PIMCO NEW YORK MUNICIPAL INCOME FUND III
Form N-CSRS
May 30, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21189

PIMCO New York Municipal Income Fund III

(Exact name of registrant as specified in charter)

1633 Broadway, New York, New York 10019

(Address of principal executive offices) (Zip code)

Lawrence G. Altadonna 1633 Broadway, New York, New York 10019

(Name and address of agent for service)

Registrant s telephone number, including area code: 212-739-3371

Date of fiscal year end: September 30, 2014

Date of reporting period: March 31, 2014

Table of Contents

Item 1. REPORT TO SHAREHOLDERS

PIMCO Municipal Income Fund III

PIMCO California Municipal Income Fund III

PIMCO New York Municipal Income Fund III

Semi-Annual Report

March 31, 2014

Table of Contents

Table of Contents

Table of Contents

Letter from the Chairman of the Board &

President

Hans W. Kertess

Chairman

Julian Sluyters

President & CEO

Dear Shareholder:

After a weak first half of the reporting period, municipal bonds rallied and produced solid results during the fiscal six months ended March 31, 2014. US Treasury yields fluctuated but ultimately moved higher as the US economy continued to expand and the Federal Reserve (the Fed) clarified its timeline for asset purchase tapering. Investor demand for municipal securities strengthened due to improving fundamentals and attractive valuations.

Six-Month Period in Review

For the six-month fiscal period ended March 31, 2014, PIMCO Municipal Income III returned 10.24% on net asset value (NAV) and 10.46% on market price.

For the six-month fiscal period ended March 31, 2014, PIMCO California Municipal Income III returned 9.05% on NAV and 10.74% on market price.

For the six-month fiscal period ended March 31, 2014, PIMCO New York Municipal Income III returned 7.54% on NAV and 3.16% on market price.

The Barclays Municipal Bond Index gained 3.65% while the broad taxable bond market, as represented by the Barclays US Aggregate Bond Index, returned 1.70% during the reporting period.

The US economy continued to grow during the reporting period, albeit at a less robust pace. According to the US Commerce Department, gross domestic product (GDP), the value of goods and services produced in the country, the broadest measure of economic activity and the principal indicator of economic performance, expanded at a 2.6% annual pace during the fourth quarter. Moderating growth was attributed to a number of factors, including a deceleration in private inventory investment, declining federal government spending and less residential fixed investments.

The Fed maintained an accommodative monetary policy during the reporting period. The central bank did, however, announce that it would begin tapering its monthly asset purchase program beginning in January 2014 during its December 2013 meeting. At its meetings in both January and March 2014, the Fed announced that it would further taper its asset purchases. However, the Fed repeated that it would not raise interest rates in the near future, saying in March that it expected to maintain the current target range for the federal funds rate for a considerable time

Table of Contents

after the asset purchase program ends, especially if projected inflation continues to run below the Committee s 2% longer-run goal.

Outlook

The US economy has been resilient and we believe has overcome the headwinds associated with higher taxes, rising interest rates and severe winter weather. We continue to expect US economic growth will be above-trend in 2014 due, in part, to the fact that fiscal policy

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will be less of a drag than it was last year.

While we are prepared for the Fed to start raising benchmark interest rates in 2015, we think policymakers will remain behind the curve on monetary normalization. Several factors support this view, including: the modest pace of the labor recovery, the lack of inflation pressure, the need to support the deleveraging process, the risk of a bond market crash if rates were to normalize too quickly, and constrained fiscal policy and political pressure.

For specific information on the Funds and their performance, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources is available on our website, us.allianzgi.com/closedendfunds.

Together with Allianz Global Investors Fund Management LLC, the Funds investment manager, and Pacific Investment Management Company LLC (PIMCO), the Funds sub-adviser, we thank you for investing with us. We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess	Julian Sluyters
Chairman of the Board of Trustees	*President & Chief Executive Officer*

Table of Contents

Fund Insights

PIMCO Municipal Income Funds III

March 31, 2014 (unaudited)

For the six-month fiscal period ended March 31, 2014, PIMCO Municipal Income III (Municipal III) returned 10.24% on net asset value (NAV) and 10.46% on market price.

For the six-month fiscal period ended March 31, 2014, PIMCO California Municipal Income III (California Municipal III) returned 9.05% on NAV and 10.74% on market price.

For the six-month fiscal period ended March 31, 2014, PIMCO New York Municipal Income III (New York Municipal III) returned 7.54% on NAV and 3.16% on market price.

The municipal bond market overcame a challenging start and generated positive results during the six-month reporting period ended March 31, 2014. The overall municipal market, as measured by the Barclays Municipal Bond Index (the Index), was relatively flat for the first half of the reporting period, as it returned 0.32%. Impacting the municipal market were rising interest rates, as well as generally weak demand given concerns over the city of Detroit s bankruptcy filing and credit issues in Puerto Rico. However, the municipal bond market then strengthened and gained 3.32% over the second half of the reporting period. This turnaround was due to several factors, including improving fundamentals, attractive valuations and falling interest rates. In addition, investor demand improved, while new municipal supply fell sharply over the first three months of 2014. All told, the Index gained 3.65% during the six-month reporting period. In

comparison, the overall taxable fixed income market, as measured by the Barclays US Aggregate Bond Index, gained 1.70%.

Overweight duration relative to the Index contributed to the performance of all three Funds as municipal yields declined during the six-months ended March 31, 2014. All three Funds overweighting to the Health Care sector was rewarded as it outperformed the Index. Municipal III s and New York Municipal III s overweighting to the Industrial Revenue sector was beneficial for results as it outperformed the Index. Municipal III s and California Municipal III s overweighting to the Revenue-Backed sector contributed to results as it outperformed the Index. New York Municipal III s and California Municipal III s overweighting to Tobacco sector was beneficial as it outperformed the Index.

Municipal III s and California Municipal III s underweighting to the Transportation and Lease-Backed sectors detracted from performance as they outperformed the Index. Municipal III s underweighting to the Education sector was a negative for results given its outperformance versus the Index. New York Municipal III s overweighting to the Special Tax sector detracted from results given its underperformance versus the Index. New York Municipal III s underweighting to the Water and Sewer sector was a negative for results due to its outperformance versus the Index.

