

MERITOR INC
Form 10-K
November 16, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended October 1, 2017
Commission file number 1-15983

MERITOR, INC.
(Exact name of registrant as specified in its charter)
Indiana 38-3354643
(State or other jurisdiction of incorporation (I.R.S. Employer
or organization) identification no)

2135 West Maple Road 48084-7186
Troy, Michigan
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (248) 435-1000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class Name of each exchange on which registered
Common Stock, \$1 Par Value New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [X] No []

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [] No [X]

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

Yes [X] No []

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of 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 [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant on March 31, 2017 (the last business day of the most recently completed second fiscal quarter) was approximately \$1,487,830,039

88,583,473 shares of the registrant's Common Stock, par value \$1 per share, were outstanding on November 14, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the definitive Proxy Statement for the Annual Meeting of Shareholders of the registrant to be held on January 24, 2018 is incorporated by reference into Part III.

	Page No.
<u>PART I.</u>	
<u>Item 1. Business</u>	<u>1</u>
<u>Item 1A. Risk Factors</u>	<u>13</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>22</u>
<u>Item 2. Properties</u>	<u>22</u>
<u>Item 3. Legal Proceedings</u>	<u>23</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>23</u>
<u>Item 4A. Executive Officers of the Registrant</u>	<u>24</u>
<u>PART II.</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>26</u>
<u>Item 6. Selected Financial Data</u>	<u>28</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Conditions and Results of Operations</u>	<u>30</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>62</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>64</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>150</u>
<u>Item 9A. Controls and Procedures</u>	<u>150</u>
<u>Item 9B. Other Information</u>	<u>152</u>
<u>PART III.</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>152</u>
<u>Item 11. Executive Compensation</u>	<u>152</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>152</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>153</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>153</u>
<u>PART IV.</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>153</u>
<u>Signatures</u>	<u>160</u>

PART I

Item 1. Business.

Overview

Meritor, Inc. ("we", "us" or "our"), 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. We serve commercial truck, trailer, military, bus and coach, construction, and other industrial OEMs and certain aftermarkets. Our principal products are axles, undercarriages, drivelines and brakes.

Meritor was incorporated in Indiana in 2000 in connection with the merger of Meritor Automotive, Inc. and Arvin Industries, Inc. As used in this Annual Report on Form 10-K, the terms "company," "Meritor," "we," "us" and "our" include Meritor, its consolidated subsidiaries and its predecessors unless the context indicates otherwise.

Meritor serves a broad range of customers worldwide, including medium- and heavy-duty truck OEMs, specialty vehicle manufacturers, certain aftermarkets, and trailer producers. Our total sales from continuing operations in fiscal year 2017 were approximately \$3.3 billion. Our ten largest customers accounted for approximately 74 percent of fiscal year 2017 sales from continuing operations. Sales from operations outside the United States (U.S.) accounted for approximately 47 percent of total sales from continuing operations in fiscal year 2017. Our continuing operations also participated in five unconsolidated joint ventures, which we accounted for under the equity method of accounting and that generated revenues of approximately \$1.2 billion in fiscal year 2017.

Our fiscal year ends on the Sunday nearest to September 30. Fiscal year 2017 ended on October 1, 2017, fiscal year 2016 ended on October 2, 2016, and fiscal year 2015 ended on September 27, 2015. All year and quarter references relate to our fiscal year and fiscal quarters unless otherwise stated. For ease of presentation, September 30 is utilized consistently throughout this report to represent the fiscal year end.

Whenever an item in this Annual Report on Form 10-K refers to information under specific captions in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations or Item 8. Financial Statements and Supplementary Data, the information is incorporated in that item by reference.

References in this Annual Report on Form 10-K to our belief that we are a leading supplier or the world's leading supplier, and other similar statements as to our relative market position are based principally on calculations we have made. These calculations are based on information we have collected, including company and industry sales data obtained from internal and available external sources as well as our estimates. In addition to such quantitative data, our statements are based on other competitive factors such as our technological capabilities, engineering, research and development efforts, innovative solutions and the quality of our products and services, in each case relative to that of our competitors in the markets we address.

Our Business

Our reporting segments are as follows:

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

The Aftermarket & Trailer segment supplies axles, brakes and braking systems, drivelines, suspension parts and other replacement and remanufactured parts to commercial vehicle aftermarket customers in North America and Europe.

This segment also supplies a wide variety of undercarriage products and systems for trailer applications in North America.

See Note 25 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data for financial information by segment for continuing operations for each of the last three fiscal years, including information on sales and assets by geographic area. The heading "Products" below includes information on certain product sales for each of the last three fiscal years.

Business Strategies

1

We are currently a premier global supplier of a broad range of integrated systems, modules and components to OEMs and the aftermarket for the commercial vehicle, transportation and industrial sectors, and we believe we have market-leading positions in many of the markets we serve. We are working to enhance our leadership positions and capitalize on our existing customer, product and geographic strengths. For additional market related discussion, see the Trends and Uncertainties section in Item 7.

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

• Uncertainty around the global market outlook;

• Volatility in price and availability of steel, components and other commodities;

• Potential for disruptions in the financial markets and their impact on the availability and cost of credit;

• Volatile energy and transportation costs;

• Impact of currency exchange rate volatility;

• Consolidation and globalization of OEMs and their suppliers; and

• Significant pension costs.

