG&A as a percentage of sales compared to the second quarter of fiscal year 2012 was due to lower sales in the current year.

Restructuring costs of $11 million were recorded during the quarter ended March 31, 2013 compared to $3 million a year ago. Our Commercial Truck & Industrial segment recognized $7 million of restructuring costs in the second quarter of fiscal year 2013 primarily related to employee severance costs related to our segment reorganization. Our Aftermarket & Trailer segment recognized $1 million of restructuring costs in the second quarter of fiscal year 2013 primarily related to employee severance costs. In addition, we recognized $3 million of restructuring costs at our corporate locations associated with our segment reorganization.

During the second quarter of fiscal year 2012, we approved a European headcount reduction plan in response to ongoing economic weakness and uncertainty in the European region and recognized approximately $1 million of restructuring costs. The remaining restructuring costs incurred during the second quarter of fiscal year 2012 were primarily related to residual costs associated with the sale of the St. Priest, France manufacturing facility.

Operating income for the second quarter of fiscal year 2013 was $18 million, compared to $58 million in the prior year. Key items impacting operating income are discussed above.

Equity in earnings of affiliates was $10 million in the second quarter of fiscal year 2013, compared to $14 million in the same period in the prior year. The decrease is primarily due to lower earnings from our affiliates in North America and India reflecting weaker truck markets in those regions offset by higher earnings from our affiliate in Brazil.

Interest expense, net for the second quarter of fiscal year 2013 was $25 million, compared to $23 million in the prior year. The increase is primarily related to interest expense associated with the $100 million term loan entered into in April 2012 and interest on the 7.875% convertible notes issued in December 2012, offset by interest savings on the 4.625% convertible notes due 2026 and acquired in December 2012 coupled with the maturity of our 8.75% notes due March 2012.

Provision for income taxes was $7 million in the second quarter of fiscal year 2013 compared to $17 million in the second quarter of fiscal year 2012. The reduction to tax expense for the three months ended March 31, 2013 was primarily attributable to lower earnings in jurisdictions in which we recognize tax expense.

MERITOR, INC.

Loss from continuing operations (before noncontrolling interests) for the second quarter of fiscal year 2013 was $4 million, compared to income of $33 million, in the prior year. The reasons for the deterioration are discussed above.

Loss from discontinued operations was $9 million in the second quarter of fiscal year 2012. Loss from discontinued operations for the three months ended March 31, 2012 primarily relates to changes in estimates and adjustments related to certain assets and liabilities retained from previously divested businesses and indemnities provided at the time of sale of sale.

Net loss attributable to Meritor, Inc. was $4 million for the second quarter of fiscal year 2013 compared to income of $20 million in the second quarter of fiscal year 2012. Various factors impacting the net loss are previously discussed.

Segment EBITDA and EBITDA Margins

Segment EBITDA is defined as income (loss) from continuing operations before interest expense, income taxes, depreciation and amortization, noncontrolling interests in consolidated joint ventures, loss on sale of receivables, restructuring expense and asset impairment charges. We use Segment EBITDA as the primary basis for the Chief Operating Decision Maker (CODM) to evaluate the performance of each of our reportable segments. On November 12, 2012, the company announced a revised management reporting structure resulting in two business segments. Prior period segment financial information has been recast to reflect the revised reporting structure.

The following table reflects Segment EBITDA and Segment EBITDA margins for the three months ended March 31, 2013 and 2012 (dollars in millions).

	Segment EBITDA March 31,			Segment EBITDA Margins March 31,		
	2013	2012	$ Change	2013	2012	Change
Commercial Truck & Industrial	$37	$75	$(38)	5.2%	7.9%	(2.7)pts
Aftermarket & Trailer	22	24	(2)	9.8%	9.9%	(0.1)pts
Segment EBITDA	$59	$99	$(40)	6.5%	8.5%	(2.0)pts

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

	Commercial Truck & Industrial	Aftermarket & Trailer	TOTAL
Segment EBITDA– Quarter ended March 31, 2012	$75	$24	$99
Lower earnings from unconsolidated affiliates	(4)	—	(4)
Lower (higher) pension and retiree medical costs	(1)	1	—
Foreign exchange - transaction and translation	(3)	1	(2)
Volume, mix, pricing and other, net	(30)	(4)	(34)
Segment EBITDA – Quarter ended March 31, 2013	$37	$22	$59

Commercial Truck & Industrial Segment EBITDA was $37 million in the second quarter of fiscal year 2013, down $38 million compared to the same period in the prior year. Segment EBITDA margin decreased to 5.2 percent compared to 7.9 percent in the prior year. The decrease in Segment EBITDA margin reflects lower commercial vehicle production volumes and the corresponding lower earnings from our unconsolidated joint ventures as compared to the same period a year ago. In addition, Segment EBITDA was unfavorably impacted by foreign currency movements, primarily due to the depreciation in Brazilian real compared to the U.S. dollar.

Aftermarket & Trailer Segment EBITDA was $22 million in the second quarter of fiscal year 2013, down $2 million compared to the same period in the prior year. The decrease in Segment EBITDA is due to lower sales from our core aftermarket products in all regions.

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Explanation of Responses:

MERITOR, INC.