Table of Contents

Performance & Statistics

PIMCO Municipal Income Fund III

March 31, 2014 (unaudited)

Total Return[1]:	Market Price	NAV
Six Month	10.46%	10.24%
1 Year	-2.54%	-0.58%
5 Year	13.65%	14.61%
10 Year	4.57%	4.08%
Commencement of Operations (10/31/02) to 3/31/14	4.62%	4.48%

Market Price/NAV Performance:
Commencement of Operations (10/31/02) to 3/31/14

Market Price/NAV:	
Market Price	$11.07
NAV	$10.11
Premium to NAV	9.50%
Market Price Yield[2]	6.28%
Leverage Ratio[3]	39.80%

Moody s Rating

(as a % of total investments)

Table of Contents

Performance & Statistics

PIMCO California Municipal Income Fund III

March 31, 2014 (unaudited)

Total Return[1]:	Market Price	NAV
Six Month	10.74%	9.05%
1 Year	-2.87%	0.23%
5 Year	13.64%	13.83%
10 Year	3.57%	3.25%
Commencement of Operations (10/31/02) to 3/31/14	3.43%	3.53%

Market Price/NAV Performance:
Commencement of Operations (10/31/02) to 3/31/14

Market Price/NAV:	
Market Price	$9.97
NAV	$9.53
Premium to NAV	4.62%
Market Price Yield[2]	7.22%
Leverage Ratio[3]	43.00%

Moody s Rating

(as a % of total investments)

Performance & Statistics

PIMCO New York Municipal Income Fund III

March 31, 2014 (unaudited)

Total Return[1]:	Market Price	NAV
Six Month	3.16%	7.54%
1 Year	-2.06%	-0.30%
5 Year	10.73%	10.19%
10 Year	1.87%	1.46%
Commencement of Operations (10/31/02) to 3/31/14	2.23%	2.20%

Market Price/NAV Performance:

Commencement of Operations (10/31/02) to 3/31/14

Market Price/NAV:	
Market Price	$9.25
NAV	$8.82
Premium to NAV	4.88%
Market Price Yield[2]	6.81%
Leverage Ratio[3]	42.57%

Moody s Rating

(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all dividends and distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of less than one year is not annualized. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Funds, market conditions, supply and demand for each Fund s shares, or changes in each Fund s dividends.

An investment in each Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly dividend per common share (comprised of net investment income) by the market price per common share at March 31, 2014.

(3) Represents Floating Rate Notes issued in tender option bond transactions and Preferred Shares outstanding (collectively Leverage), as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage) minus liabilities (other than liabilities representing Leverage).

Table of Contents

Schedule of Investments

PIMCO Municipal Income Fund III

March 31, 2014 (unaudited)

Principal Amount (000s)		Value
Municipal Bonds & Notes 93.4%		
	Alabama 9.5%	
	Birmingham Special Care Facs. Financing Auth. Rev., Childrens Hospital,	
$500	6.00%, 6/1/39 (AGC)	$559,780
	Birmingham-Baptist Medical Centers Special Care Facs. Financing Auth. Rev.,	
9,000	Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A	9,009,180
	Jefferson Cnty. Sewer Rev.,	
53,000	zero coupon, 10/1/50, Ser. F (i)	27,878,530
12,000	6.50%, 10/1/53, Ser. D	12,434,040
1,000	State Docks Department Rev., 6.00%, 10/1/40	1,121,290
		51,002,820
	Arizona 6.7%	
	Health Facs. Auth. Rev.,	
1,250	Banner Health, 5.00%, 1/1/35, Ser. A	1,282,062
900	Banner Health, 5.50%, 1/1/38, Ser. D	954,162
2,250	Beatitudes Campus Project, 5.20%, 10/1/37	1,916,887
	Pima Cnty. Industrial Dev. Auth. Rev.,	
13,000	5.00%, 9/1/39 (h)	13,244,270
750	Tucson Electric Power Co., 5.25%, 10/1/40, Ser. A	769,478
	Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39,	
5,000	Ser. A (h)	5,331,750
11,600	Salt Verde Financial Corp. Rev., 5.00%, 12/1/37	12,281,384
		35,779,993
	California 19.1%	
	Bay Area Toll Auth. Rev., San Francisco Bay Area,	
1,500	5.00%, 10/1/29	1,636,065
500	5.00%, 4/1/34, Ser. F-1	536,600
3,260	5.00%, 10/1/42	3,414,426
12,000	5.25%, 4/1/53, Ser. S-4	12,741,720
	Golden State Tobacco Securitization Corp. Rev., Ser. A-1,	
2,630	4.50%, 6/1/27	2,278,632
3,600	5.125%, 6/1/47	2,665,080
11,120	5.75%, 6/1/47	8,999,861
	Health Facs. Financing Auth. Rev.,	
2,500	Catholic Healthcare West, 6.00%, 7/1/39, Ser. A	2,765,375
600	Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC)	613,992
4,390	Sutter Health, 5.00%, 8/15/52, Ser. A	4,545,845

1,500	Sutter Health, 6.00%, 8/15/42, Ser. B	1,710,450
	Indian Wells Redev. Agcy., Tax Allocation, Whitewater Project, 4.75%, 9/1/34,	
3,350	Ser. A (AMBAC)	3,105,952
130	Los Angeles Unified School Dist., GO, 5.00%, 7/1/30, Ser. E (AMBAC)	136,997
2,000	M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B	2,525,420
1,445	Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B	1,623,645
1,250	Palomar Pomerado Health, CP, 6.75%, 11/1/39	1,292,013
1,600	San Marcos Unified School Dist., GO, 5.00%, 8/1/38, Ser. A	1,679,920
	State, GO,	
5,000	5.00%, 6/1/37	5,282,200
5,300	5.00%, 12/1/37	5,643,864
1,350	5.25%, 3/1/38	1,454,544

Table of Contents

Schedule of Investments

PIMCO Municipal Income Fund III

March 31, 2014 (unaudited) (continued)

Principal Amount (000s)		Value
	California (continued)	
$ 1,300	5.25%, 11/1/40	$1,435,811
3,200	5.50%, 3/1/40	3,546,176
2,500	5.75%, 4/1/31	2,891,975
5,000	6.00%, 4/1/38	5,738,400
	Statewide Communities Dev. Auth. Rev.,	
1,000	American Baptist Homes West, 6.25%, 10/1/39	1,044,770
1,635	California Baptist Univ., 5.75%, 11/1/17, Ser. B (a)(b)(d)(j) (acquisition cost-$1,635,000; purchased 6/22/07)	1,783,507
2,580	Methodist Hospital Project, 6.625%, 8/1/29 (FHA)	3,039,988
9,200	Methodist Hospital Project, 6.75%, 2/1/38 (FHA)	10,802,364
3,000	Trinity Health, 5.00%, 12/1/41	3,119,760
6,200	Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1	4,741,512
		102,796,864
	Colorado 0.7%	
	Health Facs. Auth. Rev., Ser. A,	
500	Evangelical Lutheran, 6.125%, 6/1/38 (Pre-refunded @ $100, 6/1/14) (c)	504,810
2,000		2,062,240

	Sisters of Charity of Leavenworth Health System, 5.00%, 1/1/40	
500	Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38	633,870
500	Regional Transportation Dist. Rev., Denver Transportation Partners, 6.00%, 1/15/34	529,395
		3,730,315
	Connecticut 0.3%	
1,250	Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser. A	1,396,488
	District of Columbia 2.1%	
10,000	Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (h)	11,057,100
	Florida 3.2%	
3,480	Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34	3,518,767
500	Broward Cnty. Airport System Rev., 5.375%, 10/1/29, Ser. O	552,275
4,500	Broward Cnty. Water & Sewer Utility Rev., 5.25%, 10/1/34, Ser. A (h)	5,008,815
3,000	Cape Coral Water & Sewer Rev., 5.00%, 10/1/41 (AGM)	3,125,520
350	Dev. Finance Corp. Rev., Renaissance Charter School, 6.50%, 6/15/21, Ser. A	364,634
4,200	State Board of Education, GO, 5.00%, 6/1/38, Ser. D (h)	4,551,204

