

MERITOR INC
Form 10-Q
February 06, 2012

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

FORM 10-Q

QUARTERLY REPORT

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

For the Quarterly Period Ended January 1, 2012

Commission File No. 1-15983

MERITOR, INC.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of incorporation or organization)

38-3354643

(I.R.S. Employer Identification No.)

2135 West Maple Road, Troy, Michigan

(Address of principal executive offices)

48084-7186

(Zip Code)

(248) 435-1000

(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Large accelerated filer ☒

Non-accelerated filer

Accelerated filer

Smaller reporting company

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

Edgar Filing: MERITOR INC - Form 10-Q

Yes No **X**

94,621,352 shares of Common Stock, \$1.00 par value, of Meritor, Inc. were outstanding on January 1, 2012.

INDEX

PART I.	FINANCIAL INFORMATION:	
	Item 1.	Financial Statements:
		Page No.
		Consolidated Statement of Operations - - Three Months Ended December 31, 2011 and 2010
		3
		Condensed Consolidated Balance Sheet - - December 31, 2011 and September 30, 2011
		4
		Condensed Consolidated Statement of Cash Flows - - Three Months Ended December 31, 2011 and 2010
		5
		Condensed Consolidated Statement of Equity (Deficit) - - Three Months Ended December 31, 2011 and 2010
		6
		Notes to Consolidated Financial Statements
		7
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
		30
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk
		42
	Item 4.	Controls and Procedures
		43
PART II.	OTHER INFORMATION:	
	Item 1.	Legal Proceedings
		44
	Item 1A.	Risk Factors
		44
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
		44
	Item 5.	Other Information
		44
	Item 6.	Exhibits
		46
	Signatures	47

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

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

	Three Months Ended December 31, 2011 (Unaudited)	2010
Sales	\$ 1,159	\$ 957
Cost of sales	(1,053)	(852)
GROSS MARGIN	106	105
Selling, general and administrative	(65)	(70)
Restructuring costs	(24)	(3)
Other operating expense	(1)	
OPERATING INCOME	16	32
Other income, net	4	
Equity in earnings of affiliates	15	13
Interest expense, net	(24)	(27)
INCOME BEFORE INCOME TAXES	11	18
Provision for income taxes	(20)	(20)
LOSS FROM CONTINUING OPERATIONS	(9)	(2)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(9)	4
NET INCOME (LOSS)	(18)	2
Less: Net income attributable to noncontrolling interests	(4)	(4)
NET LOSS ATTRIBUTABLE TO MERITOR, INC.	\$ (22)	\$ (2)
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.		
Net loss from continuing operations	\$ (13)	\$ (6)
Income (loss) from discontinued operations	(9)	4
Net loss	\$ (22)	\$ (2)
BASIC EARNINGS (LOSS) PER SHARE		
Continuing operations	\$ (0.13)	\$ (0.07)
Discontinued operations	(0.10)	0.04
Basic loss per share	\$ (0.23)	\$ (0.03)
DILUTED EARNINGS (LOSS) PER SHARE		
Continuing operations	\$ (0.13)	\$ (0.07)
Discontinued operations	(0.10)	0.04
Diluted loss per share	\$ (0.23)	\$ (0.03)
Basic and diluted average common shares outstanding	94.5	93.3

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

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

	December 31, 2011 (Unaudited)	September 30, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 211	\$ 217
Receivables, trade and other, net	611	712
Inventories	483	460
Other current assets	72	70
TOTAL CURRENT ASSETS	1,377	1,459
NET PROPERTY	395	421
GOODWILL	428	431
OTHER ASSETS	353	352
TOTAL ASSETS	\$ 2,553	\$ 2,663
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Short-term debt	\$ 84	\$ 84
Accounts Payable	771	841
Other current liabilities	342	328
TOTAL CURRENT LIABILITIES	1,197	1,253
LONG-TERM DEBT	951	950
RETIREMENT BENEFITS	1,075	1,096
OTHER LIABILITIES	313	325
EQUITY (DEFICIT):		
Common stock (December 31 and September 30, 2011, 94.6 shares issued and outstanding)	94	94
Additional paid-in capital	899	897
Accumulated deficit	(1,179)	(1,157)
Accumulated other comprehensive loss	(834)	(829)
Total deficit attributable to Meritor, Inc.	(1,020)	(995)
Noncontrolling interests	37	34
TOTAL DEFICIT	(983)	(961)
TOTAL LIABILITIES AND DEFICIT	\$ 2,553	\$ 2,663

See notes to consolidated financial statements.

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

	Three Months Ended December 31,	
	2011 (Unaudited)	2010
OPERATING ACTIVITIES		
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES (See Note 10)	\$ 5	\$ (49)
INVESTING ACTIVITIES		
Capital expenditures	(25)	(19)
Other investing activities	2	3
Net investing cash flows used for continuing operations	(23)	(16)
Net investing cash flows provided by (used for) discontinued operations	11	(6)
CASH USED FOR INVESTING ACTIVITIES	(12)	(22)
CASH PROVIDED BY FINANCING ACTIVITIES		2
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	1	2
CHANGE IN CASH AND CASH EQUIVALENTS	(6)	(67)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	217	343
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 211	\$ 276

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

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

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Deficit Attributable to Meritor, Inc.	Noncontrolling Interests	Total
<i>Beginning balance</i>							
at September 30, 2011	\$ 94	\$ 897	\$ (1,157)	\$ (829)	\$ (995)	\$ 34	\$ (961)
Net income (loss)			(22)		(22)	4	(18)
Foreign currency translation adjustments				(2)	(2)	(1)	(3)
Other				(3)	(3)		(3)
Comprehensive income (loss)					(27)	3	(24)
Equity based Compensation expense		2			2		2
<i>Ending Balance at</i>							
December 31, 2011	\$ 94	\$ 899	\$ (1,179)	\$ (834)	\$ (1,020)	\$ 37	\$ (983)
<i>Beginning balance</i>							
at September 30, 2010	\$ 92	\$ 886	\$ (1,220)	\$ (812)	\$ (1,054)	\$ 31	\$ (1,023)
Net income (loss)			(2)		(2)	4	2
Foreign currency translation adjustments				27	27		27
Comprehensive income					25	4	29
Equity based compensation expense		2			2		2
Exercise of stock options		2			2		2
<i>Ending Balance at</i>							
December 31, 2010	\$ 92	\$ 890	\$ (1,222)	\$ (785)	\$ (1,025)	\$ 35	\$ (990)

See notes to consolidated financial statements.

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

1. Basis of Presentation

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

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

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

The company's fiscal year ends on the Sunday nearest September 30. The first quarter of fiscal years 2012 and 2011 ended on January 1, 2012 and January 2, 2011, respectively. All year and quarter references relate to the company's fiscal year and fiscal quarters, unless otherwise stated. For ease of presentation, September 30 and December 31 are used consistently throughout this report to represent the fiscal year end and first quarter end, respectively.

The company has evaluated subsequent events through the date that the consolidated financial statements were issued (see Note 23).

2. Earnings per Share

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

Basic and diluted average common shares outstanding were 94.5 million and 93.3 million for the three months periods ended December 31, 2011 and 2010, respectively. The potential effects of restricted stock and stock units and stock options were excluded from the diluted earnings per share calculation for the three months ended December 31, 2011 and 2010 because their inclusion in a net loss period would reduce the net loss per share. Therefore, 2.3 million and 3.2 million shares of restricted stock and restricted stock units were excluded from the computation of diluted earnings per share at December 31, 2011 and 2010, respectively. In addition, options to purchase 0.9 million and 1.2 million shares of common stock were excluded from the computation of diluted earnings per share at December 31, 2011 and 2010, respectively. The company's convertible senior unsecured notes are excluded from the computation of diluted earnings per share, as the stock price at the end of the quarter is less than the conversion price.

3. New Accounting Standards

Accounting standards to be implemented

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

Edgar Filing: MERITOR INC - Form 10-Q

with its second quarter of fiscal year 2012 and does not believe the adoption will have a significant effect on goodwill impairment assessments in the future.

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 beginning after December 15, 2011. The company does not believe the adoption of the new guidance will have a significant impact on the company's consolidated financial statements.

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

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

4. Discontinued Operations

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

	Three Months Ended December 31,	
	2011	2010
Sales	\$ 2	\$ 317
Operating income, net	\$	\$ 14
Loss on sale of business	(1)	
Restructuring costs	(1)	(1)
Charge for loss contingency (see Note 20)	(3)	
Other, net	(4)	(3)
Income (loss) before income taxes	(9)	10
Provision for income taxes	(6)	(6)
Income (loss) from discontinued operations attributable to Meritor, Inc.	\$ (9)	\$ 4

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

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

The following summarizes significant items included in income from discontinued operations in the consolidated statement of operations for the three-month periods ended December 31, 2011 and 2010:

Operating income from discontinued operations in the first quarter of fiscal year 2011 represents income from normal operating activities of businesses, primarily Body Systems, included in discontinued operations.