Six Months Ended March 31, 2013 Compared to Six Months Ended March 31, 2012

Sales

The following table reflects total company and business segment sales for the six months ended March 31, 2013 and 2012. The reconciliation is intended to reflect the trend in business segment sales and to illustrate the impact that changes in foreign currency exchange rates, volumes and other factors had on sales. Business segment sales include intersegment sales (in millions).

	Six Months Ended March 31, 2013	2012	Dollar Change	% Change	Dollar Change Due To Currency	Volume / Other
Sales:						
Commercial Truck & Industrial	$1,427	$1,927	$(500)	(26)%	$(29)	$(471)
Aftermarket & Trailer	427	461	(34)	(7)%	—	(34)
Intersegment Sales	(55)	(69)	14	(20)%	—	14
TOTAL SALES	$1,799	$2,319	$(520)	(22)%	$(29)	$(491)

Commercial Truck & Industrial sales were $1,427 million in the first six months of fiscal year 2013, down 26 percent compared to the first six months of fiscal year 2012, reflecting lower commercial truck production globally. North American industry-wide production volumes for heavy-duty trucks decreased 25 percent in the first half of fiscal year 2013 as compared to the same period a year ago. In addition, we experienced lower sales in South America and Europe as industry-wide production volumes in these regions were down 23 percent and 14 percent, respectively. Also, the step-down in production in our China off-highway business unfavorably impacted sales. Furthermore, the effects of foreign currency exchange rates decreased sales by $29 million compared to the same period a year ago as the U.S. dollar strengthened against other currencies compared to the prior year.

Aftermarket & Trailer sales were $427 million in the first six months of fiscal year 2013, down from $461 million in the first six months of fiscal year 2012. The decrease in sales is primarily due to lower sales of core aftermarket replacement products, primarily in North America, and products for trailer applications.

Cost of Sales and Gross Profit

Cost of sales primarily represents materials, labor and overhead production costs associated with the company’s products and production facilities. Cost of sales for the six months ended March 31, 2013 was $1,621 million compared to $2,079 million in the prior year, representing a decrease of 22 percent. The decrease in costs of sales is primarily due to lower sales volumes which is discussed above. Total cost of sales was approximately 90 percent of sales for the six month periods ended March 31, 2013 and 2012.

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

	Cost of Sales
Six months ended March 31, 2012	$2,079
Volume, mix and other, net	(429)
Foreign exchange	(29)
Six months ended March 31, 2013	$1,621

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

Lower material costs	$(391)
Lower labor and overhead costs	(70)
Other, net	3
Total decrease in costs of sales	$(458)

MERITOR, INC.

Material costs represent the majority of our cost of sales and include raw materials, composed primarily of steel and purchased components. Material costs for the six months ended March 31, 2013 decreased by approximately $391 million compared to the same period last year primarily as a result of lower sales. In addition, global steel prices were lower in the first six months of fiscal year 2013 as compared to the first six months of fiscal year 2012.

Labor and overhead costs decreased by $70 million compared to the same period in the prior year. The decrease was primarily due to lower sales in the first six months of fiscal year 2013. In addition, savings associated with the variable labor cost reductions as part of our continuous improvement initiatives.

Gross profit for the six months ended March 31, 2013 was $178 million compared to $240 million in the same period last year. Gross profit, as a percentage of sales, was 10 percent for the six months ended March 31, 2013 and 2012.

Other Income Statement Items

Selling, general and administrative expenses for the six months ended March 31, 2013 and 2012 are summarized as follows (in millions):

	Six Months Ended March 31, 2013		Six Months Ended March 31, 2012		Increase (Decrease)	
SG&A	Amount	% of sales	Amount	% of sales		
Loss on sale of receivables	$(3)	(0.2)%	$(6)	(0.3)%	$(3)	(0.1)pts
Short- and long-term variable compensation	(11)	(0.6)%	(9)	(0.4)%	2	0.2pts
Charge for legal contingency	—	— %	(5)	(0.2)%	(5)	(0.2)pts
All other SG&A	(113)	(6.3)%	(117)	(5.0)%	(4)	1.3pts
Total SG&A	$(127)	(7.1)%	$(137)	(5.9)%	$(10)	1.2pts

All other SG&A represents normal selling, general and administrative expense and declined approximately 3 percent year over year. The increase in total SG&A as a percentage of sales compared to the second quarter of fiscal year 2012 was due to lower sales in the current year.

Restructuring costs of $17 million were recorded during the six months ended March 31, 2013 compared to $27 million a year ago. Our Commercial Truck & Industrial segment recognized $9 million of restructuring costs in the first six months of fiscal year 2013 primarily related to employee severance costs. Our Aftermarket & Trailer segment recognized $5 million of restructuring cost during the first six months of fiscal year 2013 primarily related to the remanufacturing consolidation program. In addition, we recognized $3 million of restructuring costs at our corporate locations associated with our segment reorganization.

Restructuring costs in the first six months of fiscal year 2012 include $24 million recognized in our Commercial Truck & Industrial segment in connection with the January 2012 sale our of our St. Priest, France manufacturing facility to Renault Truck SAS. These costs include non-cash charges of $19 million, of which $17 million relates to impairments for assets held for sale at December 31, 2011. In addition, we recognized $5 million (including $4 million recognized in the first quarter of fiscal year 2012) of costs associated with employee headcount reductions and facility rationalization actions.