We believe we are one of the leading independent suppliers of air brakes

Through manufacturing facilities located in North America, Asia-Pacific

Our brakes and brake system components also are used in military tactic

U.S. Federal regulations require that new medium- and heavy-duty vehic

7

Other Products

In addition to the products discussed above, we sell other complimentary

Customers; Sales and Marketing

Meritor has numerous customers worldwide and has developed long-sta

OEMs

In North America, we design, engineer, market and sell products princip

For certain large OEM customers, our supply arrangements are generally

We have established leading positions in many of the markets we serve a

Our global customer portfolio includes companies such as AB Volvo, D

Aftermarket

We market and sell truck, trailer, off-highway and other products princip

Our product offerings allow us to service all stages of our customers' ve

Based on available industry data and internal company estimates, our No

8

Competition

We compete worldwide with a number of North American and internatio

Our major competitors for axles are Dana Holding Corp. and, in certain

See Item 1A. Risk Factors for information on certain risks associated wi

Raw Materials and Suppliers

Our purchases of raw materials and parts are concentrated over a limited

The cost of our core products is susceptible to changes in overall steel co

Significant future volatility in the commodity markets or a deterioration

We continuously work to address these competitive challenges by reduci

Divestitures and Restructuring

As described above, our business strategies are focused on enhancing ou

As part of our strategy to refocus our business and dedicate our resource

9

•In fiscal year 2012, we completed the sale our damper business located i
•In fiscal year 2012, we concluded Performance Plus, our global, long-ter
•In fiscal year 2012, we concluded restructuring activities related to the p
•In the fourth quarter of fiscal year 2014, we completed the disposition of

Restructuring Actions

South America Labor Reduction: During the fourth quarter of fiscal year
Variable Labor Reductions: During the fourth quarter of fiscal year 2012
Remanufacturing Consolidation: During the first quarter of fiscal year 20
Segment Reorganization and Asia-Pacific Realignment: On March 26, 2

M2016 Footprint Actions: As part of our M2016 Strategy, our three-year
See Item 1A. Risk Factors for information on certain risks associated wit

10

Joint Ventures

As the industries in which we operate have become more globalized, joi

Meritor WABCO Vehicle Control Systems
Master Sistemas Automotivos Limitada
ZF Meritor LLC (Commercial Truck)
Sistemas Automotrices de Mexico S.A. de C.V.
Ege Fren Sanayii ve Ticaret A.S.
Automotive Axles Limited

Aggregate sales of our non-consolidated joint ventures were $1,268 mill

In accordance with accounting principles generally accepted in the Unite

Research and Development

We have significant research, development, engineering and product des

Patents and Trademarks

We own or license many United States and foreign patents and patent ap

Our registered trademarks for Meritor® and the Bull design are importa

Substantially all of our U.S. held intellectual property rights are subject t

Employees

At September 30, 2014, we had approximately 9,050 full-time employee

11

Environmental Matters

Federal, state and local requirements relating to the discharge of substan

We have been designated as a potentially responsible party at nine Supe

The process of estimating environmental liabilities is complex and depe

International Operations

We believe our international operations provide us with geographical div

Our international operations are subject to a number of risks inherent in

Our operations are also exposed to global market risks, including foreig

12

Seasonality; Cyclicality

We may experience seasonal variations in the demand for our products, t

In addition, the industries in which we operate have been characterized h

In fiscal year 2010, following sharp declines in production and sales volu

The following table sets forth estimated truck production in principal ma

Estimated Commercial Truck production (in thousands):	
North America, Heavy-Duty Trucks	
North America, Medium-Duty Trucks	
Western Europe, Heavy- and Medium-Duty Trucks	
South America, Heavy- and Medium- Duty Trucks	

Available Information

We make available free of charge through our web site (www.Meritor.co

13

Cautionary Statement

This Annual Report on Form 10-K contains statements relating to future

Item 1A. Risk Factors.

Our business, financial condition and results of operations can be impact

We may not be able to execute our M2016 Strategy.

In 2013, we announced our M2016 Strategy, a three-year plan to achieve

14

Our primary military program is winding down and failure to secure new

We have significant sales to U.S. Government contractors in the military

Future sales from orders placed under contracts with U.S. Government c

We depend on large OEM customers, and loss of sales to these customer

We are dependent upon large OEM customers with substantial bargainin

During fiscal year 2014, sales to our three largest customers, AB Volvo,

The level of our sales to large OEM customers, including the realization

Ability to manage rapidly changing production and sales volume in the c

Production and sales in the commercial vehicle market have been volatil

A further downturn in the global economy could materially adversely af

Although the global economy has improved since the global economic re

15

Our levels of fixed costs can make it difficult to adjust our cost base to th

The negative impact on our financial condition and results of operations

Our working capital requirements may negatively affect our liquidity and

Our working capital requirements can vary significantly, depending in pa

In addition, since many of our accounts receivable factoring programs su

One of our consolidated joint ventures in China participates in bills of ex

Our liquidity, including our access to capital markets and financing, coul

Our current revolving credit facility matures in February 2019. Upon exp

On November 18, 2014, Standard & Poor's Ratings Services upgraded o

Our liquidity could also be adversely impacted if our suppliers were to su

16

In December 2012, the SEC brought administrative proceedings agains

We operate in an industry that is cyclical and that has periodically experi

The industries in which we operate have been characterized historically l

Production and sales of the vehicles for which we supply products gener

Sales from the aftermarket portion of our Aftermarket & Trailers segmen

We may also experience seasonal variations in the demand for our produ

Disruptions in the financial markets could impact the availability and cos

Disruptions in the financial markets, including the bankruptcy, insolvenc

17

In addition, disruptions in the capital and credit markets, as were experie

Continued fluctuation in the prices of raw materials and transportation c

Prices of raw materials, primarily steel, for our manufacturing needs and

Escalating price pressures from customers may adversely affect our busi

Pricing pressure by OEMs is a characteristic, to a certain extent, of the c

We operate in a highly competitive industry.

Each of Meritor's businesses operates in a highly competitive environme

Many companies in our industry have undertaken substantial changes in

Exchange rate fluctuations could adversely affect our financial condition

As a result of our substantial international operations, we are exposed to

18

A disruption in supply of raw materials or parts could impact our produc

Some of our significant suppliers have experienced weak financial condi

Work stoppages or similar difficulties could significantly disrupt our ope

A work stoppage at one or more of our manufacturing facilities could ha

Our international operations are subject to a number of risks.

We have a significant number of facilities and operations outside the Un

- risks with respect to currency exchange rate fluctuations (as more fully d
- risks to our liquidity if the European monetary union were to dissolve an
- local economic and political conditions;
- disruptions of capital and trading markets;
- possible terrorist attacks or acts of aggression that could affect vehicle p
- restrictive governmental actions (such as restrictions on transfer of funds
- changes in legal or regulatory requirements;
- import or export licensing requirements;
- limitations on the repatriation of funds;
- difficulty in obtaining distribution and support;
- nationalization;
- the laws and policies of the United States affecting trade, foreign investm
- the ability to attract and retain qualified personnel;
- tax laws; and
- labor disruptions.