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

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

5. Goodwill

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

	Commercial		Aftermarket	
	Truck	Industrial	& Trailer	Total
Balance at September 30, 2011	\$ 150	\$ 109	\$ 172	\$ 431
Foreign currency translation	(1)		(2)	(3)
Balance at December 31, 2011	\$ 149	\$ 109	\$ 170	\$ 428

6. Restructuring Costs

At December 31 and September 30, 2011, \$16 million and \$19 million, respectively, of restructuring reserves primarily related to unpaid employee termination benefits remained in the consolidated balance sheet. The changes in restructuring reserves for the three months ended December 31, 2011 and 2010 are as follows (in millions):

	Employee Termination Benefits	Asset Impairment & Other	Plant Shutdown & Other	Total
Balance at September 30, 2011	\$ 19	\$	\$	\$ 19
Activity during the period:				
Charges to continuing operations	4	19	1	24
Charges to discontinued operations ⁽¹⁾			1	1
Asset impairments and other		(19)		(19)
Cash payments - continuing operations	(6)		(1)	(7)
Cash payments - discontinued operations	(1)		(1)	(2)
Total restructuring reserves at December 31, 2011	16			16
Less: non-current restructuring reserves	(2)			(2)
Restructuring reserves - current, at December 31, 2011	\$ 14	\$	\$	\$ 14
Balance at September 30, 2010	\$ 11	\$	\$	\$ 11
Activity during the period:				
Charges to continuing operations	3			3
Cash payments - continuing operations	(4)			(4)
Other	(1)			(1)
Total restructuring reserves at December 31, 2010	\$ 9	\$	\$	\$ 9

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

Performance Plus: During fiscal year 2007, the company launched a long-term profit improvement and cost reduction initiative called Performance Plus. As part of this program, the company identified significant restructuring actions which would eliminate up to 2,800 positions in North America and Europe and consolidate and combine certain global facilities. The company's continuing operations recognized restructuring costs in its Commercial Truck business segment of \$23 million in the first three 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 planned sale of St. Priest manufacturing facility to Renault Trucks SAS (see Note 23), 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. In addition, other restructuring charges of approximately \$4 million associated with employee headcount reduction and plant rationalization costs were recognized in connection with the planned sale of St. Priest. Restructuring costs recognized in the first quarter of fiscal year 2011 were also associated with the company's Commercial Truck segment.

Edgar Filing: MERITOR INC - Form 10-Q

Cumulative restructuring costs recorded for this program as of December 31, 2011 are \$185 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 \$27 million primarily associated with pension termination benefits. The company's Commercial Truck segment has recognized cumulative restructuring costs associated with Performance Plus of \$81 million. Cumulative restructuring costs of \$11 million were recognized by corporate locations and the company's Aftermarket & Trailer segment. Substantially all restructuring actions associated with Performance Plus were complete as of December 31, 2011.

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

7. Other Income, Net

Other income, net for quarter ending December 31, 2011 includes a \$3 million non-operating gain primarily related to the sale of the company's remaining ownership interest in Gabriel India, Ltd. The company's ownership interest in Gabriel India, Ltd was a legacy cost method investment that the company deemed non-core upon the completion of the sale of its light vehicle businesses.

8. Income Taxes

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

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

For the first quarter of fiscal year 2012 and 2011, the company had approximately \$54 million and \$46 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

Off-balance sheet arrangements

Swedish Factoring Facility: The company has an arrangement to sell trade receivables due from AB Volvo through one of its European subsidiaries. Under this arrangement, which was renewed in June 2011 for a term of one year, the company can sell up to, at any point in time, €150 million of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €149 million (\$192 million) and €107 million (\$146 million) of this accounts receivable factoring facility as of December 31, 2011 and September 30, 2011, respectively.

French Factoring Facility: The company has an arrangement to sell trade receivables through one of its French subsidiaries. Under this arrangement, the company can sell up to, at any point in time, €125 million of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €68 million (\$88 million) and €47 million (\$63 million) of this accounts receivable factoring facility as of December 31, 2011 and September 30, 2011, respectively.

U.S. Factoring Facility: In October 2010, the company entered into a two-year arrangement to sell trade receivables from AB Volvo and its subsidiaries. Under this arrangement, the company can sell up to, at any point in time, €60 million (\$78 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 €53 million (\$68 million) and €46 million (\$62 million) of this accounts receivable factoring facility as of December 31 and September 30, 2011, respectively.

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

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

Edgar Filing: MERITOR INC - Form 10-Q

amount of factored receivables excluded from accounts receivable was \$8 million at December 31 and September 30, 2011.

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

Total costs associated with these off-balance sheet arrangements were \$3 million and \$1 million in the three month periods ended December 31, 2011 and 2010, respectively, and are included in selling, general and administrative expenses in the consolidated statement of operations.

On-balance sheet arrangements

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

10. Operating Cash Flow

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

	Three Months Ended December 31,	
	2011	2010
OPERATING ACTIVITIES		
Net income (loss)	\$ (18)	\$ 2
Less: Income (loss) from discontinued operations, net of tax	(9)	4
Loss from continuing operations	(9)	(2)
Adjustments to loss from continuing operations to arrive at cash provided by (used for) operating activities:		
Depreciation and amortization	17	16
Restructuring costs	24	3
Equity in earnings of affiliates	(15)	(13)
Pension and retiree medical expense	14	18
Other adjustments to loss from continuing operations	4	8
Dividends received from affiliates	3	4
Pension and retiree medical contributions	(25)	(16)
Restructuring payments	(7)	(4)
Changes in off-balance sheet receivable securitization and factoring	77	125
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations	(75)	(158)
Operating cash flows provided by (used for) continuing operations	8	(19)
Operating cash flows used for discontinued operations	(3)	(30)
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 5	\$ (49)

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):

	December 31, 2011	September 30, 2011
Finished goods	\$ 202	\$ 183

Edgar Filing: MERITOR INC - Form 10-Q

Work in process		44		63
Raw materials, parts and supplies		237		214
Total	\$	483	\$	460

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

12. Other Current Assets

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

	December 31, 2011	September 30, 2011
Current deferred income tax assets, net	\$ 27	\$ 28
Asbestos-related recoveries (see Note 20)	9	9
Deposits and collateral	6	11
Prepaid and other	20	18
Assets held for sale (see Note 23)	10	
Assets of discontinued operations		4
Other current assets	\$ 72	\$ 70

13. Net Property

Net property is summarized as follows (in millions):

	December 31, 2011	September 30, 2011
Property at cost:		
Land and land improvements	\$ 39	\$ 47
Buildings	248	264
Machinery and equipment	883	897
Company-owned tooling	154	153
Construction in progress	60	74
Total	1,384	1,435
Less accumulated depreciation	(989)	(1,014)
Net property	\$ 395	\$ 421

14. Other Assets

Other assets are summarized as follows (in millions):

	December 31, 2011	September 30, 2011
Investments in non-consolidated joint ventures	\$ 184	\$ 174
Asbestos-related recoveries (see Note 20)	65	67
Non-current deferred income tax assets, net	12	12
Unamortized debt issuance costs	23	25
Capitalized software costs, net	22	23
Prepaid pension costs	10	9
Other	37	42
Other assets	\$ 353	\$ 352

In accordance with FASB ASC Topic 350-40, costs relating to internally developed or purchased software in the preliminary project stage and the post-implementation stage are expensed as incurred. Costs in the application development stage that meet the criteria for capitalization

Edgar Filing: MERITOR INC - Form 10-Q

are capitalized and amortized using the straight-line basis over the estimated economic useful life of the software.

The company holds a variable interest in a joint venture accounted for under the equity method of accounting. The joint venture manufactures components for commercial vehicle applications primarily on behalf of the company. The variable interest relates to a supply arrangement between the company and the joint venture whereby the company supplies certain components to the joint venture at a cost-plus basis. The company is not the primary beneficiary of the joint venture, as the joint venture partner has shared or absolute control over key manufacturing operations, labor relationships, financing activities and certain other functions of the joint venture. Therefore, the company does not consolidate the joint venture. At December 31, 2011, the company's investment in the joint venture was \$34 million representing the company's maximum exposure to loss. This amount is included in investments in non-consolidated joint ventures in the table above.

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

15. Other Current Liabilities

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

	December 31, 2011	September 30, 2011
Compensation and benefits	\$ 126	\$ 148
Income taxes	21	23
Taxes other than income taxes	38	38
Accrued interest	25	5
Product warranties	18	19
Restructuring (see Note 6)	14	16
Asbestos-related liabilities (see Note 20)	18	18
Liabilities associated with assets held for sale (see Note 23)	9	
Other	73	61
Other current liabilities	\$ 342	\$ 328

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

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

	Three Months Ended December 31, 2011	2010
Total product warranties beginning of period	\$ 48	\$ 54
Accruals for product warranties	4	2
Payments	(4)	(3)
Change in estimates and other	(1)	(2)
Total product warranties end of period	47	51
Less: Non-current product warranties (see Note 16)	(29)	(25)
Product warranties current	\$ 18	\$ 26

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

16. Other Liabilities

Other liabilities are summarized as follows (in millions):

	December 31, 2011	September 30, 2011
Asbestos-related liabilities (see Note 20)	\$ 76	\$ 78
Non-current deferred income tax liabilities	93	92
Liabilities for uncertain tax positions	33	35
Product warranties (see Note 15)	29	29
Environmental	9	9
Indemnity obligations	38	41
Other	35	41
Other liabilities	\$ 313	\$ 325

17. Long-Term Debt

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

	December 31, 2011	September 30, 2011
8-3/4 percent notes due 2012	\$ 84	\$ 84
8-1/8 percent notes due 2015	250	250
10-5/8 percent notes due 2018	246	246
4.625 percent convertible notes due 2026 ⁽¹⁾	300	300
4.0 percent convertible notes due 2027 ⁽¹⁾	200	200
Lines of credit and other	8	8
Unamortized gain on interest rate swap termination	12	14
Unamortized discount on convertible notes	(65)	(68)
Subtotal	1,035	1,034
Less: current maturities	84	84
Long-term debt	\$ 951	\$ 950

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

Revolving Credit Facility

The company has a revolving credit facility of \$441 million which matures in January 2014. The availability under this facility is dependent upon various factors, including principally performance against certain financial covenants. At December 31 and September 30, 2011, there were no borrowings outstanding under the revolving facility. The revolving credit facility includes a \$100 million limit on the issuance of letters of credit. No letters of credit were outstanding at December 31 and September 30, 2011 under the revolving credit facility.