Operating income for the first six months of fiscal year 2013 was $32 million, compared to $74 million in the prior year. Key items impacting operating income are discussed above.

Equity in earnings of affiliates was $19 million in the first six months of fiscal year 2013, compared to $29 million in the same period in the prior year. The decrease is primarily due to lower earnings from our affiliates in North and South America reflecting weaker truck markets in those regions.

Interest expense, net for the first six months of fiscal year 2013 was $54 million, compared to $47 million in the prior year. During the first quarter ended December 31, 2012, the company repurchased approximately $245 million of $300 million principal amount of the 4.625% convertible notes due 2026. We recognized a $5 million loss on debt extinguishment associated with the repurchase.

Provision for income taxes was $17 million in the first six months of fiscal year 2013 compared to $37 million in the first six months of fiscal year 2012. The reduction to tax expense for the six months ended March 31, 2013 was primarily attributable to lower earnings in jurisdictions in which we recognize tax expense.

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MERITOR, INC.

Loss from continuing operations (before noncontrolling interests) for the first six months of fiscal year 2013 was $20 million, compared to income of $24 million, in the prior year. The reasons for the deterioration are discussed above.

Loss from discontinued operations was $5 million in the first six months of fiscal year 2013, compared to $18 million in the same period in the prior year. Loss from discontinued operations for the six months ended March 31, 2013 and 2012 primarily relates to changes in estimates and adjustments related to certain assets and liabilities retained from previously divested businesses and indemnities provided at the time of sale of sale.

Net loss attributable to Meritor, Inc. was $25 million for the first six months of fiscal year 2013 compared to loss of $2 million in the first six months of fiscal year 2012. Various factors impacting the net loss are previously discussed.

Segment EBITDA and EBITDA Margins

Segment EBITDA is defined as income (loss) from continuing operations before interest expense, income taxes, depreciation and amortization, noncontrolling interests in consolidated joint ventures, loss on sale of receivables, restructuring expense and asset impairment charges. We use Segment EBITDA as the primary basis for the Chief Operating Decision Maker (CODM) to evaluate the performance of each of our reportable segments. On November 12, 2012, the company announced a revised management reporting structure resulting in two business segments. Prior period segment financial information has been recast to reflect the revised reporting structure.

The following table reflects Segment EBITDA and Segment EBITDA margins for the six months ended March 31, 2013 and 2012 (dollars in millions).

	Segment EBITDA March 31,			Segment EBITDA Margins March 31,		
	2013	2012	$ Change	2013	2012	Change
Commercial Truck & Industrial	$71	$136	$(65)	5.0%	7.1%	(2.1)pts
Aftermarket & Trailer	35	41	(6)	8.2%	8.9%	(0.7)pts
Segment EBITDA	$106	$177	$(71)	5.9%	7.6%	(1.7)pts

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

	Commercial Truck & Industrial	Aftermarket & Trailer	TOTAL
Segment EBITDA– Six months ended March 31, 2012	$136	$41	$177
Lower earnings from unconsolidated affiliates	(9)	(1)	(10)
Lower pension and retiree medical costs	1	1	2
Foreign exchange - transaction and translation	(10)	—	(10)
Volume, mix, pricing and other, net	(47)	(6)	(53)
Segment EBITDA – Six months ended March 31, 2013	$71	$35	$106

Commercial Truck & Industrial Segment EBITDA was $71 million in the first six months of fiscal year 2013, down $65 million compared to the same period in the prior year. Segment EBITDA margin decreased to 5.0 percent compared to 7.1 percent in the prior year. The decrease in Segment EBITDA margin reflects lower commercial vehicle production volumes in all regions and lower earnings from our unconsolidated joint ventures as compared to the same period a year ago. In addition, Segment EBITDA was unfavorably impacted by foreign currency movements, primarily due to the depreciation in Brazilian real compared to the U.S. dollar.

Aftermarket & Trailer Segment EBITDA was $35 million in the first six months of fiscal year 2013, down $6 million compared to the same period in the prior year. The decrease in Segment EBITDA is due to lower sales from our core aftermarket products in all regions and lower earnings from our unconsolidated trailer joint venture in Brazil.

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Explanation of Responses:

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Financial Condition
Cash Flows (in millions)

	Six Months Ended March 31, 2013	2012
OPERATING CASH FLOWS		
Income (loss) from continuing operations	$(20)	$24
Depreciation and amortization	33	33
Restructuring costs	17	27
Loss on debt extinguishment	5	—
Equity in earnings of affiliates	(19)	(29)
Pension and retiree medical expense	22	26
Dividends received from equity method investments	7	8
Pension and retiree medical contributions	(48)	(50)
Restructuring payments	(12)	(10)
Decrease in working capital	(32)	(74)
Changes in off-balance sheet accounts receivable factoring	(44)	8
Other, net	(5)	(1)
Cash flows used for continuing operations	(96)	(38)
Cash flows used for discontinued operations	(13)	(8)
CASH USED FOR OPERATING ACTIVITIES	$(109)	$(46)

Cash used by operating activities for the first six months of fiscal year 2013 was $109 million, compared to $46 million in the same period of fiscal year 2012. The cash outflow in continuing operations was primarily due to lower factoring of our receivables.