There can be no assurance that these risks will not have a material advers

19

A violation of the financial covenants in our senior secured credit facility

Our ability to borrow under our existing financing arrangements depends
Availability under the revolving credit facility is subject to a collateral te
If an amendment or waiver is needed (in the event we do not meet one o

Our strategic initiatives may be unsuccessful, may take longer than antic

The success and timing of any future divestitures and acquisitions will de

We are exposed to environmental, health and safety and product liabiliti

Our business is subject to liabilities with respect to environmental and he

With respect to environmental liabilities, we have been designated as a p

20

We are exposed to asbestos litigation liability.

One of our subsidiaries, Maremont Corporation, manufactured friction p

The uncertainties of asbestos claim litigation, the outcome of litigation w

We are exposed to the rising cost of pension and other postemployment

The commercial vehicle industry, like other industries, continues to be in

Impairment in the carrying value of long-lived assets and goodwill could

We have a significant amount of long-lived assets and goodwill on our c

The value of our deferred tax assets could become impaired, which could

In accordance with the Financial Accounting Standards Board (FASB) A

21

Our overall effective tax rate is equal to our total tax expense as a percen

Our unrecognized tax benefits recorded in accordance with FASB ASC T

FASB ASC Topic 740, "Income Taxes," defines the confidence level tha

Restriction on use of tax attributes from tax law "ownership change"

Section 382 of the U.S. Internal Revenue Code of 1986, as amended, lim

Assertions against us or our customers relating to intellectual property ri

Our industry is characterized by companies that hold large numbers of p

Claims that our products or technology infringe third-party intellectual p

- cease the manufacture, use or sale of the infringing products or technolo
- pay substantial damages for infringement;
- expend significant resources to develop non-infringing products or techn
- license technology from the third-party claiming infringement, which lic
- enter into cross-licenses with our competitors, which could weaken our
- lose the opportunity to license our technology to others or to collect roya

22

- pay substantial damages to our customers or end users to discontinue use
- relinquish rights associated with one or more of our patent claims, if our

Any of the foregoing results could have a material adverse effect on our

We utilize a significant amount of intellectual property in our business. I

Our success depends in part upon our ability to protect our intellectual pr

- any of our present or future patents will not lapse or be invalidated, circu
- any of our pending or future patent applications will be issued or have th
- our intellectual property rights will be enforced in jurisdictions where co
- any of the trademarks, trade secrets or other intellectual property rights t

In addition, we may not receive competitive advantages from the rights g

We are a party to a number of patent and intellectual property license ag

A failure of our information technology infrastructure could adversely in

We recognize the increasing volume of cyber attacks and employ comme

Item 1B. Unresolved Staff Comments.

None.

23

Item 2. Properties.

At September 30, 2014, our operating segments, including all consolidat

Commercial Truck & Industrial
Aftermarket & Trailer
Other
Total
These facilities had an aggregate floor space of approximately 9.0 millio

A summary of floor space (in square feet) of these facilities at Septembe

Location

United States
Canada
Europe
Asia-Pacific
Latin America
Total

Item 3. Legal Proceedings

- See Note 19 of the Notes to Consolidated Financial Statements under Ite
- See Note 22 of the Notes to Consolidated Financial Statements under Ite
- See Item 1. Business, “Environmental Matters” and Note 22 of the Note

24

- On October 5, 2006, our subsidiary, Meritor Transmission LLC, and ZF
- On July 10, 2014, Sistemas Automotrices de Mexico, S.A. de C.V. ("Sis
- Various other lawsuits, claims and proceedings have been or may be ins

Item 4. Mine Safety Disclosures.

Not applicable.

Item 4A. Executive Officers of the Registrant.

The name, age, positions and offices held with Meritor and principal occ

Ivor J. Evans, 72 – Chairman of the Board and Chief Executive Officer s

25

Kevin Nowlan, 42 – Senior Vice President and Chief Financial Officer s

Jeffrey A. Craig, 54 – President and Chief Operating Officer since June

Sandra Quick, 48— Senior Vice President, General Counsel and Corpor

There are no family relationships, as defined in Item 401 of Regulation S

26

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder M

Meritor's common stock, par value $1 per share (“Common Stock”), is li

The high and low sale prices per share of Meritor Common Stock for eac

Quarter Ended
December 31
March 31
June 30
September 30

There were no dividends declared and paid in fiscal year 2014 or in fisca

Our revolving credit facility permits us to declare and pay up to $40 mill

Additionally, our indentures permit us to pay dividends under the follow

- if a default on the notes, as defined in the indentures, has not occurred ar
- if the interest coverage ratio, as defined in the indentures, is greater than
- if the cumulative amount of the dividends paid does not exceed certain c
- if the dividends are less than $60 million per fiscal year (with a carryove
- if after giving effect to the dividend, the total leverage ratio, as defined i

See Item 12. Security Ownership of Certain Beneficial Owners and Man

Issuer repurchases

The independent trustee of our 401(k) plans purchases shares in the oper

27

Shareowner Return Performance Presentation

The line graph below compares the cumulative total shareowner return o

Meritor, Inc.
S&P 500
Peer Group[1]

[1] The peer group consists of representative commercial vehicle supplie

The information included under the heading "Shareowner Return Perfor

28

Item 6. Selected Financial Data.

The following sets forth selected consolidated financial data. The data sh

SUMMARY OF OPERATIONS
Sales
Commercial Truck & Industrial
Aftermarket & Trailer
Intersegment Sales
Total Sales

Operating Income
Income (Loss) Before Income Taxes
Net Income Attributable to Noncontrolling Interests
Net Income (Loss) Attributable to Meritor, Inc.:
Income (Loss) from Continuing Operations
Loss from Discontinued Operations
Net Income (Loss)

BASIC EARNINGS (LOSS) PER SHARE
Continuing Operations
Discontinued Operations
Basic Earnings (Loss) per Share

DILUTED EARNINGS (LOSS) PER SHARE
Continuing Operations
Discontinued Operations
Diluted Earnings (Loss) per Share

FINANCIAL POSITION AT SEPTEMBER 30
Total Assets
Short-term Debt
Long-term Debt

Income (loss) from continuing operations attributable to Meritor, Inc. in

Pretax items:
Restructuring costs
Impact of curtailment gain, pension settlement loss and pension plan fre
Antitrust settlement with Eaton (including recovery of past legal fees)
Gain on sale of equity investment
Specific warranty contingency, net of supplier recovery
Loss on debt extinguishment
Gain on sale of property
Asbestos-related liability remeasurement
Non-operating gains, net
After tax items:
Deferred tax asset valuation allowance benefit (expense)

Loss from discontinued operations attributable to Meritor, Inc. in the sel

Pretax items:
Gain (loss) on divestitures of businesses, net
Restructuring costs
Asset impairment charges
Charge for contingency and indemnity obligation

30

Item 7. Management’s Discussion and Analysis of Financial Conditions

Overview

Meritor, Inc. (the "company", "our", "we", or "Meritor"), headquartered

Our sales for fiscal year 2014 were $3,766 million, an increase compared

Adjusted EBITDA (see Non-GAAP Financial Measures below) for the f

Cash flows provided by operating activities were $215 million in fiscal y

Capital Market Transactions and Revolving Credit Facility
During the second quarter of fiscal year 2014, we issued $225 million of
On August 5, 2014, we repurchased $38 million of our 4.0 percent conve
On September 20, 2014, we completed the redemption of our 8.125 perc
We also amended our revolving credit agreement in February 2014. The
On September 12, 2014, we entered into Amendment No. 1 to the Secon