Other

Other significant factors that could affect our results and liquidity include:

• Significant contract awards or losses of existing contracts or failure to negotiate acceptable terms in contract renewals;

• Ability to successfully launch a significant number of new products, including potential product quality issues, and obtain new business;

• Ability to manage possible adverse effects on our European operations, or financing arrangements related thereto, following the United Kingdom's decision to exit the European Union, or in the event one or more other countries exit the European monetary union;

• Ability to further implement planned productivity, cost reduction, and other margin improvement initiatives;

• Ability to successfully execute and implement strategic initiatives;

• Ability to work with our customers to manage rapidly changing production volumes;

• Ability to recover, and timing of recovery of, steel price and other cost increases from our customers;

• Any unplanned extended shutdowns or production interruptions by us, our customers or our suppliers;

• A significant deterioration or slowdown in economic activity in the key markets in which we operate;

• Competitively driven price reductions to our customers;

• Potential price increases from our suppliers;

• Additional restructuring actions and the timing and recognition of restructuring charges, including any actions associated with the prolonged softness in markets in which we operate;

• Higher-than-planned warranty expenses, including the outcome of known or potential recall campaigns;

• Uncertainties of asbestos claim and other litigation, including the outcome of litigation with insurance companies regarding scope of asbestos coverage, and the long-term solvency of our insurance carriers; and

• Restrictive government actions (such as restrictions on transfer of funds and trade protection measures, including import and export duties, quotas and customs duties and tariffs).

Our specific business strategies are influenced by these industry factors and global trends and are focused on leveraging our resources to continue to develop and produce competitive product offerings. We believe the following strategies will allow us to

maintain a balanced portfolio of commercial truck, industrial and aftermarket businesses covering key global markets. See Item 1A. Risk Factors below for information on certain risks that could have an impact on our business, financial condition or results of operations in the future.

M2019 Growth-Focused Plan

With our M2019 plan well underway, we made significant progress in fiscal year 2017 toward our objectives. The financial targets we set for this plan are the following:

- Grow revenue at 20 percent cumulatively above market levels
- Increase Adjusted diluted earnings per share from continuing operations by \$1.25
- Reduce the ratio of Net debt to Adjusted EBITDA to less than 1.5

(see Non-GAAP Financial Measures in Item 7)

To achieve these targets, we are focused on three main priorities:

- Exceeding customer expectations
- Transforming to a growth-oriented organization
- Continuing to invest in employees

Exceed Customer Expectations

For more than 100 years, our products have evolved to meet the changing needs of our customers in major regions of the world. As technology has advanced, we have designed products that are more fuel efficient, lighter weight, safer, more durable and more reliable. The Meritor brand is well established globally and reflects a broad and growing portfolio of high-quality products for various applications.

Over the past years, we worked hard to become an innovation partner to our customers. From concept to launch, we work closely together to ensure we are designing reliable and high quality products that meet or exceed their expectations now and in the future. In addition to technology and product collaboration, we also meet regularly with our customers to review our performance in a number of other areas including quality, delivery and cost.

In our M2019 plan, we set an overall quality target of 25 parts per million ("PPM"). We believe this will further differentiate us in the commercial vehicle industry. In fiscal year 2017, a number of strategic customers, including PACCAR, Hino Motors Manufacturing U.S.A., and Daimler Trucks North America, recognized several of Meritor's manufacturing facilities for outstanding quality.

We want to continue the excellent delivery performance we have demonstrated at greater than 99 percent. This year, we were proud to receive the first-ever gold award from Ashok Leyland for on-time delivery performance. Meritor's manufacturing facility in Mysore, India supplies almost 65 percent of the axles and half of the brakes for this major manufacturer of commercial vehicles. We were also honored to be in the top two percent of suppliers to Navistar in fiscal year 2017. For this performance, we were recognized with Navistar's Diamond Supplier award for helping to improve customer uptime and for exceeding expectations in quality, delivery, technology and cost. XCMG is another important customer to Meritor, in addition to being our key joint venture partner in China. XCMG honored us this year with its Excellent Supplier Award that recognizes top suppliers in delivery, quality and product performance. These recognitions are a critical element to maintaining our customer relationships globally and will continue to be an area to which we devote significant attention.

We will maintain our focus on driving down operating costs through material cost-reduction and labor and burden improvements with a target achievement of 1.5 percent improvement per year. We are continuing to drive material performance with three different approaches: commercial negotiations, best-cost-country sourcing and technical innovation. And, we are improving in labor and burden by addressing several areas simultaneously including better equipment utilization, reduced changeover time, elimination of waste, improved shift and asset utilization, investing in equipment to improve cycle time and flexibility and employee involvement.

We believe we effectively manage complexity for low volumes and support our customers' needs during periods of peak volumes. The quality, durability and on-time delivery of our products has earned us strong positions in the markets we support. As we seek to extend and expand our business with existing customers and establish relationships with new ones, our objective is to ensure we are getting a fair value for the recognized benefits of our products and services and the strong brand equity we hold in the marketplace.

Transform to a Growth-Oriented Organization

We know that despite changes and volatility in global market conditions, we must generate top-line growth. We have designed the M2019 plan to enable us to achieve the growth we are targeting while operating in a cyclical industry that can be greatly impacted by economic and political factors. We are increasing our market share with key customers, renewing long-term contracts and winning new business in all of our regions around the globe across both of our reportable segments.

We have rapidly increased the pace of product introduction, which is a key component to growing revenue. Prior to our M2016 plan, we launched approximately three programs annually. During the M2019 timeframe, we expect to introduce seven or more programs per year across our product portfolio and geographic regions. We are developing these jointly with our customers for their future product programs, and we have line of sight to revenue streams for each of these products. In fiscal year 2017, we launched the following eight products:

1. 14X HE (High-Efficiency) Tandem Drive Axle - This axle demonstrates efficiency improvement up to 1.5 percent while also reducing weight by 30 pounds over the previous industry-leading 14X design for linehaul applications.