	Six Months Ended March 31, 2013	2012
INVESTING CASH FLOWS		
Capital expenditures	$(23)	$(43)
Proceeds from sale of property	—	18
Other investing activities	—	(2)
Net investing cash flows provided by discontinued operations	6	28
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	$(17)	$1

Cash used for investing activities was $17 million in the first six months of fiscal year 2013 compared to cash provided by investing activities of $1 million in the same period a year ago. Net investing cash flows provided by discontinued operations for the six months ended March 31, 2013 includes approximately $3 million of proceeds from the sale of property from our divested Light Vehicle Systems business group. In addition, we received $3 million for the second installment on the note receivable, which was issued at the time of sale of our Body Systems business. Proceeds from sale of property in the second half of 2012 are related to the sale of excess land at our Commercial Truck & Industrial facility at Cwmbran, Wales. Investing cash flows provided by discontinued operations in the first six months of fiscal year 2012 include $27 million of cash received from the purchaser of our Body Systems business.

MERITOR, INC.

	Six Months Ended March 31, 2013	2012
FINANCING CASH FLOWS		
Borrowing on accounts receivable securitization program, net	—	19
Repayment of notes and term loan	(236)	(84)
Proceeds from debt issuance	225	—
Debt issuance costs	(6)	—
Other financing activities	2	—
CASH USED BY FINANCING ACTIVITIES	$(15)	$(65)

Cash used for financing activities was $15 million for the first six months of fiscal year 2013 compared to $65 million for the first six months of fiscal year 2012. In December 2012, we issued $250 million of 7.875 percent convertible senior notes due 2026. Net proceeds from the issuance of these notes were used along with available cash to retire a portion of our outstanding 4.625 percent convertible senior notes due 2026. We incurred $6 million of issuance costs related to these transactions.

In the second quarter of fiscal year 2012, we retired the remaining $84 million of outstanding 8-3/4 percent notes due 2012 at par value. We borrowed $19 million on our on-balance sheet accounts receivable securitization program in the U.S.

Liquidity

Our outstanding debt, net of discounts where applicable, is summarized as follows (in millions).

	March 31, 2013	September 30, 2012
Fixed-rate debt securities	$497	$497
Fixed-rate convertible notes	480	500
Term loan	95	98
Lines of credit and other	20	13
Unamortized gain on interest rate swap termination	9	10
Unamortized discount on convertible notes	(46)	(58)
Total debt	$1,055	$1,060

Overview – Our principal operating and capital requirements are for working capital needs, capital expenditure requirements, debt service requirements, funding of pension and retiree medical costs, restructuring and product development programs. We expect fiscal year 2013 capital expenditures for our business segments to be in the range of $65 million to $75 million.

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

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

We believe our current financing arrangements provide us with the financial flexibility required to maintain our operations and fund future growth, including actions required to improve our market share and further diversify our global operations, through the term of our revolving credit facility, which matures in April 2017 but is subject to a springing maturity in June 2015 under certain circumstances.

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Sources of liquidity as of March 31, 2013, in addition to cash on hand, are as follows:

	Total Facility Size	Unused as of 3/31/13	Current Expiration
On-balance sheet arrangements:			
Revolving credit facility(1)	$429	$429	April 2017(1)
Committed U.S. accounts receivable securitization(2)	100	100	June 2015
Total on-balance sheet arrangements	529	529	
Off-balance sheet arrangements:(2)			
Swedish Factoring Facility	192	59	June 2013
U.S. Factoring Facility	83	32	October 2013
U.K. Factoring Facility	32	24	February 2018
Italy Factoring Facility	38	27	June 2017
Other uncommitted factoring facilities	26	16	Various
Letter of credit facility	30	3	November 2015
Total off-balance sheet arrangements	401	161	
Total available sources	$930	$690	

(1) The availability under the revolving credit facility is subject to a collateral test as discussed under "Revolving Credit Facility" below. On April 23, 2012, we entered into an agreement to amend and extend the revolving credit facility through April 2017 (with a springing maturity date of 2015 under certain circumstances). See further discussion below under "Revolving Credit Facility".

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

Cash and Liquidity Needs – Our cash and liquidity needs have been impacted by the level, variability and timing of our customers' worldwide vehicle production and other factors outside of our control. At March 31, 2013, we had $117 million in cash and cash equivalents.

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

Debt Repurchase Program – On April 26, 2012, our Board of Directors approved a repurchase program for up to $150 million of any of our public debt securities (including without limitation convertible debt securities) from time to time through open market purchases or privately negotiated transactions or otherwise, subject to necessary approvals, including further approval by a specified committee of the Board. Such committee of the Board approved repurchases of up to $50 million under this program from time to time, initially through December 15, 2012, which was renewed to extend through December 15, 2013.

Revolving Credit Facility – At March 31, 2012, we had a revolving credit facility of $441 million which was slated to mature in January 2014. The availability under this facility was dependent upon various factors, including principally performance against certain financial covenants. The $441 million revolving credit facility included $100 million of availability for the issuance of letters of credit.

On April 23, 2012, we amended and restated our revolving credit facility. Pursuant to the revolving credit facility agreement as amended, we have a $429 million revolving credit facility, $14 million of which matures in January 2014 for a bank not electing to extend its commitments under the revolving credit facility existing at March 31, 2012 and the remaining $415 million of which matures in April 2017. The April 2017 maturity date is also subject to the following springing maturity condition: if on June 1, 2015, the outstanding principal amount of our $250 million bonds due 2015 is greater than $100 million, the maturity date becomes June 10, 2015. The availability under this facility is dependent upon various factors, including principally performance against certain financial covenants.