31

Equity in Earnings of ZF Meritor
In June 2014, ZF Meritor LLC, a joint venture between ZF Friedrichshaf
Our pre-tax share of the settlement was $210 million ($209 million after-

Restructuring Actions - South America Labor Reduction
In the fourth quarter of fiscal year 2014, we announced a labor headcoun

Mascot Divestiture
On August 15, 2014, we completed our strategic review of certain remai

Retiree Medical and Retiree Life Insurance Actions
During the fourth quarter of fiscal year 2014, we amended our retiree me

Asbestos
During the fourth quarter of fiscal year 2014, we incurred a $20 million

32

Trends and Uncertainties

Industry Production Volumes

The following table reflects estimated commercial truck production volu

Estimated Commercial Truck production (in thousands):
North America, Heavy-Duty Trucks
North America, Medium-Duty Trucks
Western Europe, Heavy- and Medium-Duty Trucks
South America, Heavy- and Medium- Duty Trucks

During fiscal year 2015, we expect a modest increase in production volu
Sales for our primary military program were at their peak during the thir

Other

On October 2, 2014, we entered into an agreement with Volvo (our large

Industry-Wide Issues

Our business continues to address a number of other challenging industr

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

33

Other

Other significant factors that could affect our results and liquidity in fisc

- Significant contract awards or losses of existing contracts or failure to ne
- Failure to obtain new business;
- Failure to secure new military contracts as our primary military program
- Ability to manage possible adverse effects on our European operations, o
- Ability to work with our customers to manage rapidly changing producti
- Ability to recover and timing of recovery of steel price and other cost inc
- Any unplanned extended shutdowns or production interruptions by us, o
- A significant deterioration or slowdown in economic activity in the key
- Any costs associated with the divesture or wind down of any portion of o
- Higher-than-planned price reductions to our customers;
- Potential price increases from our suppliers;
- Additional restructuring actions and the timing and recognition of restru
- Higher-than-planned warranty expenses, including the outcome of know
- Our ability to implement planned productivity, cost reduction, and other
- Uncertainties of asbestos claim litigation and the outcome of litigation w
- Restrictive government actions by foreign countries (such as restrictions

NON-GAAP FINANCIAL MEASURES

In addition to the results reported in accordance with accounting principl
Adjusted income (loss) from continuing operations and Adjusted dilu

34

Management believes these non-GAAP financial measures are useful

Adjusted income (loss) from continuing operations and Adjusted dilu

Adjusted income (loss) from continuing operations attributable to the co

Adjusted income from continuing operations attributable to the company	
Antitrust settlement with Eaton [1]	
Restructuring costs	
Gain on sale of property	
Specific warranty contingency, net of supplier recovery	
Pension settlement losses	
Asbestos-related liability remeasurement	
Gain on sale of equity investment	
Loss on debt extinguishment	
Income (loss) from continuing operations attributable to the company	
Adjusted diluted earnings per share from continuing operations	
Impact of adjustments on diluted earnings per share	
Diluted earnings (loss) per share from continuing operations	

[1] Adjustment associated with our share of the antitrust settlement with I

[2] Amounts for prior periods have been recast for discontinued operatio

35

Free cash flow is reconciled to cash flows provided by (used for) operati

Cash provided by (used for) operating activities
Capital expenditures
Free cash flow

Net debt, including retirement liabilities, is reconciled to total debt (in m

Short-term debt
Long-term debt
Total debt

Pension assets - non-current
Pension liability - current
Pension liability - non-current
Pension liability

Retiree medical liability - current
Retiree medical liability - non-current
Retire medical liability

Other retirement benefits - current
Other retirement benefits - non-current
Subtotal

Less: Cash and cash equivalents
Net debt, including retirement liabilities

36

Adjusted EBITDA is reconciled to net income attributable to Meritor, In

Results of Operations

The following is a summary of our financial results for the last three f

Sales:
Commercial Truck & Industrial
Aftermarket & Trailer
Intersegment Sales
SALES
SEGMENT EBITDA:
Commercial Truck & Industrial
Aftermarket & Trailer
SEGMENT EBITDA
Unallocated legacy and corporate costs, net [1]
ADJUSTED EBITDA
Interest expense, net
Provision for income taxes
Depreciation and amortization
Restructuring costs
Loss on sale of receivables
Pension settlement losses
Antitrust settlement with Eaton, net of tax [2]
Gain on sale of equity investment
Specific warranty contingency, net of supplier recovery
Gain on sale of property
Asbestos-related liability remeasurement
Noncontrolling interests
INCOME (LOSS) FROM CONTINUING OPERATIONS, attributable t
LOSS FROM DISCONTINUED OPERATIONS, net of tax,
attributable to Meritor, Inc.
NET INCOME (LOSS) attributable to Meritor, Inc.
DILUTED EARNINGS (LOSS) PER SHARE, attributable to Meritor, In
Continuing operations
Discontinued operations
Diluted earnings (loss) per share
DILUTED AVERAGE COMMON SHARES OUTSTANDING

[1] Unallocated legacy and corporate costs, net represents items that are n

37

(2) Adjustment associated with our share of the antitrust settlement with

(3) Amounts for prior periods have been recast for discontinued operatio

Fiscal Year 2014 Compared to Fiscal Year 2013

Sales

The following table reflects total company and business segment sales fo

Sales:
Commercial Truck & Industrial
Aftermarket & Trailer
Intersegment Sales
TOTAL SALES

Commercial Truck & Industrial sales were $2,980 million in fiscal year
Aftermarket & Trailer sales were $920 million in fiscal year 2014, up 6

Cost of Sales and Gross Profit

Cost of sales primarily represents materials, labor and overhead producti

The following table summarizes significant factors contributing to the ch

Fiscal year ended September 30, 2013
Volumes, mix and other, net
Foreign exchange
Fiscal year ended September 30, 2014

38

Changes in the components of cost of sales year over year are summariz

Higher material costs
Lower labor and overhead costs
Other, net
Total increase in costs of sales
Material costs represent the majority of our cost of sales and include raw

Labor and overhead costs decreased by $26 million compared to the prio

Other, net decreased by $37 million compared to the prior fiscal year. Th

Gross margin, for fiscal year 2014 was $487 million compared to $395 n

Other Income Statement Items

Selling, general and administrative expenses (SG&A) for fiscal years 20

SG&A
Loss on sale of receivables
Short- and long-term variable compensation
Legal fee recovery from the Eaton settlement
Asbestos-related liability remeasurement
Executive severance
Long-term liability reduction
All other SG&A
Total SG&A
In the fourth quarter of fiscal year 2014, we incurred a $20 million charg
In the third quarter of fiscal year 2014, as a result of the settlement wit
In the first quarter of fiscal year 2014, we executed a change to our long-
All other SG&A represents normal selling, general and administrative ex

39

Pension settlement losses of $109 million were recognized during the f
Restructuring costs were $10 million in fiscal year 2014 compared to $2
Restructuring costs in fiscal year 2013 were $23 million. Our Commerci
Operating income for fiscal year 2014 was $217 million, compared to $7

Equity in earnings of ZF Meritor was $190 million in fiscal year 2014

Equity in earnings of affiliates was $38 million in fiscal year 2014, comp

Gain on sale of equity investment of $125 million was recognized in fisc

Interest expense, net was $130 million and $126 million in fiscal years 2
primarily by the loss on debt extinguishment incurred in fiscal year 2014

Provision for income taxes was $31 million in fiscal year 2014 compared

Income (loss) from continuing operations (before noncontrolling interest

40

Loss from discontinued operations for fiscal year 2014 was $30 million,

Operating loss, net (primarily Mascot)
Loss on Mascot Disposal [1]
Environmental remediation charges

Other, net
Loss before income taxes
Benefit for income taxes
Loss from discontinued operations attributable to
Meritor, Inc.