The use of laser welding to manufacture components helped drive this efficiency improvement. It also comes standard with high-efficiency bearings, the Meritor Lube Management system and precision-finished gearing.

2. 13X Medium-Duty Drive Axle - Engineered for a variety of medium-duty applications including pick-up and delivery, beverage, utility, school bus, construction and ambulance, the single, rear-drive 13X utilizes the best technologies of Meritor's proven 14X platform.

3. PACCAR 40 Tandem Axle - An ultra-high efficiency tandem axle developed as a proprietary product solution for a major strategic customer.

4. MFS+™ Steer Axle - The MFS+ front saves up to 85 pounds from the previous offering due to a new gooseneck beam design and an offset knuckle with integrated torque plate and tie-rod arms. This product earned Heavy Duty

Trucking (HDT) magazine's 2017 Top 20 Product Award for being one of the most innovative and significant new products that address industry issues and help linehaul fleets improve their bottom line.

5. Two Off-Highway Planetary Axles - Built to operate in extreme conditions, these two new off-highway axles are designed for higher levels of durability and reliability. Both off-highway axles launched this year can be used in a variety of applications that serve construction, mining, and oil and gas segments.

6. MX-25-810 Front Drive Steer Axle - Reliable, cost-efficient front drive steer axle re-engineered for the construction, severe-service and utility applications. Design enhancements include a new housing and new wheel ends. This axle was originally engineered for the defense Mine-Resistant Ambush Protected ("MRAP") segment and is now available in three different housings with options for disc and drum brakes.

7. MTec6™ - The industry's lightest trailer axle that offers greater weight savings and lower total cost of ownership. This 6-inch, large-diameter axle is 36 pounds lighter than the industry-standard 5-inch axle. The lighter axle reduces gross trailer weight to enhance fuel economy and available payload.

Also in fiscal year 2017, we announced the following new products that will start production in fiscal year 2018.

Optimized EX+ Air Disc Brake - Built to maximize productivity by reducing maintenance time and costs, the gear-synchronized, twin-piston design delivers even force across the brake pads simultaneously, resulting in better performance and uniform pad wear for tractors and trailers.

79000 Axle - Designed to help municipal transit fleets meet federal and industry durability guidelines. By more than tripling the durability of previous offerings, fleets may only need to replace the axle's carrier once instead of multiple times during the vehicle's service life in this heavy stop-and-go segment.

ProTec Series 50 Beam Axle - Expanding on the legacy of Meritor's ProTec lineup, the optimized axles for military-specific applications feature a new beam design and utilize theater-proven technologies to fulfill the mission at hand. By applying proven technologies, Meritor has also reduced lead times for quicker deliveries.

We expect to continue to broaden our relationships with our global strategic customers, earn the business of new customers, increase aftermarket share in our core product areas, expand our components business by utilizing our time-proven core competencies of forging, machining and gear manufacturing, and enter near adjacent markets and products that we believe will be a good match with our core competencies.

AB Volvo is Meritor's largest global customer with the majority of that business being in Europe. We recently extended our long-term agreement with Volvo for an additional three years to 2024. Under the terms of this agreement, Meritor will design and deliver a new family of heavy, single reduction rear axles for both Volvo and Renault brands. These newly designed products will feature fuel efficiency improvement, faster ratios and a higher gross combined weight rating to enable more payload per truck. This fiscal year, Volvo launched its new UD Quon truck in Japan which incorporates Meritor's global axle and air disc brake platforms. We also support Volvo in Thailand and India.

Also this year, we were awarded important new contracts with significant strategic customers in North America and Europe for the supply of various linehaul and heavy haul axles, as well as new business in China and India with companies including JAC Motors, Qingling and Tata Motors.

We also continue to grow our off-highway, specialty and defense businesses with wins that included a new contract to provide our P600 tandem axle to Kenworth for a heavy haul customer in the Middle East and to Navistar Defense for the Israeli Army HET and the MaxxPro Recovery Vehicle program. In our Specialty business, we announced a new standard supplier agreement with the REV Group in North America. Under the terms of the three-year agreement, REV Group will equip its bus, fire and specialty vehicles with Meritor's fully dressed axle assemblies.

As we strive to grow our aftermarket business, we took various actions this year to better serve our customers. We announced a new value brand, Mach™, that features all-makes products including suspension, steering, brake and drivetrain components designed and engineered to industry standards at affordable prices for second and third owners. End-users looking for lower price points from a proven Tier 1 supplier can now look to Mach-branded products.

We also took steps to reduce lead times for customers on the West Coast of the United States with the announcement of the establishment of a West Coast aftermarket distribution center in Santa Fe Springs, California. Through this center, we will fulfill aftermarket orders from warehouse distributors and dealers in 13 states in an effort to get our customers back on the road faster. The facility stocks the complete Meritor Aftermarket brand portfolio for customers in the Western U.S.

While we are planning for the majority of our growth to be organic, we anticipate allocating capital for targeted acquisitions that could be an accelerant in our growth trajectory. To that end, this year Meritor acquired the product portfolio and related technologies of Fabco Holdings, Inc. and its subsidiaries. With the addition of Fabco's suite of products, Meritor now has an expanded portfolio of complementary products, including transfer cases, specialty gear boxes, auxiliary transmissions and power take off units for medium, heavy and extra heavy vehicles for on- and off-highway, construction, defense, rail and other industrial applications. These products are available to both original equipment and aftermarket customers. This transaction allows us to offer global customers a wider breadth of capabilities and an expanded portfolio of complementary products. The acquisition is expected to also help us to diversify our customer base and expand into the rail and oil & gas industries not currently served by Meritor.