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No borrowings were outstanding under the revolving credit facility at March 31, 2013 and September 30, 2012. The amended and extended revolving credit facility includes $100 million of availability for the issuance of letters of credit. No letters of credit were outstanding on March 31, 2013. At September 30, 2012, $1 million of letters of credit were outstanding under the revolving credit facility. At certain times during any given month, we could draw on our revolving credit facility to fund intra-month working capital needs. In such months, we would then typically utilize the cash we receive from our customers throughout the month to repay borrowing under the facility. Accordingly, during any given month, we may draw down on this facility in amounts exceeding the amounts shown as outstanding at fiscal quarter ends.

The availability under the revolving credit facility is subject to certain financial covenants based on (i) the ratio of our priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. We are required to maintain a total priority-debt-to-EBITDA ratio, as defined in the agreement, of (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 March 31, 2013, we were in compliance with all covenants under our credit agreement with a ratio of approximately 0.61x for the priority debt-to-EBITDA covenant.

Availability under the amended and extended revolving credit facility is also subject to a collateral test, pursuant to which borrowings on the revolving credit facility cannot exceed 1.0x the collateral test value. The collateral test is performed on a quarterly basis. At March 31, 2013, the revolving credit facility was collateralized by approximately $589 million of the company's assets, primarily consisting of eligible domestic U.S. accounts receivable, inventory, plant, property and equipment, intellectual property and the company's investment in all or a portion of certain of its wholly-owned subsidiaries.

Borrowings under the revolving credit facility are subject to interest based on quoted LIBOR rates plus a margin, and a commitment fee on undrawn amounts, both of which are based upon our current corporate credit rating for the senior secured facilities. At March 31, 2013, the margin over LIBOR rate was 425 basis points and the commitment fee was 50 basis points. Although a majority of our revolving credit loans are LIBOR based, 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 credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the publicly-held notes outstanding under the company's indentures and the convertible notes issued in December 2012 (see Note 24 to the consolidated financial statements).

Term Loan – As part of the amendment and restatement of our revolving credit facility, on April 23, 2012, we also entered into a $100 million term loan agreement with a maturity date of April 23, 2017. The maturity date of April 23, 2017 is also subject to the springing maturity condition discussed under "Revolving Credit Facility" above. The term loan will amortize over a period of 5 years from the effective date as follows: $5 million principal to be repaid during year one; $10 million principal to be repaid in each of the years two, three and four; and the remaining principal balance to be paid in year five. Payments will be made on a quarterly basis for the duration of the term loan. At March 31, 2013, the margin over LIBOR rate was 425 basis points. We have the ability to prepay the term loan at any time without penalty or premium. At March 31, 2013, the outstanding balance of the term loan was $95 million.

Convertible Notes – In December 2012, we issued $250 million of 7.875 percent convertible senior unsecured notes due 2026 (the “Notes”) and used the proceeds thereof primarily to repurchase outstanding notes. See “Overview” above. The Notes were sold by us to qualified institutional buyers in a private placement exempt from the registration requirements of the Securities Act of 1933. The Notes have an initial principal amount of $900 per note and will accrete to $1,000 per note on December 1, 2020. Net proceeds received, after issuance costs and discounts, were approximately $220 million.

We will pay 7.875 percent cash interest on the principal amount at maturity of the 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 Notes for payment. Interest will accrue on the principal amount at maturity thereof from and including the date the 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. Cash interest at a rate of 7.875 percent per annum on the principal amount at maturity of the convertible notes from the date of issuance through maturity is payable semi-annually in arrears on June 1 and December 1 of each year.

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

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The Notes will be convertible in certain circumstances into cash up to the principal amount at maturity of the Note 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 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% 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% 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% 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% 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.
U.S. Securitization Program – We have a $100 million U.S. accounts receivables securitization facility, which expires on June 18, 2015. This program is provided by PNC Bank, National Association (PNC), as Administrator, Market Street Funding, LLC, and the other Purchasers and Purchaser Agents from time to time (participating lenders), which are party to the agreement. Under this program, we have the ability to sell an undivided percentage ownership interest in substantially all of our trade receivables (excluding the receivables due from AB Volvo and subsidiaries eligible for sale under the U.S. Factoring Facility) of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation (ARC), a wholly-owned, special purpose subsidiary. ARC funds these purchases with borrowings from participating lenders under a loan agreement. This program also includes a letter of credit facility pursuant to which ARC may request the issuance of letters of credit issued for our U.S. subsidiaries (originators) or their designees, which when issued will constitute a utilization of the facility for the amount of letters of credit issued. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the consolidated balance sheet. At both March 31, 2013 and September 30, 2012, no amounts, including letters of credit, were outstanding under this program. This program contains a financial covenant related to our priority-debt-to-EBITDA ratio, which is identical to the corresponding covenant in our revolving credit facility as it exists on the date of the agreement. In addition, this securitization program contains a cross default to our revolving credit facility. At certain times during any given month, we may sell eligible accounts receivable under this program to fund intra-month working capital needs. In such months, we would then typically utilize the cash we receive from our customers throughout the month to repay the borrowings under the program. Accordingly, during any given month, we may borrow under this program in amounts exceeding the amounts shown as outstanding at fiscal quarter ends.