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

maturity. At December 31, 2011, the company was in compliance with all covenants under its credit agreement with a ratio of approximately 0.22x for the priority debt-to-EBITDA covenant.

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

Borrowings under the revolving credit facility are collateralized by approximately \$620 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 credit rating for the senior secured facility. At December 31, 2011, the margin over LIBOR rate was 425 basis points and the commitment fee was 50 basis points.

Certain of the company's subsidiaries, as defined in the credit agreement, irrevocably and unconditionally 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).

Letter of Credit Facilities

The company entered into a five-year credit agreement dated as of November 18, 2010 with Citicorp USA, Inc., as administrative agent and issuing bank, the other lenders party thereto and the Bank of New York Mellon, as paying agent. Under the terms of this credit agreement, as amended, the company has the right to obtain the issuance, renewal, extension and increase of letters of credit up to an aggregate availability of \$30 million. This facility contains covenants and events of default generally similar to those existing in our public debt indentures. At December 31 and September 30, 2011, \$30 million of letters of credit were outstanding under this facility. In addition, the company had another \$4 million and \$2 million of letters of credit outstanding through other letters of credit facilities at December 31 and September 30, 2011, respectively.

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

18. Financial Instruments

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

	December 31, 2011		September 30, 2011	
	Carrying	Fair	Carrying	Fair
	Value	Value	Value	Value
Cash and cash equivalents	\$ 211	\$ 211	\$ 217	\$ 217
Short-term debt	84	84	84	83
Long-term debt	951	815	950	844

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.

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. At December 31 and September 30, 2011, fair value of the company's foreign exchange forward contracts was not significant.

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

19. Retirement Benefit Liabilities

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

	December 31, 2011	September 30, 2011
Retiree medical liability	\$ 551	\$ 550
Pension liability	549	565
Other	27	33
Subtotal	1,127	1,148
Less: current portion (included in compensation and benefits)	(52)	(52)
Retirement benefit liabilities	\$ 1,075	\$ 1,096

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

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

	2011		2010	
	Pension	Retiree Medical	Pension	Retiree Medical
Service cost	\$ 1	\$	\$ 3	\$
Interest cost	23	6	24	7
Assumed return on plan assets	(26)		(30)	
Amortization of prior service costs		(2)		(3)
Recognized actuarial loss	5	7	9	8
Total expense	\$ 3	\$ 11	\$ 6	\$ 12

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 December 31, 2011 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.

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 December 31, 2011 to be approximately \$36 million, of which \$14 million is recorded as a liability.

Included in the company's environmental liabilities are costs for on-going operation, maintenance and monitoring at environmental sites in which remediation has been put into place. This liability is discounted using a discount rate of 5-percent and is approximately \$8 million at December 31, 2011. 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, 2011	\$ 2	\$ 15	\$ 17
Payments and other		(2)	(2)
Accruals		1	1
Balance at December 31, 2011	\$ 2	\$ 14	\$ 16

Edgar Filing: MERITOR INC - Form 10-Q

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

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

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 21,000 pending asbestos-related claims at December 31 and September 30, 2011. Although Maremont has been named in these cases, in the cases where actual injury has been alleged, very few claimants have established that a Maremont product caused their injuries. Plaintiffs' lawyers often sue dozens or even hundreds of defendants in individual lawsuits on behalf of hundreds or thousands of claimants, seeking damages against all named defendants irrespective of the disease or injury and irrespective of any causal connection with a particular product. For these reasons, Maremont does not consider the number of claims filed or the damages alleged to be a meaningful factor in determining its asbestos-related liability.

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

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

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

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

Pending and Future Claims: Maremont engages Bates White LLC (Bates White), a consulting firm with extensive experience estimating costs associated with asbestos litigation, to assist with determining the estimated cost of resolving pending and future asbestos-related claims that have been, and could reasonably be expected to be, filed against Maremont. Bates White prepares these cost estimates on a semi-annual

Edgar Filing: MERITOR INC - Form 10-Q

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

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

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 \$73 million to \$83 million. After consultation with Bates White, Maremont determined that as of September 30, 2011, the most likely and probable liability for pending and future claims over the next ten years is \$73 million. The ultimate cost of resolving pending and future claims is estimated based on the history of claims and expenses for plaintiffs represented by law firms in jurisdictions with an established history with Maremont.

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 2021. The ten-year assumption is considered appropriate as Maremont has reached certain longer-term agreements with key plaintiff law firms and filings of mesothelioma claims have been relatively stable over the last few years resulting in an improvement in the reliability of future projections over a longer time period;
- Maremont believes that the litigation environment will change significantly beyond ten years and that the reliability of estimates of future probable expenditures in connection with asbestos-related personal injury claims will decline for each year further in the future. As a result, estimating a probable liability beyond ten years is difficult and uncertain;
- The ultimate cost of resolving pending and future claims filed in Madison County, Illinois, a jurisdiction where a substantial amount of Maremont's claims are filed, will decline to reflect average outcomes throughout the United States;
- Defense and processing costs for pending and future claims filed outside of Madison County, Illinois will be at the level consistent with Maremont's prior experience; and
- The ultimate indemnity cost of resolving nonmalignant claims with plaintiffs' law firms in jurisdictions without an established history with Maremont cannot be reasonably estimated. Recent changes in tort law and insufficient settlement history make estimating a liability for these nonmalignant claims difficult and uncertain.

Recoveries: Maremont has insurance that reimburses a substantial portion of the costs incurred defending against asbestos-related claims. The coverage also reimburses Maremont for any indemnity paid on those claims. The coverage is provided by several insurance carriers based on insurance agreements in place. Incorporating historical information with respect to buy-outs and settlements of coverage, and excluding any policies in dispute, the insurance receivable related to asbestos-related liabilities is \$67 million as of December 31, 2011. The difference between the estimated liability and insurance receivable is primarily related to proceeds received from settled insurance policies. Certain insurance policies have been settled in cash prior to the ultimate settlement of the related asbestos liabilities. Amounts received from insurance settlements generally reduce recorded insurance receivables. Receivables for policies in dispute are not recorded.

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

Rockwell International (Rockwell) ArvinMeritor, Inc. (AM), a subsidiary of Meritor, along with many other companies, has also been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos used in certain components of Rockwell products many years ago. Liability for these claims was transferred at the time of the spin-off of the automotive business from Rockwell in 1997. Currently there are thousands of claimants in lawsuits that name AM, together with many other companies, as defendants. However, the company does not consider the number of claims filed or the damages alleged to be a meaningful factor in determining asbestos-related

liabilities. A significant portion of the claims do not identify any of Rockwell's products or specify which of the claimants, if any, were exposed to asbestos attributable to Rockwell's products, and past experience has shown that the vast majority of the claimants will likely never identify any of Rockwell's products. For those claimants who do show that they worked with Rockwell's products, management nevertheless believes it has meritorious defenses, in substantial part due to the integrity of the products involved and the lack of any impairing medical condition on the part of many claimants. The company defends these cases vigorously. Historically, AM has been dismissed from the vast majority of similar claims filed in the past with no payment to claimants.

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

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

Rockwell maintained insurance coverage that management believes covers indemnity and defense costs, over and above self-insurance retentions, for most of these claims. The company has initiated claims against certain of these carriers to enforce the insurance policies, which are currently being disputed. The company expects to recover some portion of defense and indemnity costs it has incurred to date, over and above self-insured retentions, and some portion of the costs for defending asbestos claims going forward. Based on consultation with advisors and underlying analysis performed by management, the company has recorded an insurance receivable related to Rockwell legacy asbestos-related liabilities of \$7 million and \$9 million at December 31 and September 30, 2011, respectively. If the assumptions with respect to the nature of pending claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of liability for Rockwell asbestos-related claims, and the effect on the company, could differ materially from current estimates and, therefore, could have a material impact on the company's financial condition and results of operations.

On March 4, 2010, Gordon Bankhead and his spouse filed suit in Superior Court for Alameda County, California, against more than 40 defendants that Mr. Bankhead claims manufactured or supplied asbestos-containing products he allegedly was exposed to during his career as a janitor; as an ordnance specialist in the National Guard; and as an automotive parts-man. By the time trial began on October 27, 2010, Mr. and Mrs. Bankhead had settled with all defendants except for the company and three other defendants. The claims against these four defendants were limited to Mr. Bankhead's work as an automotive parts-man. On December 23, 2010, the jury ruled against all four defendants, including the company. The company was assessed \$375,000 in compensatory damages for which it has recorded a liability at December 31, 2011. Additionally, the company was assessed \$4.5 million in punitive damages. The company has filed an appeal on the punitive damages award to the California Court of Appeals. Possible outcomes of the appeal include vacating the damages award in its entirety, reducing the award, affirming the award in its entirety or remanding the case back to the trial court. Accordingly, the possible estimated range of loss is \$0 to \$4.5 million. However, given the uncertainty associated with litigation including the appeal process, the company is unable to determine an estimate within that range which is considered more probable than others and accordingly has not recorded any liability at December 31, 2011. As a consequence of the uncertain outcome of the appeal process, the company is unable to estimate the impact, if any, the resolution of this matter may have on its liability for pending and future claims at December 31, 2011.