As industry trends continue to drive the need for equipment that complies with environmental and safety-related regulatory provisions, OEMs select suppliers based not only on the cost and quality of their products, but also on their ability to meet stringent environmental and safety requirements and to service and support the customer after the sale. We use our technological and market expertise to develop and engineer products that address mobility, safety, regulatory and environmental concerns.

Our commitment to designing and manufacturing braking solutions for the commercial vehicle market has resulted in more commercial vehicles in North America having Meritor brakes than any other brake manufacturer. We believe Meritor's EX+ air disc brakes are among the highest performing brakes in the marketplace. In Europe, a region where air disc brakes are much more widely adopted, we have sold more than 6 million ELSA air disc brakes - a testament to the quality, reliability and performance of this brake platform.

We believe the quality of our core product lines, our ability to service our products through our aftermarket capabilities, and our sales and service support teams give us a competitive advantage. An important element of being a preferred supplier is the ability to deliver service through the entire life cycle of the product. Also, as our industry becomes more international, our manufacturing footprint around the world and our ability to supply customers with regionally-tailored product solutions are competencies of increasing importance.

Invest in Employees

The safety of our employees is our top priority. Total case rate is a measure of recordable workplace injuries normalized per 100 employees per year. Our target for M2019 is to achieve a rate of less than 0.65. In fiscal year 2017, we achieved an overall case rate of 0.48 injuries per 200,000 hours, which we believe is world class for an industrial company like Meritor and is below our M2019 target. Eighteen of our 39 measured facilities had no recordable incidents in the entire fiscal year. We attribute this to the diligence of our employees and the safety programs and equipment we have instituted throughout our global operations to protect them.

We will also continue to drive the close alignment of our global Meritor team to M2019. Such alignment was a key driver of the success we experienced in our previous M2016 strategic plan. We believe that our strength to compete in the global market is dependent upon the engagement of every Meritor employee and that a high-performing team is critical to the level of performance we want to achieve. We have a strong and experienced leadership group and a committed team, both of which are focused on sustaining the strong foundation we built in M2016 and delivering on our M2019 performance objectives. We will also continue to diversify our workforce because we recognize the value of different opinions and backgrounds in a company as global as Meritor.

We have established various development and training programs to help our employees grow as we grow. This year, we executed leadership development programs for managers, directors and senior leaders around the world. For managers, we initiated E-Learning modules and two new courses that address important areas for advancement including accountability, delegation, and providing and receiving feedback. For director-level employees, we developed Leadership Edge - a 10-month program whose objective is to develop advanced leadership skills, prepare high-potential leaders for senior level positions and strengthen business acumen. And for senior-level leaders, we began the Summit, which provides executive coaching, the opportunity to attend specific executive training sessions tailored to each individual's background and career goals, participation in a MBA-level finance course, if needed, and engagement in mentorship opportunities with a member of Meritor's Board of Directors. To ensure we provide a rich experience for our employees, we will continue to measure employee engagement to build on the competencies that are important to our future.

Products

Meritor designs, develops, manufactures, markets, distributes, sells, services and supports a broad range of products for use in the transportation and industrial sectors. In addition to sales of original equipment systems and components, we provide our original equipment, aftermarket and remanufactured products to vehicle OEMs, their dealers (who in turn sell to motor carriers and commercial vehicle users of all sizes), independent distributors, and other end-users in certain aftermarkets.

The following chart sets forth, for each of the fiscal years 2017, 2016 and 2015, information about product sales comprising more than 10% of consolidated revenue in any of those years. A narrative description of our principal products follows the chart.

Product Sales:

	Fiscal Year Ended					
	September 30,					
	2017	2016	2015			
Axles, Undercarriage and Drivelines	73 %	73 %	74 %			
Brakes and Brake-Related Components	25 %	25 %	25 %			
Other	2 %	2 %	1 %			
Total	100%	100%	100%			

Axles, Undercarriage & Drivelines

6

We believe we are one of the world's leading independent suppliers of axles for medium- and heavy-duty commercial vehicles, with the leading market position in axle manufacturing in North America, South America and Europe, and are one of the major axle manufacturers in the Asia-Pacific region. Our extensive truck axle product line includes a wide range of front steer axles and rear drive axles. Our front steer and rear drive axles can be equipped with our cam, wedge or air disc brakes, automatic slack adjusters, and complete wheel-end equipment such as hubs, rotors and drums.

We supply heavy-duty axles in certain global regions for use in numerous off-highway vehicle applications, including construction, material handling, and mining. We also supply axles for use in military tactical wheeled vehicles, principally in North America. These products are designed to tolerate high tonnage and operate under extreme conditions. In addition, we have other off-highway vehicle products that are currently in development for certain other regions. We also supply axles for use in buses, coaches and recreational vehicles, fire trucks and other specialty vehicles in North America, Asia Pacific and Europe, and we believe we are a leading supplier of bus and coach axles in North America.

We are one of the major manufacturers of heavy-duty trailer axles in North America. Our trailer axles are available in more than 40 models in capacities from 20,000 to 30,000 pounds for virtually all heavy trailer applications and are available with our broad range of suspension modules, and brake products, including drum brakes and disc brakes.

We supply universal joints and driveline components, including our Permalube™ universal joint and RPL Permalube™ driveline, which are maintenance free, permanently lubricated designs used often in the high mileage on-highway market. We supply drivelines in North America for use in numerous on-highway vehicle applications. We supply transfer cases and drivelines for use in military tactical wheeled vehicles, principally in North America. We also supply transfer cases for use in specialty vehicles in North America. In addition, we supply trailer air suspension systems and products with an increasing market presence in North America. We also supply advanced suspension modules for use in light-, medium- and heavy-duty military tactical wheeled vehicles, principally in North America.