Capital Leases – On March 20, 2012, we entered into an arrangement to finance equipment acquisitions at our various U.S. locations. Under this arrangement, we can request financing from GE Capital Commercial, Inc. (GE Capital) for progress payments for equipment under construction, not to exceed $10 million at any point in time. The financing rate is equal to the 30-day LIBOR plus 575 basis points per annum. Under this arrangement, we can also enter into lease arrangements with GE Capital for completed equipment. The lease term is 60 months and the lease interest rate is equal to the 5-year Swap Rate published by the Federal Reserve Board plus 564 basis points. As of March 31, 2013 and September 30, 2012, we had $12 million and $6 million, respectively, outstanding under these arrangements.

Other – One of our consolidated joint ventures in China participates in a bills of exchange program to settle its obligations with its trade suppliers. These programs are common in China and generally require the participation of local banks. Under these programs, our joint venture issues notes payable through the participating banks to its trade suppliers. If the issued notes payable remain unpaid on their respective due dates, this could constitute an event of default under the company's revolving credit facility if the defaulted amount were to exceed $35 million.

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Credit Ratings – At March 31, 2013, Standard & Poor's corporate credit rating, senior secured credit rating, and senior unsecured credit rating for our company are B, BB- and B-, respectively. Moody's Investors Service corporate credit rating, senior secured credit rating, and senior unsecured credit rating for our company are B2, Ba2 and B3, respectively. Any lowering of our credit ratings could increase our cost of future borrowings and could reduce our access to capital markets and result in lower trading prices for our securities.

Off-Balance Sheet Arrangements

Accounts Receivable Factoring Arrangements – We participate in accounts receivable factoring programs with total amounts utilized at March 31, 2013, of approximately $213 million, of which $203 million was attributable to committed factoring facilities involving the sale of AB Volvo accounts receivables. The remaining amount of $10 million was related to factoring by certain of our European subsidiaries under uncommitted factoring facilities with financial institutions. The receivables under these programs are sold at face value and are excluded from the consolidated balance sheet. Total facility size, unused amounts and expiration dates for each of these programs are shown in the table above under "Overview."

The Swedish and U.S. factoring facilities are backed by 364-day liquidity commitments from Nordea Bank which were renewed through October 2013. Management believes both facilities will be successfully renewed prior to maturity. The commitments under all of our factoring facilities are subject to standard terms and conditions for these types of arrangements (including, in case of the U.K. and Italy commitments, a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the respective programs).

Since many of our accounts receivable factoring programs support our working capital requirements in Europe, we are monitoring developments with respect to the European monetary union. If the European monetary union were to dissolve and we were unable to renegotiate our European factoring agreements it could have a material adverse effect on our liquidity.

Letter of Credit Facilities – We 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, we have the right to obtain the issuance, renewal, extension and increase of letters of credit up to an aggregate availability of $30 million. This facility contains covenants and events of default generally similar to those existing in our public debt indentures. At March 31, 2013 and September 30, 2012, we had $27 million and $30 million, respectively, of letters of credit outstanding under this facility. In addition, we had another $9 million and $18 million of letters of credit outstanding through other letter of credit facilities at March 31, 2013 and September 30, 2012, respectively.

Contingencies

Contingencies related to environmental, asbestos and other matters are discussed in Note 20 of the Notes to Condensed Consolidated Financial Statements.

New Accounting Pronouncements

Accounting standards implemented during fiscal year 2013

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We have adopted this guidance effective with our first quarter of fiscal year 2013 and have reported Other Comprehensive Income as a separate but consecutive statement.

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Accounting standards to be implemented

In January 2013, the FASB issued 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. As such, we will adopt this guidance with our first quarter of fiscal year 2014. We do not believe the adoption will have a significant impact on our consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires 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. As such, we will adopt this guidance with our first quarter of fiscal year 2014. We do not believe the adoption will have a significant impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

We generally have not hedged against our foreign currency exposure related to translations to U.S. dollars of our financial results denominated in foreign currencies. However, in the first quarter of fiscal year 2012, due to the volatility of the Brazilian real as compared to the U.S. dollar, we entered into foreign currency option contracts to reduce volatility in the translation of Brazilian real earnings to U.S. dollars. Gains and losses on these option contracts are recorded in other income (expense), net, in the consolidated statement of operations, generally reducing the exposure to translation volatility during a full-year period. The impact of these option contracts was not significant to our results of operations or financial position at March 31, 2012.

Interest rate risk relates to the gain/increase or loss/decrease we could incur in our debt balances and interest expense. To manage this risk, we enter into interest rate swaps from time to time to economically convert portions of our fixed-rate debt into floating rate exposure, ensuring that the sensitivity of the economic value of debt falls within our corporate risk tolerances. It is our policy not to enter into derivative instruments for speculative purposes, and therefore, we hold no derivative instruments for trading purposes. In the fourth quarter of fiscal year 2012, we entered into a four-year interest rate swap arrangement whereby we convert the variable interest rate on our term-loan expressed as LIBOR-rate into a variable interest rate based on U.S. federal funds rate. The notional amount of the arrangement is $50 million, which is approximately 50-percent of the amount outstanding under our term-loan. The

arrangement does not meet the hedge accounting requirements, therefore, the mark-to-market adjustments related to the fair value of derivative are recorded as interest expense in the consolidated statement of operations.
Included below is a sensitivity analyses to measure the potential gain (loss) in the fair value of financial instruments with exposure to market risk. The model assumes a 10 percent hypothetical change (increase or decrease) in exchange rates and instantaneous, parallel shifts of 50 basis points in interest rates.