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 December 31 and September 30, 2011, the remaining estimated liability for this matter was approximately \$22 million and \$23 million, respectively.

The company has recorded indemnity liabilities of \$5 million related to the sale of its Body Systems business, primarily associated with income tax matters and \$16 million related to the sale of its 57-percent interest in Meritor Suspension Systems Company related to its share of potential obligations related to taxes, pension funding shortfall, environmental and other contingencies. These amounts are included in other current liabilities and other liabilities in the accompanying consolidated balance sheet.

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

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

Other

On March 31, 2008, S&E Quick Lube, a filter distributor, filed suit in U.S. District Court for the District of Connecticut alleging that several filter manufacturers and their affiliated corporate entities, including a prior subsidiary of the company, engaged in a conspiracy to fix prices, rig bids and allocate U.S. customers for aftermarket automotive filters. This suit is a purported class action on behalf of direct purchasers of filters from the defendants. Several parallel purported class actions, including on behalf of indirect purchasers of filters, have been filed by other plaintiffs in a variety of jurisdictions in the United States and Canada. The cases have been consolidated into a multi-district litigation proceeding in Federal court for the Northern District of Illinois. On April 16, 2009, the Attorney General of the State of Florida filed a complaint with the U.S. District Court for the Northern District of Illinois based on these same allegations. On May 25, 2010, the Office of the Attorney General for the State of Washington informed the company that it also was investigating the allegations raised in these suits. On August 9, 2010, the County of Suffolk, New York, filed a complaint in the Eastern District of New York based on the same allegations. The case was transferred to the multi-district litigation proceeding in Illinois, but has been dismissed without prejudice pursuant to a tolling agreement that continues until thirty (30) days after the claims by the indirect purchasers in the multi-district litigation are terminated, settled, or dismissed. On April 14, 2011, the judge in that multi-district litigation granted a stay on discovery and depositions until July 25, 2011. The stay was subsequently extended until August 23, 2011 and, on October 12, 2011, was further extended pending the court's ruling on various motions. On January 19, 2012, counsel for the defendants and counsel for all purported class plaintiffs participated in a settlement conference that was facilitated by the magistrate for the judge in the multi-district litigation. None of the parties was able to reach any agreement at that conference and, on January 20, 2012, the court ruled on the above-referenced motions and vacated the stay on discovery and depositions.

Based on management's assessment, the company has recognized a \$3 million liability in discontinued operations at December 31, 2011 for this matter. The company believes it has meritorious defenses against the claims raised in all of these actions and intends to vigorously defend itself. However, there is considerable uncertainty around the potential outcomes in a jury trial, and if this matter were to proceed to trial and were ultimately decided by a jury in favor of plaintiffs, it is possible that awarded damages could exceed the recorded liability by an amount that the company is unable to reasonably estimate at this time.

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

21. Accumulated Other Comprehensive Loss (AOCL)

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

	December 31, 2011	September 30, 2011
Foreign currency translation	\$ 108	\$ 110
Employee benefit related adjustments	(942)	(942)
Unrealized gains, net		3
Accumulated Other Comprehensive Loss	\$ (834)	\$ (829)

22. Business Segment Information

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

operating decision maker (CODM) is the Chief Executive Officer.

The company has three reportable segments at December 31, 2011, as follows:

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

MERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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 Chief Operating Decision Maker (CODM) to evaluate the performance of each of its reportable segments.

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

	Commercial		Aftermarket & Trailer		Eliminations	Total
	Truck	Industrial				
<i>Three months ended December 31, 2011:</i>						
External Sales	\$ 697	\$ 231	\$ 231	\$		\$ 1,159
Intersegment Sales	54	17	4		(75)	
Total Sales	\$ 751	\$ 248	\$ 235	\$	(75)	\$ 1,159

<i>Three months ended December 31, 2010:</i>						
External Sales	\$ 531	\$ 217	\$ 209	\$		\$ 957
Intersegment Sales	44	13	2		(59)	
Total Sales	\$ 575	\$ 230	\$ 211	\$	(59)	\$ 957

	Three Months Ended December 31,	
	2011	2010
Segment EBITDA:		
Commercial Truck	\$ 47	\$ 33
Industrial	11	17
Aftermarket & Trailer	20	16
Segment EBITDA	78	66
Unallocated legacy and corporate ⁽¹⁾	1	(1)
Interest expense, net	(24)	(27)
Provision for income taxes	(20)	(20)
Depreciation and amortization	(17)	(16)
Loss on sale of receivables	(3)	(1)
Restructuring costs	(24)	(3)
Noncontrolling interests	(4)	(4)
Loss from continuing operations attributable to Meritor, Inc.	\$ (13)	\$ (6)

- (1) Unallocated legacy and corporate 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. In addition, in the first quarter of fiscal year 2012, unallocated legacy and corporate includes a gain of approximately \$3 million on sale of the company's remaining ownership interest in Gabriel India, Ltd.

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

<i>Segment Assets:</i>	December 31, 2011	September 30, 2011
Commercial Truck	\$ 1,522	\$ 1,482
Industrial	455	470
Aftermarket & Trailer	499	504
Total segment assets	2,476	2,456
Corporate ⁽¹⁾	433	483
Discontinued operations		4
Less: Accounts receivable sold under off-balance sheet factoring programs ⁽²⁾	(356)	(280)
Total assets	\$ 2,553	\$ 2,663

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

⁽²⁾ At December 31, 2011 and September 30, 2011 segment assets include \$356 million and \$280 million, respectively, of accounts receivable sold under off-balance sheet accounts receivable and 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 January 2, 2012, the company completed the sale of its Commercial Truck manufacturing facility located in St. Priest, France to Renault Trucks SAS, an affiliate of AB Volvo. In connection with the anticipated sale of the St. Priest manufacturing facility, the company recognized a long-lived asset impairment charge of \$17 million during the quarter ended December 31, 2011 for the Disposal Group held for sale. The impairment and other restructuring charges are included in restructuring costs in the consolidated statement of operations (see Note 6).

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.

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

	Three Months Ended December 31, 2011					
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated	
Sales						
External	\$	\$	\$	\$	\$	\$ 1,159
Subsidiaries		32	23	(55)		
Total sales		403	811	(55)		1,159
Cost of sales	(12)	(366)	(730)	55		(1,053)
GROSS MARGIN	(12)	37	81			106
Selling, general and administrative	(22)	(19)	(24)			(65)
Restructuring costs			(24)			(24)
Other operating expense	(1)					(1)
OPERATING INCOME (LOSS)	(35)	18	33			16
Equity in earnings of affiliates		9	6			15
Other income (expense), net			4			4
Interest income (expense), net	(31)	7				(24)
INCOME (LOSS) BEFORE INCOME TAXES	(66)	34	43			11
Provision for income taxes		(3)	(17)			(20)
Equity income from continuing operations of subsidiaries	53	19		(72)		
INCOME (LOSS) FROM CONTINUING OPERATIONS	(13)	50	26	(72)		(9)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(9)	(5)	(3)	8		(9)
Net income (loss)	(22)	45	23	(64)		(18)
Less: Net income attributable to noncontrolling interests			(4)			(4)
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	\$ (22)	\$ 45	\$ 19	\$ (64)	\$ (22)	

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

Three Months Ended December 31, 2010

	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	\$	\$ 303	\$ 654	\$	\$ 957
Subsidiaries		31	17	(48)	
Total sales		334	671	(48)	957
Cost of sales	(14)	(308)	(578)	48	(852)
GROSS MARGIN	(14)	26	93		105
Selling, general and administrative	(29)	(23)	(18)		(70)
Restructuring costs			(3)		(3)
OPERATING INCOME (LOSS)	(43)	3	72		32
Equity in earnings of affiliates		7	6		13
Other income (expense), net	(1)		1		
Interest income (expense), net	(30)	9	(6)		(27)
INCOME (LOSS) BEFORE INCOME TAXES	(74)	19	73		18
Provision for income taxes		(5)	(15)		(20)
Equity income from continuing operations of subsidiaries	68	52		(120)	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(6)	66	58	(120)	(2)
INCOME FROM DISCONTINUED OPERATIONS, net of tax	4	14	10	(24)	4
Net income	(2)	80	68	(144)	2
Less: Net income attributable to noncontrolling interests			(4)		(4)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$ (2)	\$ 80	\$ 64	\$ (144)	\$ (2)

Amounts have been recast for discontinued operations.