Brakes and Brake-Related Components

We believe we are one of the leading independent suppliers of air brakes to medium- and heavy-duty commercial vehicle manufacturers in North America and Europe. In Brazil, we believe that Master Sistemas Automotivos Limitada, our 49%-owned joint venture with Randon S. A. Implementos e Participações, is a leading supplier of brakes and brake-related products.

Through manufacturing facilities located in North America, Asia Pacific and Europe, we manufacture a broad range of foundation air brakes, as well as automatic slack adjusters for brake systems. Our foundation air brake products include cam drum brakes, which offer improved lining life and tractor/trailer interchangeability; wedge drum brakes, which are lightweight and provide automatic internal wear adjustment; air disc brakes, which provide enhanced stopping distance and improved fade resistance for demanding applications; and wheel-end components such as hubs, drums and rotors.

Our brakes and brake system components also are used in military tactical wheeled vehicles, principally in North America. We also supply brakes for use in buses, coaches and recreational vehicles, fire trucks and other specialty vehicles in North America and Europe, and we believe we are the leading supplier of bus and coach brakes in North America. We also supply brakes for commercial vehicles, buses and coaches in Asia Pacific.

Other Products

In addition to the products discussed above, we sell other complementary products, including third-party and private label items, through our aftermarket distribution channels. These products are generally sold under master distribution or similar agreements with outside vendors and include brake shoes and friction materials; automatic slack adjusters; yokes and shafts; wheel-end hubs and drums; ABS and stability control systems; shock absorbers and air springs; air brakes.

Customers; Sales and Marketing

We have numerous customers worldwide and have developed long-standing business relationships with many of these customers. Our ten largest customers accounted for approximately 74 percent of our total sales in fiscal year 2017. Sales to our largest three customers, AB Volvo, Daimler AG and PACCAR, represented approximately 22 percent, 17 percent and 10 percent, respectively, of our sales in fiscal year 2017. No other customer accounted for 10 percent or more of our total sales in fiscal year 2017.

Original Equipment Manufacturers (OEMs)

In North America, we design, engineer, market and sell products principally to OEMs, dealers and distributors. While our North American sales are typically direct to the OEMs, our ultimate commercial truck customers include trucking and transportation fleets. Fleet customers may specify our components and integrated systems for installation in the vehicles they purchase from OEMs. We employ what we refer to as a “push-pull” marketing strategy. We “push” for being the standard product at the OEM. At the same time, our district field managers then call on fleets and OEM dealers to “pull-through” our components on specific truck purchases. For all other markets, we specifically design, engineer, market and sell products principally to OEMs for their market-specific needs or product specifications.

For certain large OEM customers, our supply arrangements are generally negotiated on a long-term contract basis for a multi-year period that may require us to provide annual cost reductions through price reductions or other cost benefits for the OEMs. If we are unable to generate sufficient cost savings in the future to offset such price reductions, our gross margins will be adversely affected. Sales to other OEMs are typically made through open order releases or purchase orders at market-based prices that do not require the purchase of a minimum number of products. The customer typically has the right to cancel or delay these orders on reasonable notice. We typically compete to either retain business or try to win new business from OEMs when long-term contracts expire.

We have established leading positions in many of the markets we serve as a global supplier of a broad range of drivetrain systems, brakes and components. Based on available industry data and internal company estimates, our market-leading positions include independent truck drive axles (i.e., those manufactured by an independent, non-captive supplier) in North America, Europe, South America and India through a joint venture; truck drivelines in North America; truck air brakes in North America and South America (through a joint venture); and military wheeled vehicle drivetrains, suspensions and brakes in North America.

Our global customer portfolio includes companies such as AB Volvo, Daimler AG, PACCAR, Navistar International Corporation, Oshkosh, MAN, CNH Industrial, Ashok Leyland, Scania, XCMG, Wabash National and Ford.

Aftermarket

We market and sell truck, trailer, off-highway and other products principally to, and service such products principally for, OEMs, their parts marketing operations, their dealers and other independent distributors and service garages within the aftermarket industry. Our product sales are generated through long-term agreements with certain of our OEM customers and distribution agreements and sales to independent dealers and distributors. Sales to other OEMs are typically made through open order releases or purchase orders at market based prices, which do not require the purchase of a minimum number of products. The customer typically has the right to cancel or delay these orders on reasonable notice.

Our product offerings allow us to service all stages of our customers’ vehicle ownership lifecycle. In North America, we stock and distribute thousands of parts from top national brands to our customers or what we refer to as our “all makes” strategy. Our district field managers call on our OEM and independent customers to market our full product line capabilities on a regular basis to seek to ensure that we satisfy our customers’ needs. Our aftermarket business sells products under the following brand names: Meritor; Euclid; Trucktechnic; Meritor Green; Meritor AllFit and Mach.

Based on available industry data and internal company estimates, we believe our North America aftermarket business has the overall market leadership position for the portfolio of products that we offer.

Competition

We compete worldwide with a number of North American and international providers of components and systems, some of which are owned by or associated with some of our customers. The principal competitive factors are price, quality, service, product performance, design and engineering capabilities, new product innovation and timely delivery. Certain OEMs manufacture their own components that compete with the types of products we supply.

Our major competitors for axles are Dana Incorporated and, in certain markets, OEMs that manufacture axles for use in their own products. Emerging competitors for axles include Daimler Truck North America's Detroit Axle, ZF Friedrichshafen in Europe, and from China, Hande, Fuwa and Ankai. Our major competitors for brakes are Bendix/Knorr Bremse, WABCO and, in certain markets, OEMs that manufacture brakes for use in their own products. Our major competitors for industrial applications are MAN, AxleTech International, Oshkosh, AM General, Marmon-Herrington, Dana Incorporated, Knorr Bremse, Kessler & Co., Carraro, NAF, Sisu and, in certain markets, OEMs that manufacture industrial products for use in their own vehicles. Our major competitors for trailer applications are Hendrickson and SAF-Holland.