[1] Includes loss on sale, severance and other disposal costs.

Net income attributable to noncontrolling interests was $5 million in fisc

Net income (loss) attributable to Meritor, Inc. was $249 million for fisca

Segment EBITDA and EBITDA Margins

Segment EBITDA is defined as income (loss) from continuing operation

As discussed previously, we announced the planned disposition of our M

The following table reflects Segment EBITDA and EBITDA margins fo

Commercial Truck & Industrial
Aftermarket & Trailer
Segment EBITDA

41

Significant items impacting year-over-year Segment EBITDA include th

Segment EBITDA–Year ended September 30, 2013
Lower earnings from unconsolidated affiliates
Higher variable compensation
Impact of foreign currency exchange rates
Volume, mix, pricing and other
Segment EBITDA – Year ended September 30, 2014
Commercial Truck & Industrial Segment EBITDA was $218 million in f

Aftermarket & Trailer Segment EBITDA was $106 million in fiscal year

Fiscal Year 2013 Compared to Fiscal Year 2012

Sales

The following table reflects total company and business segment sales fo

Sales:
Commercial Truck & Industrial
Aftermarket & Trailer
Intersegment Sales
TOTAL SALES
Commercial Truck & Industrial sales were $2,920 million in fiscal year 2

Aftermarket & Trailer sales were $871 million in fiscal year 2013, down

Cost of Sales and Gross Profit

Cost of sales primarily represents materials, labor and overhead producti

Total cost of sales was approximately 89.2 percent of sales for the fiscal

The following table summarizes significant factors contributing to the ch

Fiscal year ended September 30, 2012
Volumes, mix and other, net
Foreign exchange
Fiscal year ended September 30, 2013

Changes in the components of cost of sales year over year are summariz

Lower material costs
Lower labor and overhead costs
Other, net
Total decrease in costs of sales
Material costs represent the majority of our cost of sales and include raw

Labor and overhead costs decreased by $51 million compared to the prio

Other, net increased by $14 million compared to the same period in the p
As a result of the above, gross profit for the fiscal year ended September

43

Other Income Statement Items

Selling, general and administrative expenses (SG&A) for fiscal years 20

SG&A
Loss on sale of receivables
Short- and long-term variable compensation
Charge for legal contingency
Asbestos-related liability remeasurement
Executive severance
All other SG&A
Total SG&A
All other SG&A represents normal selling, general and administrative ex

Pension settlement losses of $109 million were recognized during the fis

Restructuring costs were $23 million in fiscal year 2013 compared to $3
Restructuring costs in the fiscal year 2012 included $24 million recogniz
Gain on sale of property of $16 million recognized during fiscal year 20
Operating income for fiscal year 2013 was $7 million, compared to $173

Gain on sale of equity investment of $125 million recognized during fisc

Equity in earnings of affiliates was $42 million in fiscal year 2013, comp

Interest expense, net was $126 million and $95 million in fiscal years 2

44

Provision for income taxes was $64 million in fiscal year 2013 compared

Loss from continuing operations (before noncontrolling interests) for fis

Loss from discontinued operations for fiscal year 2013 was $7 million, c

Loss on sale of businesses, net
Restructuring costs
Charge for legal contingency and indemnity obligation

Environmental remediation charges

Other, net
Loss before income taxes
Benefit for income taxes
Loss from discontinued operations attributable to
Meritor, Inc.

Loss on sale of businesses, net: The loss on sale of business in fiscal yea
Charge for legal contingency and indemnity obligation: On March 31, 20
Other primarily relates to charges for changes in estimates and adjustmen
Net income attributable to noncontrolling interests was $2 million in fisc

Net loss attributable to Meritor, Inc. was $22 million for fiscal year 2013

Segment EBITDA and EBITDA Margins

Segment EBITDA is defined as income (loss) from continuing operation

During the fourth quarter of fiscal year 2014, we disposed of our Mascot

45

The following table reflects Segment EBITDA and EBITDA margins fo

Commercial Truck & Industrial
Aftermarket & Trailer
Segment EBITDA
Significant items impacting year-over-year Segment EBITDA include th

Segment EBITDA–Year ended September 30, 2012
Lower earnings from unconsolidated affiliates
Lower pension and retiree medical costs
Impact of foreign currency exchange rates
Volume, mix, pricing and other, net of cost reductions
Segment EBITDA – Year ended September 30, 2013
Commercial Truck & Industrial Segment EBITDA was $192 million in f

Aftermarket & Trailer Segment EBITDA was $87 million in fiscal year

Non-Consolidated Joint Ventures

At September 30, 2014, our continuing operations included investments

These strategic alliances provide for sales, product design, development

Our equity in the earnings of affiliates was $38 million, $42 million and

In June 2014, ZF Meritor LLC (“ZF Meritor”), a joint venture between Z

46

Our pre-tax share of the settlement was $210 million ($209 million after-

On July 30 2013, we completed the sale of our 50-percent ownership int

For more information about our non-consolidated joint ventures, see No

Cash Flows (in millions)

OPERATING CASH FLOWS
Income (loss) from continuing operations
Adjustments to income (loss) from continuing operations:
Depreciation and amortization
Loss on debt extinguishment
Deferred income tax expense (benefit)
Pension and retiree medical expense
Gain on sale of equity investment
Gain on sale of property
Equity in earnings of ZF Meritor
Equity in earnings of other affiliates
Restructuring costs
Dividends received from ZF Meritor
Dividends received from other equity method investments
Pension and retiree medical contributions
Restructuring payments
Decrease (increase) in working capital
Changes in off-balance sheet accounts receivable securitization and facto
Other, net
Cash flows provided by (used for) continuing operations
Cash flows used for discontinued operations
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVIT

Cash provided by operating activities for fiscal year 2014 was $215 mill

47

INVESTING CASH FLOWS
Capital expenditures
Proceeds from sale of equity investment
Proceeds from sale of property
Other investing activities
Net investing cash flows provided by discontinued operations
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES

Cash used for investing activities was $70 million in fiscal year 2014, co

Proceeds from the sale of equity investment in fiscal year 2013 is related

Net investing cash flows provided by discontinued operations in fiscal y

Net investing cash flows provided by discontinued operations in fiscal y
Net investing cash flows provided by discontinued operations in fiscal y

FINANCING CASH FLOWS
Repayment of notes and term loan
Proceeds from debt issuance
Other financing activities
Net change in debt
Debt issuance costs
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES
Cash used for financing activities was $212 million in fiscal year 2014 c
During fiscal year 2013, we issued debt securities generating aggregate p

48

In the second quarter of fiscal year 2012, we retired the remaining $84 m

Contractual Obligations

As of September 30, 2014, we are contractually obligated to make paym

Total debt [1]
Operating leases
Interest payments on long-term debt
Total

(1) See additional discussion under "Liquidity" below. Total debt exclude

(2) Includes our 4.625 percent, 4.0 percent and 7.875 percent convertible

We also sponsor defined benefit pension plans that cover most of our U.