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Market Risk

	Assuming a 10% Increase in Rates	Assuming a 10% Decrease in Rates	Increase (Decrease) in
Foreign Currency Sensitivity:			
Forward contracts in USD[(1)]	$0.9	$(0.9)	Fair Value
Forward contracts in Euro[(1)]	(2.7)	2.7	Fair Value
Foreign currency denominated debt	0.7	(0.7)	Fair Value
	Assuming a 50 BPS Increase in Rates	Assuming a 50 BPS Decrease in Rates	Increase (Decrease) in
Interest Rate Sensitivity:			
Debt - fixed rate	$(27.7)	$29.0	Fair Value
Debt – variable rate[(2)]	(0.5)	0.5	Cash flow

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

At March 31, 2013 a 10% decrease in quoted currency exchange rates would result in a potential loss of approximately $1 million in foreign currency denominated debt.

At March 31, 2013 the fair value of outstanding debt was approximately $1,081 million. A 50 basis points decrease in quoted interest rates would result in an increase in the fair value of fixed rate debt by approximately $29 million.

(2) Includes domestic and foreign debt.

Item 4. 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 March 31, 2013. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of March 31, 2013, 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.

There have been no changes in the company’s internal control over financial reporting that occurred during the quarter ended March 31, 2013 that materially affected, or are reasonably likely to materially affect, the company’s internal control over financial reporting.

In connection with the rule, the company continues to review and document its disclosure controls and procedures, including the company’s internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and ensuring that the company’s systems evolve with the business.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Except as set forth below and as set forth in this Quarterly Report under Note 20 “Contingencies”, there have been no material developments in legal proceedings involving the company or its subsidiaries since those reported in the company’s Annual Report on Form 10-K, for the fiscal year ended September 30, 2012.

On October 5, 2006, Meritor Transmission Corporation and ZF Meritor LLC, a joint venture between a Meritor, Inc. subsidiary and ZF Friedrichshafen AG, filed a lawsuit against Eaton Corporation in the United States District Court for the District of Delaware, alleging that Eaton had engaged in exclusionary, anticompetitive conduct in the markets for heavy-duty truck transmissions, in violation of the U.S. antitrust laws and seeking an injunction prohibiting Eaton from engaging in such anticompetitive conduct and monetary damages. On October 8, 2009, the jury found that Eaton engaged in conduct that violated the Sherman and Clayton antitrust acts in the sale and marketing of heavy-duty truck transmissions. On August 4, 2011, the district court awarded ZF Meritor zero damages. On September 28, 2012, the Third Circuit Court of Appeals affirmed that the trial evidence sufficiently supported the jury’s verdict, reversed the district court’s decision on damages in part, and remanded the question of damages for further proceedings. The district court denied Eaton’s request to stay the damages phase of the case pending any possible action by the Supreme Court and set May 1, 2013 as the deadline by which party motions on damages must be fully briefed for district court consideration. On February 25, 2013, Eaton petitioned the United States Supreme Court for a writ of certiorari seeking review of the Third Circuit’s judgment. The Supreme Court denied Eaton’s petition on April 29, 2013.

Item 1A. Risk Factors

There have been no material changes in risk factors involving the company or its subsidiaries from those previously disclosed in the company’s Annual Report on Form 10-K, for the fiscal year ended September 30, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer repurchases

The independent trustee of our 401(k) plans purchases shares in the open market to fund investments by employees in our common stock, one of the investment options available under such plans, and any matching contributions in company stock we provide under certain of such plans. In addition, our stock incentive plans permit payment of an option exercise price by means of cashless exercise through a broker and permit the satisfaction of the minimum statutory tax obligations upon exercise of options and the vesting of restricted stock units through stock withholding. However, the company does not believe such purchases or transactions are issuer repurchases for the purposes of this Item 2 of Part II of this Report on Form 10-Q. In addition, our stock incentive plans also permit the satisfaction of tax obligations upon the vesting of restricted stock through stock withholding. There were no shares withheld in the second quarter of 2013.

Item 5. Other Information

On May 1, 2013, the Company entered into employment agreements (the “New Employment Agreements”) with each of the following executive officers: Charles G. McClure; Vernon G. Baker, II; Jeffrey A. Craig; Pedro N. Ferro; Barbara G. Novak; Kevin A. Nowlan; and Larry E. Ott. The New Employment Agreements are substantially in the form of a template of executive officer employment agreement and supersede any existing employment agreements. In addition, as Mr. Nowlan only assumed his role as Chief Financial Officer in February, the New Employment Agreement with Mr. Nowlan is the first executive officer employment agreement the company has entered into with Mr. Nowlan. The New Employment Agreements do not change the level of salary, annual bonus or long term incentive targets applicable to the individual under current arrangements and primarily reflect minor non-substantive changes in the existing agreements in order to clarify certain provisions. However, the New Employment Agreements do add the following substantive provisions, which either were not in the current arrangements or were not in each officer's current arrangement: a clawback of incentive compensation under certain circumstances; certain non-compete and non-solicitation obligations following termination; and certain tax provisions. The New Employment Agreements are filed as exhibits to this Form 10-Q.