Raw Materials and Suppliers

Our purchases of raw materials and parts are concentrated over a limited number of suppliers. We are dependent upon our suppliers' ability to meet cost performance, quality specifications and delivery schedules. The inability of a supplier to meet these requirements, the loss of a significant supplier, or work stoppages, could have an adverse effect on our ability to meet our customers' delivery requirements.

The cost of our core products is susceptible to changes in overall steel commodity prices, including ingredients used for various grades of steel. We have generally structured our major steel supplier and customer contracts to absorb and pass on normal index-related market fluctuations in steel prices. While we have had steel pricing adjustment programs in place with most major OEMs, the price adjustment programs tend to lag behind the movement in steel costs and have generally not contemplated non-steel index related increases.

Significant future volatility in the commodity markets or a deterioration in product demand may require us to pursue customer increases through surcharges or other pricing arrangements. In addition, if suppliers are inadequate for our needs, or if prices remain at current levels or increase and we are unable to either pass these prices to our customer base or otherwise mitigate the costs, our operating results could be further adversely affected.

We continuously work to address these competitive challenges by reducing costs and, as needed, restructuring operations. We manage supplier risk by conducting periodic assessments for all major suppliers and more frequent rigorous assessments of high-risk suppliers. On an ongoing basis, we monitor third-party financial statements, conduct surveys through supplier questionnaires, and conduct site visits. We have developed a supplier improvement process where we identify and develop actions to address ongoing financial, quality and delivery issues to further mitigate potential risk. We are proactive in managing our supplier relationships to avoid supply disruption. Our process employs dual sourcing and resourcing trigger points that cause us to take aggressive actions and then monitor the progress closely.

Acquisitions, Divestitures and Restructuring

As described above, our business strategies are focused on enhancing our market position by continuously evaluating the competitive differentiation of our product portfolio, focusing on our strengths and core competencies, and growing the businesses that offer the most attractive returns. Implementing these strategies involves various types of strategic initiatives.

As part of our M2019 plan, we are evaluating acquisition opportunities that fit strategically with our core competencies and growth initiatives and regularly review the prospects of our existing businesses to determine whether any of them should be modified, restructured, sold or otherwise discontinued. In the fourth quarter of fiscal year 2017, we closed on the sale of our interest in Meritor WABCO Vehicle Control Systems to a subsidiary of our joint venture partner, WABCO Holdings Inc. (see Note 14 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below). In the fourth quarter of fiscal year 2017, we also completed the acquisition of the product portfolio and related technologies of Fabco Holdings, Inc. (see Note 7 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below). In the fourth quarter of fiscal year 2015, we completed the acquisition of the majority of the assets of Sypris Solutions, Inc.'s Morganton, North Carolina trailer, axle beam and carrier manufacturing facility (see Note 7 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below).

Restructuring Actions

Aftermarket Actions: During the third quarter of fiscal year 2016, we approved various restructuring plans in the North American and European Aftermarket businesses. We recorded \$5 million of restructuring costs during the third quarter of fiscal year 2016 and \$4 million of restructuring costs during fiscal year 2017. Restructuring actions associated with these plans were substantially complete as of September 30, 2017.

Fourth Quarter 2016 Market Related Actions: In response to the decline in revenue in North America and South America, during the fourth quarter of fiscal year 2016, we approved various headcount reduction plans targeting different areas of the business. During the fourth quarter of fiscal year 2016, we incurred a total of \$5 million in restructuring costs in the Commercial Truck & Industrial segment, \$1 million in Aftermarket & Trailer segment and \$2 million in their corporate locations. Restructuring actions with these plans were substantially complete as of September 30, 2017.

Other Fiscal 2016 Actions: During the first half of fiscal year 2016, we recorded restructuring costs of \$3 million primarily associated with a labor reduction program in China in the Commercial Truck & Industrial segment and a labor reduction program

in the Aftermarket & Trailer segment. Restructuring actions with these plans were substantially complete as of September 30, 2016.

M2016 Footprint Actions: As part of our M2016 Strategy, during fiscal year 2013 we announced a North American footprint realignment action and a European shared services reorganization. In total, we eliminated approximately 140 hourly and salaried positions and incurred approximately \$7 million of associated restructuring costs, primarily in the Commercial Truck & Industrial segment in connection with the consolidation of certain gearing and machining operations in North America and the closure of a North America manufacturing facility. Restructuring actions associated with these programs were substantially complete as of September 30, 2015.

South America Labor Reduction: During fiscal years 2014 and 2015, we completed a South America headcount reduction plan intended to reduce labor costs in response to softening economic conditions in the region. In response to decreasing production volumes in South America, we eliminated approximately 420 hourly and 40 salaried positions and incurred \$13 million of restructuring costs, primarily severance benefits, in the Commercial Truck & Industrial segment. This plan was substantially complete as of September 30, 2015.

Closure of a Corporate Engineering Facility: During the second quarter of fiscal year 2015, we notified approximately 30 salaried and contract employees that their positions were being eliminated due to the planned closure of a corporate engineering facility. We recorded severance expenses of \$2 million associated with this plan. Restructuring actions associated with this program were substantially complete as of September 30, 2015.

European Labor Reduction: During the second quarter of fiscal year 2015, we initiated a European headcount reduction plan intended to reduce labor costs in response to continued soft markets in the region. We eliminated approximately 20 hourly and 20 salaried positions and recorded \$2 million of expected severance expenses in the Commercial Truck & Industrial segment in fiscal year 2015. Restructuring actions associated with this program were substantially complete as of June 30, 2015.