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

	December 31, 2011				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	\$ 53	3	155		211
Receivables, net		19	592		611
Inventories		210	273		483
Other current assets	7	19	46		72
TOTAL CURRENT ASSETS	60	251	1,066		1,377
NET PROPERTY	9	140	246		395
GOODWILL		275	153		428
OTHER ASSETS	44	180	129		353
INVESTMENTS IN SUBSIDIARIES	1,308	239		(1,547)	
TOTAL ASSETS	\$ 1,421	1,085	1,594	(1,547)	2,553
CURRENT LIABILITIES					
Short-term debt	\$ 84				84
Accounts payable	55	184	532		771
Other current liabilities	115	65	162		342
TOTAL CURRENT LIABILITIES	254	249	694		1,197
LONG-TERM DEBT	943		8		951
RETIREMENT BENEFITS	951		124		1,075
INTERCOMPANY PAYABLE (RECEIVABLE)	220	(708)	488		
OTHER LIABILITIES	73	169	71		313
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	(1,020)	1,375	172	(1,547)	(1,020)
NONCONTROLLING INTERESTS			37		37
TOTAL LIABILITIES AND EQUITY (DEFICIT)	\$ 1,421	1,085	1,594	(1,547)	2,553

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

September 30, 2011

	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	\$ 92	\$ 4	\$ 121	\$	\$ 217
Receivables, net	1	24	687		712
Inventories		181	279		460
Other current assets	6	17	47		70
TOTAL CURRENT ASSETS	99	226	1,134		1,459
NET PROPERTY	9	138	274		421
GOODWILL		275	156		431
OTHER ASSETS	44	179	129		352
INVESTMENTS IN SUBSIDIARIES	1,265	154		(1,419)	
TOTAL ASSETS	\$ 1,417	\$ 972	\$ 1,693	\$ (1,419)	\$ 2,663
CURRENT LIABILITIES					
Short-term debt	\$ 84	\$	\$	\$	\$ 84
Accounts payable	52	225	564		841
Other current liabilities	92	67	169		328
TOTAL CURRENT LIABILITIES	228	292	733		1,253
LONG-TERM DEBT	942		8		950
RETIREMENT BENEFITS	953		143		1,096
INTERCOMPANY PAYABLE (RECEIVABLE)	202	(820)	618		
OTHER LIABILITIES	87	165	73		325
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	(995)	1,335	84	(1,419)	(995)
NONCONTROLLING INTERESTS			34		34
TOTAL LIABILITIES AND EQUITY (DEFICIT)	\$ 1,417	\$ 972	\$ 1,693	\$ (1,419)	\$ 2,663

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

	Three Months Ended December 31, 2011				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CASH FLOWS PROVIDED BY (USED FOR)					
OPERATING ACTIVITIES	\$ (26)	\$ 11	\$ 20	\$	\$ 5
INVESTING ACTIVITIES					
Capital expenditures	(1)	(12)	(12)		(25)
Other investing activities			2		2
Net cash flows provided by discontinued operations			11		11
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(1)	(12)	1		(12)
FINANCING ACTIVITIES					
Intercompany advances	(12)		12		
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(12)		12		
EFFECT OF FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS			1		1
CHANGE IN CASH AND CASH EQUIVALENTS	(39)	(1)	34		(6)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	92	4	121		217
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 53	\$ 3	\$ 155	\$	\$ 211

28

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

	Three Months Ended December 31, 2010				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CASH FLOWS PROVIDED BY (USED FOR)					
OPERATING ACTIVITIES	\$ 196	\$ 3	\$ (248)	\$	\$ (49)
INVESTING ACTIVITIES					
Capital expenditures	(1)	(8)	(10)		(19)
Other investing activities		2	1		3
Net cash flows used by discontinued operations			(6)		(6)
CASH USED FOR INVESTING ACTIVITIES	(1)	(6)	(15)		(22)
FINANCING ACTIVITIES					
Intercompany advances	(146)		146		
Other financing activities	2				2
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(144)		146		2
EFFECT OF FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS			2		2
CHANGE IN CASH AND CASH EQUIVALENTS	51	(3)	(115)		(67)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	47	6	290		343
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 98	\$ 3	\$ 175	\$	\$ 276

Amounts have been recast for discontinued operations.

MERITOR, INC.

Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations**OVERVIEW**

Meritor, Inc., formerly named ArvinMeritor, Inc., (the "company" or "Meritor"), headquartered in Troy, Michigan, is a premier global supplier of a broad range of integrated systems, modules and components to original equipment manufacturers (OEMs) and the aftermarket for the commercial vehicle, transportation and industrial sectors. The company serves commercial truck, trailer, off-highway, military, bus and coach and other industrial OEMs and certain aftermarkets. Meritor common stock is traded on the New York Stock Exchange under the ticker symbol MTOR.

Our results from continuing operations for the quarter ended December 31, 2011 were lower compared to the same quarter in the prior year. Loss from continuing operations in the first quarter of fiscal year 2012 was \$13 million, or \$0.13 per diluted share, compared to a loss of \$6 million, or \$0.07 per diluted share, in the prior year. Net loss for the first quarter of fiscal year 2012 was \$22 million compared to a loss of \$2 million in the prior year. On January 2, 2012, we completed the sale of our Commercial Truck manufacturing facility located in St. Priest, France to Renault Trucks SAS, an affiliate of AB Volvo. In connection with the anticipated sale of this manufacturing facility, we recognized non-cash charges of \$19 million during the quarter ended December 31, 2011, including an asset impairment charge of \$17 million for the disposal group, which is held for sale. In addition, other restructuring charges of approximately \$4 million associated with employee headcount reduction and plant rationalization costs were recorded during the first quarter.

Sales were \$1,159 million for the first quarter of fiscal year 2012 compared to \$957 million in the prior year. Adjusted EBITDA (see Non-GAAP Financial Measures below) for the first quarter of fiscal year 2012 was \$79 million compared to \$65 million in fiscal year 2011. The improved Adjusted EBITDA performance is primarily due to the increased sales compared to the prior year. Although the higher sales volumes resulted in improved earnings, our financial performance was negatively impacted in the first quarter of fiscal year 2012 by geographic sales mix in our Commercial Truck segment, mix of military sales in our Industrial segment and higher material costs compared to the same period a year ago.

Cash flows provided by operating activities were \$5 million in the first quarter of fiscal year 2012 compared to cash used by operating activities of \$49 million in the first quarter of the prior fiscal year. The improvement in operating cash flows in the first quarter of fiscal year 2012 is due to improvements in working capital and lower usage of cash by discontinued operations compared to the prior year, partially offset by higher pension contributions. We continue to focus on improving cash flow by maintaining tight controls on global inventory, pursuing working capital improvements, and monitoring discretionary spending.

Trends and Uncertainties*Production Volumes*

The following table reflects estimated commercial vehicle production volumes for selected original equipment (OE) markets for the first quarters ended December 31, 2011 and 2010 based on available sources and management's estimates.

	Three Months Ended December 31,		Percent
	2011	2010	Change
Commercial Vehicles (in thousands)			
North America, Heavy-Duty Trucks	71	44	61%
North America, Medium-Duty Trucks	39	33	18%
United States and Canada, Trailers	57	40	43%
Western Europe, Heavy- and Medium-Duty Trucks	105	101	4%
South America, Heavy- and Medium-Duty Trucks	50	49	2%

The pace of the recovery of commercial truck volumes in North America has been more rapid than previously anticipated. We expect production volumes in North America to continue to remain at levels experienced during the second half of fiscal year 2011 (which were higher than they were during the first half of fiscal year 2011).

Edgar Filing: MERITOR INC - Form 10-Q

We expect production volumes in Europe to weaken in fiscal year 2012 compared to fiscal year 2011 levels. Production volumes in the South America have generally returned to levels that are strong by historic standards. In the near term, we expect South America production volumes to soften from current levels as the industry transitions to tighter emission standard requirements for commercial vehicles. However, we expect volumes to return to the previous strong levels later in the year.

MERITOR, INC.

Increasing Material Costs

The price of steel increased significantly in fiscal year 2011 and is expected to remain at these higher prices in the near term. These steel and other materials price increases, along with increasing transportation costs, have created pressure on profit margins and could continue to unfavorably impact our financial results in the future. We have recently executed actions with our major customers to mitigate the impact of these and future increases in steel costs on our profitability.

Industry-Wide Issues

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

- The accelerated ramp up of commercial truck production in North America and other regions and the impact on the ability to support customer demand;
- 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;
- Consolidation and globalization of OEMs and their suppliers; and
- Pension and retiree medical health care costs.

Other

Other significant factors that could affect our results and liquidity in fiscal year 2012 include:

- Ability to work with our commercial truck customers to manage rapidly changing production volumes;
- Ability to recover and timing of recovery of steel price and other cost increases from our customers;
- Any unplanned extended shutdowns or production interruptions by us, our customers or our suppliers;

Edgar Filing: MERITOR INC - Form 10-Q

- 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;
- Significant contract awards or losses of existing contracts;
- Impact of currency exchange rate volatility in the markets in which we operate;
- 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).

Discontinued Operations Update

On November 25, 2011, we completed the sale of our damper business located in Leicester, England. The sale of this business did not have a significant impact on our financial position, results of operations or cash flows. With this divestiture, we have completed the divestiture of all of our light vehicle systems (LVS) businesses.

In the second quarter of fiscal year 2011, we announced the planned closure of our European trailer (EU Trailer) business. We ceased all manufacturing operations and use of productive assets prior to September 30, 2011.

The results of operations and cash flows of our LVS and European Trailer businesses are presented in discontinued operations in the consolidated statements of operations and consolidated statement of cash flows, and prior period information has been recast to reflect this presentation.

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, 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. 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, 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 loss from continuing operations and diluted loss per share below (in millions, except per share amounts).