Explanation of Responses:

MERITOR, INC.

Cautionary Statement

This Quarterly Report on Form 10-Q contains statements relating to future results of the company (including certain projections and business trends) that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as “believe,” “expect,” “anticipate,” “estimate,” “should,” “are likely to be,” “will” and similar expressions. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to failure to receive the Brazilian regulatory approvals required to complete the sale of our ownership stake in the Suspensys joint venture or to otherwise successfully complete the sale of such ownership stake; failure to consummate our debt tender offer due to financing or other conditions; reduced production for certain military programs and our ability to secure new military programs as our primary military programs wind down by design in future years; reliance on major original equipment manufacturer (“OEM”) customers and possible negative outcomes from contract negotiations with our major customers, including failure to negotiate acceptable terms in contract renewal negotiations; our ability to successfully manage rapidly changing volumes in the commercial truck markets and work with our customers to adjust their demands in view of rapid changes in production levels; global economic and market cycles and conditions; availability and sharply rising costs of raw materials, including steel, and our ability to manage or recover such costs; our ability to manage possible adverse effects on our European operations, or financing arrangements related thereto, in the event one or more countries exit the European monetary union; risks inherent in operating abroad (including foreign currency exchange rates, implications of foreign regulations relating to pensions and potential disruption of production and supply due to terrorist attacks or acts of aggression); rising costs of pension and other postretirement benefits; the ability to achieve the expected benefits of restructuring actions; the demand for commercial and specialty vehicles for which we supply products; whether our liquidity will be affected by declining vehicle productions in the future; OEM program delays; demand for and market acceptance of new and existing products; successful development of new products; labor relations of our company, our suppliers and customers, including potential disruptions in supply of parts to our facilities or demand for our products due to work stoppages; the financial condition of our suppliers and customers, including potential bankruptcies; possible adverse effects of any future suspension of normal trade credit terms by our suppliers; potential difficulties competing with companies that have avoided their existing contracts in bankruptcy and reorganization proceedings; potential impairment of long-lived assets, including goodwill; potential adjustment of the value of deferred tax assets; competitive product and pricing pressures; the amount of our debt; our ability to continue to comply with covenants in our financing agreements; our ability to access capital markets; credit ratings of our debt; the outcome of existing and any future legal proceedings, including any litigation with respect to environmental or asbestos-related matters; the outcome of actual and potential product liability, warranty and recall claims; and possible changes in accounting rules; as well as other substantial costs, risks and uncertainties, including but not limited to those detailed herein and from time to time in other filings of the company with the SEC. See also the following portions of our Annual Report on Form 10-K for the year ended September 30, 2012: Item 1. Business , “Customers; Sales and Marketing”; “Competition”; “Raw Materials and Supplies”; “Employees”; “Environmental Matters”; “International Operations”; and “Seasonality; Cyclicality”; Item 1A. Risk Factors; Item 3. Legal Proceedings; and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. These forward-looking statements are made only as of the date hereof, and the company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law.

MERITOR, INC.

Item 6. 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 by reference.
3-a-1	Articles of Amendment of Restated Articles of Incorporation of Meritor filed as exhibit 3-a-1 to Meritor’s Quarterly Report on Form 10-Q for the quarterly period ended April 3, 2011, is incorporated by reference.
3-b	By-laws of Meritor, filed as Exhibit 3 to Meritor's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2003 (File No. 1-15983), is incorporated by reference.
10-a**	Employment Agreement between Meritor, Inc. and Charles McClure dated May 1, 2013*
10-b**	Employment Agreement between Meritor, Inc. and Vernon Baker, II dated May 1, 2013*
10-c**	Employment Agreement between Meritor, Inc. and Jeffrey Craig dated May 1, 2013*
10-d**	Employment Agreement between Meritor, Inc. and Pedro Ferro dated May 1, 2013*
10-e**	Employment Agreement between Meritor, Inc. and Barbara Novak dated May 1, 2013*
10-f**	Employment Agreement between Meritor, Inc. and Kevin Nowlan dated May 1, 2013*
10-g**	Employment Agreement between Meritor, Inc. and Larry Ott dated May 1, 2013*
10-h	Quota Purchase and Sale Agreement by and among Meritor Heavy Vehicle Systems, LLC, Meritor Do Brasil Sistemas Automotivos LTDA. and Randon S.A. Implementos E Participacoes dated as of April 29, 2013*
12	Computation of ratio of earnings to fixed charges*
23	Consent of Bates White LLC*
31-a	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (Exchange Act)*
31-b	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act*
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*

* Filed herewith.
** Management Contract or compensatory plan or arrangement.

MERITOR, INC.

SIGNATURES

Pursuant to the requirements 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.

Date:	May 3, 2013	By:	/s/	V. G. Baker, II
				V. G. Baker, II
				Senior Vice President and General Counsel
				(For the registrant)
Date:	May 3, 2013	By:	/s/	K. A. Nowlan
				K. A. Nowlan
				Senior Vice President and Chief Financial Officer

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