Joint Ventures

As the industries in which we operate have become more globalized, joint ventures and other cooperative arrangements have become an important element of our business strategies. These strategic alliances provide for sales, product design, development and manufacturing in certain product and geographic areas. As of September 30, 2017, our continuing operations participated in the following non-consolidated joint ventures:

	Key Products	Country
Master Sistemas Automotivos Limitada	Braking systems	Brazil
Sistemas Automotrices de Mexico S.A. de C.V.	Axles, drivelines and brakes	Mexico
Ege Fren Sanayii ve Ticaret A.S.	Braking systems	Turkey
Automotive Axles Limited	Rear drive axle assemblies and braking systems	India

In the fourth quarter of fiscal year 2017, we closed on the sale of our interest in Meritor WABCO Vehicle Control Systems to a subsidiary of our joint venture partner, WABCO Holdings Inc. Aggregate sales of our non-consolidated joint ventures, including Meritor WABCO Vehicle Control Systems, were \$1,156 million, \$1,101 million and \$1,288 million in fiscal years 2017, 2016 and 2015, respectively.

In accordance with accounting principles generally accepted in the United States, our consolidated financial statements include the financial position and operating results of those joint ventures in which we have control. For additional information on our unconsolidated joint ventures and percentage ownership thereof see Note 14 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below.

Research and Development

We have significant research, development, engineering and product design capabilities. We spent \$69 million in fiscal year 2017, \$68 million in fiscal year 2016 and \$69 million in fiscal year 2015 on company-sponsored research, development and engineering. We employ professional engineers and scientists globally and have additional engineering capabilities through contract arrangements in low-cost countries. We also have advanced technical centers in North America, South America, Europe and Asia Pacific (primarily in India and China).

Patents and Trademarks

We own or license many United States and foreign patents and patent applications in our engineering and manufacturing operations and other activities. While in the aggregate these patents and licenses are considered important to the operation of our businesses, management does not consider them of such importance that the loss or termination of any one of them would materially affect a business segment or Meritor as a whole.

Our registered trademarks for Meritor® and the Bull design are important to our business. Other significant trademarks owned by us include Euclid® and Trucktechnic® for aftermarket products.

Substantially all of our U.S.-held intellectual property rights are subject to a first-priority perfected security interest securing our obligations to the lenders under our credit facility. See Note 17 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below.

Employees

At September 30, 2017, we had approximately 8,200 full-time employees (which includes consolidated joint ventures). At that date, 18 employees in the United States and Canada were covered by collective bargaining agreements. Most of our facilities outside of the United States and Canada are unionized. We strive to foster and maintain positive relationships with our hourly and salaried employees.

Environmental Matters

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 our operations. We record 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, we record a liability for our allocable share of costs related to our involvement with the site, as well as an allocable share of costs related to insolvent parties or unidentified shares. At environmental sites in which we are the only potentially responsible party, we record a liability for the total estimated costs of remediation before consideration of recovery from insurers or other third parties.

We have been designated as a potentially responsible party at nine Superfund sites, excluding sites as to which our records disclose no involvement or as to which our liability has been finally determined. In addition to Superfund sites, various other lawsuits, claims and proceedings have been asserted against us, alleging violations of federal, state and local environmental protection requirements or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. We have established reserves for these liabilities when they are considered to be probable and reasonably estimable. See Note 24 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below for information as to our estimates of the total reasonably possible costs we could incur and the amounts recorded as a liability as of September 30, 2017, and as to changes in environmental accruals during fiscal year 2017.

The process of estimating environmental liabilities is complex and dependent on physical and scientific data at the site, uncertainties as to remedies and technologies to be used, and the outcome of discussions with regulatory agencies. The actual amount of costs or damages for which we may be held responsible could materially exceed our current estimates because of uncertainties, including the financial condition of other potentially responsible parties, the success of the remediation and other factors that make it difficult to predict actual costs accurately. However, based on management's assessment, after consulting with Meritor's General Counsel and with outside advisors who

specialize in environmental matters, and subject to the difficulties inherent in estimating these future costs, we believe that our 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 adverse effect on our 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 remedy could significantly change our estimates. Management cannot assess the possible effect of compliance with future requirements.

International Operations

We believe our international operations provide us with geographical diversity and help us to weather the cyclical nature of our business. Approximately 46 percent of our total assets as of September 30, 2017 and 47 percent of fiscal year 2017 sales from continuing operations were outside the U.S. See Note 25 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below for financial information by geographic area for the three fiscal years ended September 30, 2017.

Our international operations are subject to a number of risks inherent in operating abroad (see Item 1A. Risk Factors below). There can be no assurance that these risks will not have a material adverse impact on our ability to increase or maintain our foreign sales or on our financial condition or results of operations.

Our operations are also exposed to global market risks, including foreign currency exchange rate risk related to our transactions denominated in currencies other than the U.S. dollar. We have a foreign currency cash flow hedging program in place to help reduce the company's exposure to changes in exchange rates. We use foreign currency forward contracts and options to manage the company's exposures arising from foreign currency exchange risk. Gains and losses on the underlying foreign currency exposures are partially offset with gains and losses on the foreign currency forward contracts. It is our policy not to enter into derivative financial instruments for speculative purposes and, therefore, we hold no derivative instruments for trading purposes. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk and Note 18 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data below.