	Three Months Ended December 31,	
	2011	2010
Adjusted income (loss) from continuing operations	\$ 11	\$ (3)
Restructuring costs	(24)	(3)
Loss from continuing operations attributable to Meritor, Inc.	\$ (13)	\$ (6)
Adjusted diluted earnings (loss) per share from continuing operations	\$ 0.12	\$ (0.04)
Impact of adjustments on diluted earning (loss) per share	(0.25)	(0.03)
Diluted loss per share from continuing operations	\$ (0.13)	\$ (0.07)

MERITOR, INC.

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

	Three Months Ended December 31,	
	2011	2010
Cash provided by (used for) operating activities continuing operations	\$ 8	\$ (19)
Capital expenditures continuing operations	(25)	(19)
Free cash flow continuing operations	(17)	(38)
Cash used for operating activities discontinued operations	(3)	(30)
Capital expenditures discontinued operations	(6)	(6)
Free cash flow discontinued operations	(3)	(36)
Free cash flow total company	\$ (20)	\$ (74)
Free cash flow continuing operations	\$ (17)	\$ (38)
Restructuring payments continuing operations	7	4
Free cash flow from continuing operations before restructuring payments	\$ (10)	\$ (34)

MERITOR, INC.

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

Results of Operations

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

	Three Months Ended December 31,	
	2011	2010
SALES:		
Commercial Truck	\$ 751	\$ 575
Industrial	248	230
Aftermarket & Trailer	235	211
Intersegment Sales	(75)	(59)
SALES	\$ 1,159	\$ 957
SEGMENT EBITDA:		
Commercial Truck	\$ 47	\$ 33
Industrial	11	17
Aftermarket & Trailer	20	16
SEGMENT EBITDA	78	66
Unallocated legacy and corporate ⁽¹⁾	1	(1)
ADJUSTED EBITDA	79	65
Interest expense, net	(24)	(27)
Provision for income taxes	(20)	(20)
Depreciation and amortization	(17)	(16)
Restructuring costs	(24)	(3)
Loss on sale of receivables	(3)	(1)
Noncontrolling interests	(4)	(4)
LOSS FROM CONTINUING OPERATIONS, attributable to Meritor, Inc.	\$ (13)	\$ (6)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax, attributable to Meritor, Inc.	(9)	4
NET LOSS, attributable to Meritor, Inc.	\$ (22)	\$ (2)
DILUTED EARNINGS (LOSS) PER SHARE Attributable to Meritor, Inc.		
Continuing operations	\$ (0.13)	\$ (0.07)
Discontinued operations	(0.10)	0.04
Diluted loss per share	\$ (0.23)	\$ (0.03)
DILUTED AVERAGE COMMON SHARES OUTSTANDING	94.5	93.3

- (1) Unallocated legacy and corporate 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. In addition, in the first quarter of fiscal year 2012, unallocated legacy and corporate includes a gain of approximately \$3 million on sale of our remaining ownership interest in Gabriel India, Ltd. Our ownership interest in Gabriel India, Ltd was a legacy cost method investment that we deemed non-core upon the completion of the sale of our light vehicle businesses.

MERITOR, INC.

Three Months Ended December 31, 2011 Compared to Three Months Ended December 31, 2010

Sales

The following table reflects total company and business segment sales for the three months ended December 31, 2011 and 2010. 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).

	December 31, 2011	December 31, 2010	Dollar Change	% Change	Dollar Change Due To Currency	Volume / Other
Sales:						
Commercial Truck	\$ 751	\$ 575	\$ 176	31%	\$ (13)	\$ 189
Industrial	248	230	18	8%	(5)	23
Aftermarket & Trailer	235	211	24	11%	(2)	26
Intersegment Sales	(75)	(59)	(16)	27%	2	(18)
TOTAL SALES	\$ 1,159	\$ 957	\$ 202	21%	\$ (18)	\$ 220

Commercial Truck sales were \$751 million in the first quarter of fiscal year 2012, up 31 percent from the first quarter of fiscal year 2011, reflecting higher OE production volumes, primarily in North America. The effect of foreign currency translation decreased sales by \$13 million. Excluding the effects of foreign currency, sales increased by \$189 million or 33 percent.

Industrial sales were \$248 million in the first quarter of fiscal year 2012, an increase of \$18 million compared to the first quarter of fiscal year 2011. The increase in sales is primarily due to higher sales in the Asia-Pacific region, which increased approximately 13 percent from the prior year.

Aftermarket & Trailer sales were \$235 million in the first quarter of fiscal year 2012, up \$24 million or 11 percent from the first three months of fiscal year 2011. The increase in sales is due to higher sales of our core aftermarket replacement products primarily in North America and our 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 three months ended December 31, 2011 was \$1,053 million compared to \$852 million in the prior year, representing an increase of 24 percent. The increase in costs of sales is primarily due to the increased sales volumes discussed above. Total cost of sales was approximately 91 percent and 89 percent of sales for the three months periods ended December 31, 2011 and 2010, respectively.

The following table summarizes significant factors contributing to the changes in costs of sales during first quarter of fiscal year 2012 compared to the prior quarter (in millions):

	Cost of Sales
Quarter ended December 31, 2010	\$ 852
Volumes and mix	188
Foreign exchange	(16)
Other, net	29
Quarter ended December 31, 2011	\$ 1,053

Edgar Filing: MERITOR INC - Form 10-Q

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

Higher material costs	\$	161
Higher labor and overhead costs		35
Other costs		5
Total increase in costs of sales	\$	201

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 December 31, 2011 increased by approximately \$161 million compared to the same period last year, primarily as a result of higher sales volumes. In addition, global steel prices increased significantly beginning in the second quarter of fiscal year 2011.

Labor and overhead costs increased by \$35 million compared to the same period in the prior year. The increase was primarily due to the higher sales volumes. Other factors favorably impacting labor and overhead costs are savings associated with continuous improvement and rationalization of operations.

As a result of the above, gross profit for the three months ended December 31, 2011 was \$106 million compared to \$105 million in the same period last year. Gross margins were 9 percent and 11 percent for the three month periods ended December 31, 2011 and 2010.

Other Income Statement Items

Selling, general and administrative expenses for the three months ended December 31, 2011 and 2010 are summarized as follows (in millions):

	Three Months Ended December 31, 2011		Three Months Ended December 31, 2010		Increase (Decrease)	
	Amount	% of sales	Amount	% of sales		
SG&A						
Loss on sale of receivables	\$ (3)	(0.3)%	\$ (1)	(0.1)%	\$ 2	0.2 pts
Short- and long-term variable compensation	(5)	(0.4)%	(6)	(0.6)%	(1)	(0.2) pts
All other SG&A	(57)	(4.9)%	(63)	(6.6)%	(6)	(1.7) pts
Total SG&A	\$ (65)	(5.6)%	\$ (70)	(7.3)%	\$ (5)	(1.7) pts

All other SG&A represents normal selling, general and administrative expense. The overall decrease in all other SG&A expense, as well as the decrease as a percentage of sales, compared to fiscal year 2011 is a result of our continuing efforts to control costs.

Restructuring costs of \$24 million were recorded during the quarter ended December 31, 2011 compared to \$3 million a year ago. During the first quarter of fiscal year 2012, we recognized restructuring costs of \$23 million in our Commercial Truck segment in connection with the January 2012 sale of our St. Priest, France manufacturing facility to Renault Trucks 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 \$4 million of costs associated with employee headcount reductions and facility rationalization actions.

Operating income for the first quarter of fiscal year 2012 was \$16 million, compared to \$32 million in the prior year. Key items impacting operating income are discussed above.

Other income for the first quarter of fiscal 2012 was \$4 million and was primarily associated with a gain on the sale of our remaining ownership interest in Gabriel India, Ltd. Our ownership interest in Gabriel India, Ltd was a legacy cost method investment that we deemed non-core upon the completion of the sale of our light vehicle businesses. There was no other income in the first quarter of fiscal year 2011.

Equity in earnings of affiliates was \$15 million in the first quarter of fiscal year 2012, compared to \$13 million in the same period in the prior year. The increase is primarily due to higher earnings from our affiliates in the United States and Mexico.

Interest expense, net for the first quarter of fiscal year 2012 was \$24 million, compared to \$27 million in the prior year. The decrease in interest expense, net is primarily due to lower fees on our credit facilities.

Provision for income taxes was \$20 million in each of the three month periods ended December 31, 2011 and 2010. In the first quarter of fiscal year 2012, our effective tax rate was 182 percent compared to 111 percent in the prior year. The significantly higher effective tax rate in

Edgar Filing: MERITOR INC - Form 10-Q

the first quarter of fiscal year 2012 is a result of recognizing restructuring charges in connection with the sale of our St. Priest, France location in January 2012, for which no tax benefit is recognized. Excluding the impact of restructuring charges, our effective tax rate for the quarter would have been lower by 123 basis points. We expect our effective tax rate to decline to more normalized levels by the end of fiscal year 2012. We are recognizing valuation allowances against our deferred tax assets in certain jurisdictions, primarily the United States and Europe until we can generate sufficient income.

MERITOR, INC.

Loss from continuing operations (before noncontrolling interests) for the first quarter of fiscal year 2012 was \$9 million, compared to loss of \$2 million, in the prior year. The reasons for the deterioration are discussed above.