We also sponsor retirement medical plans that cover certain of our U.S. a

Contractual obligations identified in the table above do not include liabil

49

Liquidity

Our outstanding debt, net of discounts where applicable, is summarized l

Fixed-rate debt securities
Fixed-rate convertible notes
Term Loan
Unamortized discount on convertible notes
Unamortized gain on interest rate swap termination
Other borrowings
Total debt

Overview – Our principal operating and capital requirements are for w

We generally fund our operating and capital needs with cash on hand,

In February 2012, we filed a shelf registration statement with the Sec

We believe our current financing arrangements provide us with the fi

50

Sources of liquidity as of September 30, 2014, in addition to cash on han

On-balance sheet arrangements:
Revolving credit facility[1]
Committed U.S. accounts receivable securitization[2]
Total on-balance sheet arrangements
Off-balance sheet arrangements:[2]
Swedish Factoring Facility
U.S. Factoring Facility
U.K. Factoring Facility
Italy Factoring Facility
Other uncommitted factoring facilities
Letter of credit facility
Total off-balance sheet arrangements
Total available sources

(1) The availability under the revolving credit facility is subject to a colla
(2) Availability subject to adequate eligible accounts receivable available

Cash and Liquidity Needs – Our cash and liquidity needs have been imp

Our availability under the revolving credit facility is subject to a colla
Debt Repurchase Program – On January 23, 2014, the Offering Com

51

Issuance of 2024 Notes - On February 13, 2014, we completed a public o
If a Change of Control (as defined in the indenture under which the 2024
Issuance of 2021 Notes - On May 31, 2013, we completed a public offer
If a Change of Control (as defined in the indenture under which the 2021
Redemption of 2015 Notes - On September 20, 2014, we completed the
Repurchase of 2027 Notes - On August 5, 2014, we repurchased $38 mil
Redemption of 2018 Notes - On March 15, 2014, we completed the rede

52

Repurchase of 2015 Notes - On June 5, 2013, we completed the cash ten
Revolving Credit Facility –On February 13, 2014, we amended and resta
No borrowings were outstanding under the revolving credit facility at Se
The availability under the revolving credit facility is subject to certain fi
The availability under the amended and extended revolving credit facilit
Borrowings under the revolving credit facility are subject to interest base
Certain of the company's subsidiaries, as defined in the revolving credit
Term Loan – As part of the amendment and restatement of the revolving

53

U.S. Securitization Program – We have a $100 million U.S. accounts rec
Capital Leases – On March 20, 2012, we entered into an arrangement to
Export financing arrangements - We entered into a number of export fin

Other – One of our consolidated joint ventures in China participates in a
Credit Ratings – On November 18, 2014, Standard & Poor's Ratings
Off-Balance Sheet Arrangements

Accounts Receivable Factoring Arrangements – We participate in accou
The Swedish and U.S. factoring facilities are backed by 364-day liquidit

54

Letter of Credit Facilities – On February 21, 2014 we amended and resta

Contingencies

Contingencies related to environmental, asbestos and other matters are d

Critical Accounting Policies

Critical accounting policies are those that are most important to the portr

Pensions — Our pension obligations are determined annually on an actu

Assumptions as of September 30:
Discount rate [(1)]
Assumed return on plan assets (beginning of the year)[(1)(2)]
Rate of compensation increase [(3)]

(1) The discount rate for the company's U.K. pension plan was 4.10 perc
(2) The assumed return on plan assets for fiscal year 2015 is 8.00 percent
(3) The rate of compensation increase for the company's Canadian pensio

The discount rate is used to calculate the present value of the PBO. The r

The assumed return on plan assets is used to determine net periodic pens

55

The rate of compensation increase represents the long-term assumption f

These assumptions reflect our historical experience and our best judgme

Assumption:
Discount rate

Assumed return on plan assets

(1) Not Applicable

Accounting guidance applicable to pensions does not require immediate

In recognition of the long-term nature of the liabilities of the pension pla

The investment strategies for the pension plans are designed to achieve a

Based on current assumptions, the fiscal year 2015 net pension income i

Retiree Medical — We have retirement medical plans that cover certain

56

The following are the significant assumptions used in the measurement o

Assumptions as of September 30:
Discount rate
Health care cost trend rate
Ultimate health care trend rate
Year ultimate rate is reached

The discount rate is the rate used to calculate the present value of the AP

The health care cost trend rate represents the company's expected annua

A one-percentage point change in the assumed health care cost trend rate

Effect on total of service and interest cost
1% Increase
1% Decrease
Effect on APBO
1% Increase
1% Decrease

Based on current assumption, fiscal year 2015 retiree medical expense is

Product Warranties — Our business segments record estimated product w

Significant factors and information used by management when estimatin
- Past claims experience;
- Sales history;
- Product manufacturing and industry developments; and
- Recoveries from third parties, where applicable.

Asbestos — Maremont Corporation ("Maremont") — Maremont, a subs

57

Maremont engaged Bates White LLC (Bates White), a consulting firm w

Bates White provided a reasonable and probable estimate that consisted

Assumptions: The following assumptions were made by Maremont after
- Pending and future claims were estimated for a ten-year period ending i
- Maremont believes that the litigation environment could change signific
- On a per claim basis, defense and processing costs for pending and futur
- Potential payments made to claimants from other sources, including othe
- The ultimate indemnity cost of resolving nonmalignant claims with plai

Maremont has insurance that reimburses a substantial portion of the cost

The amounts recorded for the asbestos-related reserves and recoveries fr

58

Asbestos — Rockwell International ("Rockwell") — ArvinMeritor, Inc.

A significant portion of the claims do not identify any of Rockwell's pro

We engaged Bates White to assist with determining whether it would be

The following assumptions were made by the company after consultatio

- Pending and future claims were estimated for a ten-year period ending i
- The company believes that the litigation environment could change sign
- On a per claim basis, defense and processing costs for pending and futur
- Potential payments made to claimants from other sources, including othe
- The ultimate indemnity cost of resolving nonmalignant claims with plai

The insurance receivable related to asbestos-related liabilities is $11 r

59

Environmental — We record liabilities for environmental issues in the a

Significant factors considered by management when estimating environm

- Evaluations of current law and existing technologies;
- The outcome of discussions with regulatory agencies;
- Physical and scientific data at the site;
- Government requirements and legal standards; and
- Proposed remedies and technologies.