Loss from discontinued operations was \$9 million in the first quarter of fiscal year 2012, compared to income of \$4 million in the same period in the prior year. Significant items included in results from discontinued operations in the first quarter of fiscal year 2012 and 2011 include the following:

	Three Months Ended December 31,	
	2011	2010
Operating income	\$ 14	\$ 14
Loss on sale of businesses	(1)	
Restructuring costs	(1)	(1)
Charge for loss contingency	(3)	
Other, net	(4)	(3)
Income (loss) before income taxes	(9)	10
Provision for income taxes		(6)
Net income (loss) from discontinued operations attributable to Meritor, Inc.	\$ (9)	\$ 4

Operating income from discontinued operations represents income from normal operating activities of the businesses included in discontinued operations.

Charge for loss contingency: In the first quarter of fiscal year 2012 we recognized a charge of approximately \$3 million in connection with a loss contingency, which is discussed in more detail in Note 20 of the Notes to Consolidated Financial Statements.

Other: Other primarily relates to charges for changes in estimates and adjustments related to certain assets and liabilities retained from previously sold businesses and indemnities provided at the time of sale.

Net loss attributable to Meritor, Inc. was \$22 million for the first quarter of fiscal year 2012 compared to \$2 million in the first quarter of fiscal year 2011. 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.

The following table reflects Segment EBITDA and Segment EBITDA margins for the three months ended December 31, 2011 and 2010 (dollars in millions).

	Segment EBITDA December 31,			Segment EBITDA Margins December 31,		
	2011	2010	\$ Change	2011	2010	Change
Commercial Truck	\$ 47	\$ 33	\$ 14	6.3%	5.7%	0.6 pts
Industrial	11	17	(6)	4.4%	7.4%	(3.0) pts
Aftermarket & Trailer	20	16	4	8.5%	7.6%	0.9 pts
Segment EBITDA	\$ 78	\$ 66	\$ 12	6.7%	6.9%	(0.2) pts

Edgar Filing: MERITOR INC - Form 10-Q

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

		Commercial		Aftermarket & Trailer	TOTAL
		Truck	Industrial		
Segment EBITDA	Quarter ended December 31, 2010	\$ 33	\$ 17	\$ 16	\$ 66
	Higher earnings from unconsolidated affiliates	2			2
	Lower pension and retiree medical costs	2	1		3
	Volume, mix, performance and other, net	10	(7)	4	7
Segment EBITDA	Quarter ended December 31, 2011	\$ 47	\$ 11	\$ 20	\$ 78

MERITOR, INC.

Commercial Truck Segment EBITDA was \$47 million in the first quarter of fiscal year 2012, up \$14 million compared to the same period in the prior year. Segment EBITDA margin increased to 6.3 percent compared to 5.7 percent in the prior year. The increase in Segment EBITDA is attributable to higher commercial truck production volumes, primarily in North America, compared to the prior year and higher earnings from our unconsolidated joint ventures. The favorable impact of the higher sales volumes on Segment EBITDA margin was partially offset by adverse impact of geographic sales mix, unfavorable foreign currency translation (primarily associated with the Brazilian Real) and higher material costs (primarily steel) as compared to the same period a year ago.

Industrial Segment EBITDA was \$11 million in the first quarter of fiscal year 2012, down \$6 million compared to the prior year. The favorable impact of higher sales in our Asia-Pacific region was more than offset by change in sales mix in that region as well as in our military products associated with the Caiman and FMTV programs and higher material costs. In the prior year's first fiscal quarter, FMTV production began to shift to a new prime contractor, which was substantially completed during fiscal year 2011. Due to government budgetary constraints and the competitive bidding process, Adjusted EBITDA margins are lower on sales to the new prime contractor. In addition, there were no shipments associated with the Caiman military program in the current year's first fiscal quarter. This change in sales mix significantly impacted our Segment EBITDA margins, which decreased to 4.4 percent in the first quarter of fiscal year 2012 compared to 7.4 percent in the prior year.

Aftermarket & Trailer Segment EBITDA was \$20 million in the first quarter of fiscal year 2012, up \$4 million compared to the same period in the prior year. Segment EBITDA margin increased to 8.5 percent from 7.6 percent in the prior year. The increase in Segment EBITDA and Segment EBITDA margin is primarily due to higher sales in our core aftermarket products and higher sales of products for trailer applications, partially offset by increased steel costs.

Financial Condition*Cash Flows (in millions)*

	Three Months Ended December 31,	
	2011	2010
OPERATING CASH FLOWS		
Loss from continuing operations	\$ (9)	\$ (2)
Depreciation and amortization	17	16
Restructuring costs	24	3
Pension and retiree medical expense	14	18
Equity in earnings of affiliates	(15)	(13)
Dividends received from equity method investments	3	4
Pension and retiree medical contributions	(25)	(16)
Restructuring payments	(7)	(4)
Increase in working capital	(75)	(141)
Changes in sale of receivables	77	125
Other, net	4	(9)
Cash flows provided by (used for) continuing operations	8	(19)
Cash flows used for discontinued operations	(3)	(30)
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 5	\$ (49)

Cash provided by operating activities for the first three months of fiscal year 2012 was \$5 million, compared to cash used of \$49 million in the same period of fiscal year 2011. The improvement in operating cash flows in continuing operations was primarily due to improvements in working capital and lower variable compensation payments, partially offset by higher pension and retiree medical contributions. We continue to focus on improving cash flow by maintaining tight controls on global inventory, pursuing working capital improvements, and monitoring discretionary spending.

Three Months Ended
December 31,

Edgar Filing: MERITOR INC - Form 10-Q

	2011	2010
INVESTING CASH FLOWS		
Capital expenditures	\$ (25)	\$ (19)
Other investing activities	2	3
Net investing cash flows provided by (used for) discontinued operations	11	(6)
CASH USED FOR INVESTING ACTIVITIES	\$ (12)	\$ (22)

MERITOR, INC.

Cash used for investing activities was \$12 million and \$22 million in the first three months of fiscal year 2012 and 2011, respectively. Capital expenditures increased to \$25 million in the first three months of fiscal year 2012 from \$19 million in the same period of the prior year. Investing cash flows provided by discontinued operations in the first three months of fiscal year 2012 include \$10 million of cash received from the purchaser of our Body Systems business. At the time of sale, cash balances of \$33 million remained at Body Systems entities in China and Brazil. The remaining cash balances, less related tax withholdings, are expected to be received before the end of fiscal year 2012.

Cash provided by financing activities was \$2 million in the first three months of fiscal year 2011 and related to proceeds from exercise of stock options. There were no financing cash flows in the first quarter of fiscal year 2012.

Liquidity

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

	December 31, 2011	September 30, 2011
Fixed-rate debt securities	\$ 580	\$ 580
Fixed-rate convertible notes	500	500
Unamortized discount on convertible notes	(65)	(68)
Unamortized gain on interest rate swap termination	12	14
Lines of credit and other	8	8
Total debt	\$ 1,035	\$ 1,034

Overview Our principal operating and capital requirements are for working capital needs, capital expenditure requirements, debt service requirements and funding of pension and retiree medical costs, restructuring and product development programs. We expect fiscal year 2012 capital expenditures for our business segments to be in the range of \$100 million to \$110 million. In addition, we currently expect restructuring cash costs to be approximately \$20 million in fiscal year 2012, although we will continue to evaluate the performance of our global operations and may enact further restructuring if conditions warrant such actions.

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 November 2009, we filed a shelf registration statement with the Securities and Exchange Commission, which became effective in December 2009, registering \$750 million aggregate debt and/or equity securities that may be offered in one or more series on terms to be determined at the time of sale. Approximately \$290 million of such securities remain available for issuance under this shelf registration statement.

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 January 2014.

Sources of liquidity as of December 31, 2011, in addition to cash on hand, are as follows:

Total Facility Size	Unused as of 12/31/11	Current Expiration
---------------------------	-----------------------------	--------------------

Edgar Filing: MERITOR INC - Form 10-Q

<i>On-balance sheet arrangements:</i>				
Revolving credit facility ⁽¹⁾	\$	441	\$	441
Committed U.S. accounts receivable securitization ⁽²⁾		125		125
Total on-balance sheet arrangements		566		566
<i>Off-balance sheet arrangements:</i>				
Committed accounts receivable factoring programs ⁽²⁾		434		86
Other uncommitted factoring facilities ⁽²⁾		26		18
Letter of credit facility		30		
Total off-balance sheet arrangements		490		104
Total available sources	\$	1,056	\$	670

MERITOR, INC.

- (1) The availability under the revolving credit facility is subject to a collateral test as discussed under **Revolving Credit Facility** below.
- (2) Availability subject to adequate eligible accounts receivable as described below.

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 December 31, 2011, we had \$211 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.

Repurchase Program Our Board of Directors has approved a repurchase program for up to the remaining principal amount of the corporation's 8-3/4 percent Notes due 2012 and up to \$20 million of our 8-1/8 percent notes due in 2015 (subject to any necessary approvals). Repurchases, if any, may be made from time to time through maturity through open market purchases or privately negotiated transactions or otherwise, at the discretion of management as market conditions warrant. We purchased \$18 million of notes under this program in fiscal year 2010.

Revolving Credit Facility We have a revolving credit facility of \$441 million which matures in January 2014. The availability under this facility is dependent upon various factors, including principally performance against certain financial covenants. At December 31, 2011 and September 30, 2011, there were no borrowings outstanding under the revolving credit facility. The \$441 million revolving credit facility includes \$100 million of availability for the issuance of letters of credit. At December 31, 2011 and September 30, 2011, no letters of credit were outstanding under the facility. At certain times during any given month, we may 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.

Availability under the revolving credit facility is subject to a collateral test, pursuant to which borrowings on the revolving credit facility cannot exceed 1.0x the collateral test value. The collateral test is performed on a quarterly basis and under the most recent collateral test, the full amount of the revolving credit facility was available for borrowing at December 31, 2011. Our availability under the revolving credit facility is also subject to certain financial covenants based on (i) the ratio of the company's priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. We are required to maintain a total priority-debt-to-EBITDA ratio, as defined in the agreement, of (i) 2.25 to 1 as of the last day of each fiscal quarter commencing with the fiscal quarter ended September 30, 2011 through and including the fiscal quarter ended June 30, 2012 and (ii) 2.00 to 1 as of the last day of each fiscal quarter thereafter through maturity. At December 31, 2011, we were in compliance with the above noted covenants with a ratio of approximately 0.22x for the priority-debt-to-EBITDA covenant. Certain of the company's subsidiaries, as defined in the credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility.

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 credit rating for the senior secured facilities. At December 31, 2011, 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.

U.S. Securitization Program We have a \$125 million U.S. receivables financing arrangement which is provided on a committed basis by a syndicate of financial institutions led by Ally Commercial Finance LLC, which expires in October 2013. Under this program, we have the ability to sell substantially all of our trade receivables (excluding the receivables due from AB Volvo and subsidiaries eligible for sale under the U.S. Factoring Facility discussed below) of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation (ARC), a wholly-owned, special purpose subsidiary. ARC funds these purchases with borrowings under a loan agreement with participating lenders. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the consolidated balance sheet. At December 31, 2011 and September 30, 2011, no amount was outstanding under this program. 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

Edgar Filing: MERITOR INC - Form 10-Q

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. This program does not have specific financial covenants; however, it does have a cross-default provision to our revolving credit facility agreement.

MERITOR, INC.

Letter of Credit Facilities We have 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 December 31 and September 30, 2011, we had \$30 million of letters of credit outstanding under this facility. In addition, we had another \$4 million and \$2 million of letters of credit outstanding through other letters of credit facilities at December 31 and September 30, 2011, respectively.

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.

Credit Ratings At December 31, 2011, Standard & Poor's corporate credit rating, senior secured credit rating, and senior unsecured credit rating for our company is B, B+ and CCC+, respectively. Moody's Investors Service corporate credit rating, senior secured credit rating, and senior unsecured credit rating for our company is 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 December 31, 2011, of approximately \$356 million, of which \$348 was attributable to factoring facilities, which involve the sale of AB Volvo accounts receivables. These programs are described in more detail below.

Swedish Factoring Facility: We have an arrangement to sell trade receivables from AB Volvo through one of our European subsidiaries. Under this arrangement, which was renewed in June 2011 for a term of one year, we 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. We had utilized €149 million (\$192 million) and €107 million (\$146 million) of this accounts receivable factoring facility as of December 31, 2011 and September 30, 2011, respectively.

French Factoring Facility: We have an arrangement to sell trade receivables through one of our French subsidiaries. Under this arrangement, we can sell up to, at any point in time, €125 million of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. We had utilized €68 million (\$88 million) and €47 million (\$63 million) of this accounts receivable securitization facility as of December 31, 2011 and September 30, 2011, respectively. In January 2012, we sold our manufacturing facility located at St. Priest, France to Renault Trucks SAS. As a result, the French Factoring Facility is expected to ramp down over the course of fiscal year 2012. On February 2, 2012, we entered into a new €25 million arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of our United Kingdom subsidiaries. We expect this new arrangement to partially offset the ramp down of the French facility in future quarters.

U.S. Factoring Facility: We have an arrangement to sell trade receivables from AB Volvo and its subsidiaries, which expires in October 2012. Under this arrangement, we can sell up to, at any point in time, €60 million (\$78 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. We had utilized €53 million (\$68 million) and €46 million (\$62 million) of this accounts receivable factoring facility as of December 31 and September 30, 2011, respectively.

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

In addition, several of our European subsidiaries factor eligible accounts receivables with financial institutions. The amount of factored receivables was approximately \$8 million at December 31 and September 30, 2011.

MERITOR, INC.

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 to be implemented

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

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 beginning after December 15, 2011. We do not believe the adoption of the new guidance will have a significant impact on the company's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). This ASU is intended to result in convergence between U.S. GAAP and IFRS requirements for measurement of and disclosures about fair value. The guidance amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. We are currently evaluating the potential impact of this new guidance 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 first quarter of fiscal year 2012, our reported financial results have been adversely affected by the appreciation of the U.S. dollar against foreign currencies whereas for fiscal year 2011, our reported financial results benefited from depreciation of the U.S. dollar against foreign currencies.

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

Edgar Filing: MERITOR INC - Form 10-Q

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 and fourth quarters of fiscal years 2011 and 2010, 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 December 31, 2011.

MERITOR, INC.

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.

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% hypothetical change (increase or decrease) in exchange rates and instantaneous, parallel shifts of 50 basis points in interest rates.

Market Risk	Assuming a 10% Increase in Rates	Assuming a 10% Decrease in Rates	Favorable / (Unfavorable) Impact on
<i>Foreign Currency Sensitivity:</i>			
Forward contracts in USD ⁽¹⁾	\$ (0.5)	\$ 0.5	Fair Value
Forward contracts in Euro ⁽¹⁾	(2.6)	2.6	Fair Value
Foreign currency denominated debt	0.8	(0.8)	Fair Value
	Assuming a 50 BPS Increase in Rates	Assuming a 50 BPS Decrease in Rates	Favorable / (Unfavorable) Impact on
<i>Interest Rate Sensitivity:</i>			
Debt - fixed rate	\$ (25.0)	\$ 26.3	Fair Value

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

At December 31, 2011 a 10% decrease in quoted currency exchange rates would result in a potential loss of approximately \$1 million in foreign currency denominated debt.

At December 31, 2011 the fair value of debt outstanding was approximately \$899 million. A 50 basis points decrease in quoted interest rates would result in favorable impact of \$26 million on fixed rate 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 December 31, 2011. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of December 31, 2011, 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 December 31, 2011 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.

MERITOR, INC.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Except 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, 2011.

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, 2011.

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 first quarter of 2012.

Item 5. Other Information

United Kingdom Factoring Facility

On February 2, 2012, we entered into an arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of our United Kingdom subsidiaries. Under this arrangement, which expires in February 2013, we can sell up to, at any point in time, €25 million of eligible trade receivables. The purchase price for the receivables under this program is the net face value of such receivables, discounted for the period of time from the date of sale to the anticipated date of payment at a rate equal to EURIBOR plus 1.08 percent per annum. The receivables sold under this program are excluded from our consolidated balance sheet. 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.

This arrangement is intended to effect an absolute transfer of the relevant receivables, and contain representations, warranties and covenants typical for such a transaction. It also contains a cross-default to our senior secured credit facility and other customary events of default. For a further description of the covenants set forth in our senior secured credit facility, please see Note 17 of the Notes to Consolidated Financial Statements and the discussion under the heading Liquidity in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations in this report on Form 10-Q.

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. Results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to 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; availability and sharply rising costs of raw materials, including steel, and our ability to manage or recover such costs; reduced production for certain military programs as compared to levels in prior years and the return of volumes of selected long-term military contracts to more normalized levels; global economic and market cycles and conditions, including a slower than anticipated recovery from the recent global economic crisis; risks inherent in operating abroad (including foreign currency exchange rates and potential disruption of production and supply due to terrorist attacks or acts of aggression); the ability to achieve the expected benefits of restructuring actions; the demand for commercial and specialty vehicles for which we supply products; whether the liquidity of the company 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; reliance on major OEM customers and possible negative outcomes from contract negotiations with our major customers; labor relations of the company, its 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 the company's 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; successful integration of acquired or merged businesses; the ability to achieve the expected annual savings and synergies from past and future business combinations; success and timing of potential divestitures; 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 the company's debt; the ability of the company to continue to comply with covenants in its financing agreements; the ability of the company to access capital markets; credit ratings of the company's 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; rising costs of pension and other postretirement benefits; 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, as amended, for the year ending October 2, 2011: Item 1. Business, Customers; Sales and Marketing Competition Raw Materials and Suppliers Employees Environmental Matters International Operations and Seasonality; Cyclicity ; Item 1A. Risk Factors; Item 3. Legal Proceedings; and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and see also Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk Legal Proceedings and Risk Factors herein. These forward-looking statements are made only as of the respective dates on which they were made, 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 **ArvinMeritor**, filed as Exhibit 4.01 to ArvinMeritor's Registration Statement on Form S-4, as amended (Registration Statement No. 333-36448) ("Form S-4"), is incorporated by reference.
- 3-b By-laws of ArvinMeritor, filed as Exhibit 3 to ArvinMeritor's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2003 (File No. 1-15983), is incorporated by reference.
- 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.

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: February 6, 2012

By: /s/

V. G. Baker, II
V. G. Baker, II
Senior Vice President and General Counsel
(For the registrant)

Date: February 6, 2012

By: /s/

J.A. Craig
J.A. Craig
Senior Vice President and Chief Financial Officer