Goodwill — Goodwill is reviewed for impairment annually or more freq

Under the revised guidance issued by the Financial Accounting Standard

The impairment review is highly judgmental and involves the use of sig

Given that our primary military program is winding down, failure to sec

Impairment of Long-Lived Assets — Long-lived assets, excluding good

- An assessment as to whether an adverse event or circumstance has trigg
- Undiscounted future cash flows generated by the asset; and
- Probability and estimated future cash flows associated with alternative c

60

Income Taxes — Deferred income tax assets and liabilities are recognize

- Historical operating results;
- Expectations of future earnings;
- Tax planning strategies; and
- The extended period of time over which retirement medical and pension

In prior years, the company established valuation allowances against its
The expiration periods for $678 million of deferred tax assets related to

New Accounting Pronouncements

New Accounting Pronouncements are discussed in Note 2 of the Notes t

International Operations

Approximately 57 percent of the company's total assets as of September

61

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain global market risks, including foreign currenc

As a result of our substantial international operations, we are exposed to

We use foreign currency forward contracts to minimize the earnings exp

We generally do not hedge against our foreign currency exposure related

Interest rate risk relates to the gain/increase or loss/decrease we could in

62

Included below is a sensitivity analysis to measure the potential gain (los

Market Risk

Foreign Currency Sensitivity:
Forward contracts in USD
Foreign currency denominated debt [1]
Forward contracts in EUR
Foreign currency option contracts in USD
Foreign currency option contracts in Euro

Interest Rate Sensitivity:

Debt - fixed rate [2]
Debt - variable rate
Interest rate swaps

---

(1) Includes only the risk related to the derivative instruments and does n
At September 30, 2014, a 10% decrease in quoted currency exchange rat

(2) At September 30, 2014, the fair value of debt outstanding was approx

63

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTIN

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

We have audited the accompanying consolidated balance sheets of Meri

We conducted our audits in accordance with the standards of the Public

In our opinion, such consolidated financial statements present fairly, in a
As discussed in Note 3 to the consolidated financial statements, the Com
We have also audited, in accordance with the standards of the Public Co

/s/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP

Detroit, Michigan
November 19, 2014

64

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

Sales
Cost of sales
GROSS MARGIN
Selling, general and administrative
Pension settlement losses
Restructuring costs
Gain on sale of property
Other operating expense, net
OPERATING INCOME
Other income, net
Gain on sale of equity investment
Equity in earnings of ZF Meritor
Equity in earnings of affiliates
Interest expense, net
INCOME BEFORE INCOME TAXES
Provision for income taxes
INCOME (LOSS) FROM CONTINUING OPERATIONS
LOSS FROM DISCONTINUED OPERATIONS, net of tax
NET INCOME (LOSS)
Less: Net income attributable to noncontrolling interests
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.
Net income (loss) from continuing operations
Loss from discontinued operations
Net income (loss)
BASIC EARNINGS (LOSS) PER SHARE
Continuing operations
Discontinued operations
Basic earnings (loss) per share
DILUTED EARNINGS (LOSS) PER SHARE
Continuing operations
Discontinued operations
Diluted earnings (loss) per share
Basic average common shares outstanding
Diluted average common shares outstanding
See Notes to Consolidated Financial Statements. Amounts for prior peri

65

MERITOR, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (
(in millions)

Net income (loss)
Other comprehensive income (loss):
Foreign currency translation adjustments
Pension and other postretirement benefit related adjustments (net of tax o
respectively)
Unrealized gain (loss) on investments:
Unrealized gain (loss) on investments and foreign exchange contracts
Reclassification adjustment for gain on sale of investments
Total comprehensive income (loss)
Less: Comprehensive income attributable to noncontrolling interest
Comprehensive income (loss) attributable to Meritor, Inc.
See Notes to Consolidated Financial Statements.

66

MERITOR, INC.
CONSOLIDATED BALANCE SHEET
(In millions)

ASSETS
CURRENT ASSETS:
Cash and cash equivalents
Receivables, trade and other, net
Inventories
Other current assets
TOTAL CURRENT ASSETS
NET PROPERTY
GOODWILL
OTHER ASSETS
TOTAL ASSETS
LIABILITIES AND EQUITY (DEFICIT)
CURRENT LIABILITIES:
Short-term debt
Accounts and notes payable
Other current liabilities
TOTAL CURRENT LIABILITIES
LONG-TERM DEBT
RETIREMENT BENEFITS
OTHER LIABILITIES
TOTAL LIABILITIES
COMMITMENTS AND CONTINGENCIES (NOTE 22)
EQUITY (DEFICIT):
Common stock (September 30, 2014 and 2013, 97.8 and 97.4 shares issu
Additional paid-in capital
Accumulated deficit
Accumulated other comprehensive loss
Total deficit attributable to Meritor, Inc.
Noncontrolling interests
TOTAL DEFICIT
TOTAL LIABILITIES AND DEFICIT

See Notes to Consolidated Financial Statements.

67

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

OPERATING ACTIVITIES
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES (see
INVESTING ACTIVITIES
Capital expenditures
Proceeds from sale of equity investment
Proceeds from sale of property
Other investing activities
Net investing cash flows provided by (used for) continuing operations
Net investing cash flows provided by discontinued operations
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES
FINANCING ACTIVITIES
Proceeds from debt issuances
Repayment of notes and term loan
Other financing activities
Net change in debt
Debt issuance costs
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES
EFFECT OF CURRENCY EXCHANGE RATES ON CASH AND CAS
EQUIVALENTS
CHANGE IN CASH AND CASH EQUIVALENTS
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR
CASH AND CASH EQUIVALENTS AT END OF YEAR
See Notes to Consolidated Financial Statements. Amounts for prior perio

68

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

Beginning balance at September 30, 2013
Comprehensive income (loss)
Equity based compensation expense
Repurchase of convertible notes
Non-controlling interest dividends
Ending balance at September 30, 2014

Beginning balance at September 30, 2012
Comprehensive income (loss)
Vesting of restricted stock
Repurchase of convertible notes
Issuance of convertible notes
Equity based compensation expense
Non-controlling interest dividends
Other
Ending balance at September 30, 2013

Beginning balance at September 30, 2011
Comprehensive income (loss)
Vesting of restricted stock
Equity based compensation expense
Non-controlling interest dividends
Ending balance at September 30, 2012

See Notes to Consolidated Financial Statements.

69

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Meritor, Inc. (the "company" or "Meritor"), headquartered in Troy, Mich

Certain businesses are reported in discontinued operations in the consoli

The company's fiscal year ends on the Sunday nearest September 30. Th

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in accordance with accounting pr

Concentration of Credit Risk
In the normal course of business, the company provides credit to custom

Consolidation and Joint Ventures

The consolidated financial statements include the accounts of the compa

70

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Contin

Foreign Currency

Local currencies are generally considered the functional currencies for o

Impairment of Long-Lived Assets

Long-lived assets, excluding goodwill, to be held and used are reviewed

Long-lived assets held for sale are recorded at the lower of their carrying

Discontinued Operations

A business component that either has been disposed of or is classified as

Revenue Recognition

Revenues are recognized upon shipment of product and transfer of owne

Allowance for Doubtful Accounts

An allowance for uncollectible trade receivables is recorded when accou

Earnings per Share

Basic earnings (loss) per share is calculated using the weighted average r

A reconciliation of basic average common shares outstanding to diluted

Basic average common shares outstanding
Impact of stock options
Impact of restricted shares, performance shares and share units