Seasonality; Cyclicalities

We may experience seasonal variations in the demand for our products, to the extent OEM vehicle production fluctuates. Historically, for most of our operations, demand has been somewhat lower in the quarters ended September 30 and December 31, when OEM plants may close for summer shutdowns and holiday periods or when there are fewer selling days during the quarter. Our aftermarket business and our operations in India and China generally experience seasonally higher demand in the quarters ending March 31 and June 30.

In addition, the industries in which we operate have been characterized historically by periodic fluctuations in overall demand for trucks, trailers and other specialty vehicles for which we supply products, resulting in corresponding fluctuations in demand for our products. Production and sales of the vehicles for which we supply products generally depend on economic conditions and a variety of other factors that are outside of our control, including freight tonnage, customer spending and preferences, vehicle age, labor relations and regulatory requirements. See Item 1A. Risk Factors below. Cycles in the major vehicle industry markets of North America and Europe are not necessarily concurrent or related. It is part of our strategy to continue to seek to expand our operations globally to help mitigate the effect of periodic fluctuations in demand of the vehicle industry in one or more particular countries.

See section Trends and Uncertainties in Item 7. Management's Discussion and Analysis for estimated commercial truck production volumes for selected original equipment markets based on available sources and management's estimates.

Available Information

We make available free of charge through our web site (www.Meritor.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, and other filings we make with the Securities and Exchange Commission ("SEC"), as soon as reasonably practicable after they are filed. The

information contained on the company's website is not included in, or incorporated by reference into, this Annual Report on Form 10-K.

Cautionary Statement

This Annual Report on Form 10-K contains statements relating to future results of the company (including certain projections and business trends) that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "estimate," "should," "are likely to be," "will" and similar expressions. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to reliance on major OEM customers and possible negative outcomes from contract negotiations with our major customers, including failure to negotiate acceptable terms in contract renewal negotiations and our ability to obtain new customers; the outcome of actual and potential product liability, warranty and recall claims; our

ability to successfully manage rapidly changing volumes in the commercial truck markets and work with our customers to manage demand expectations in view of rapid changes in production levels; global economic and market cycles and conditions; availability and sharply rising costs of raw materials, including steel, and our ability to manage or recover such costs; our ability to manage possible adverse effects on our European operations, or financing arrangements related thereto, following the United Kingdom's decision to exit the European Union or, in the event one or more other countries exit the European monetary union; risks inherent in operating abroad (including foreign currency exchange rates, restrictive government actions regarding trade, implications of foreign regulations relating to pensions and potential disruption of production and supply due to terrorist attacks or acts of aggression); risks related to our joint ventures; rising costs of pension benefits; the ability to achieve the expected benefits of strategic initiatives and restructuring actions; our ability to successfully integrate the products and technologies of FABCO Holdings, Inc. and future results of such acquisition, including its generation of revenue and it being accretive; the demand for commercial and specialty vehicles for which we supply products; whether our liquidity will be affected by declining vehicle productions in the future; OEM program delays; demand for and market acceptance of new and existing products; successful development and launch of new products; labor relations of our company, our suppliers and customers, including potential disruptions in supply of parts to our facilities or demand for our products due to work stoppages; the financial condition of our suppliers and customers, including potential bankruptcies; possible adverse effects of any future suspension of normal trade credit terms by our suppliers; potential impairment of long-lived assets, including goodwill; potential adjustment of the value of deferred tax assets; competitive product and pricing pressures; the amount of our debt; our ability to continue to comply with covenants in our financing agreements; our ability to access capital markets; credit ratings of our debt; the outcome of existing and any future legal proceedings, including any litigation with respect to environmental, asbestos-related, or other matters; whether the injunction relating to our Cole litigation will remain dissolved or will not otherwise be reinstated, whether the plaintiffs' petition for a writ of certiorari with the Supreme Court of the United States, which was filed on September 15, 2017, is granted and the actual impacts of the Company's modifications to certain benefits of former union employee retirees on the Company's balance sheet, earnings and amount of cash payments; possible changes in accounting rules; ineffective internal controls; and 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. These forward-looking statements are made only as of the date hereof, and the company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law.

Item 1A. Risk Factors

Our business, financial condition and results of operations can be impacted by a number of risks, including those described below and elsewhere in this Annual Report on Form 10-K, any one of which could cause our actual results to vary materially from recent results or from anticipated future results. Any of these individual risks could materially and adversely affect our business, financial condition and results of operations. This effect could be compounded if multiple risks were to occur.

We may not be able to execute our M2019 Plan.

At the beginning of fiscal 2016, we announced our M2019 plan, a multi-year plan to drive growth and increase shareholder value. In connection with the plan, we established certain financial goals relating to revenue growth, profit improvement and capital allocation. The M2019 plan is based on our current planning assumptions, and achievement of the plan is subject to a number of risks. Our plan includes assumptions that we are able to successfully launch new products, secure new business wins, expand our current customer relationships, reduce debt, reduce costs, and that any increases in raw materials prices are substantially offset by customer recovery mechanisms. If our assumptions are incorrect, if management is not able to execute the plan or if our business suffers from any number of additional risks set forth herein, we may not be able to achieve the financial goals we have announced for the M2019 plan.

We depend on large OEM customers, and loss of sales to these customers or failure to negotiate acceptable terms in contract renewal negotiations, or to obtain new customers, could have an adverse impact on our business.

We are dependent upon large OEM customers with substantial bargaining power with respect to price and other commercial terms. In addition, we have long-term contracts with certain of these customers that are subject to renegotiation and renewal from time to time. Loss of all or a substantial portion of sales to any of our large volume customers for whatever reason (including, but not limited to, loss of contracts or failure to negotiate acceptable terms in contract renewal negotiations, loss of market share by these customers, insolvency of such customers, reduced or delayed customer requirements, plant shutdowns, strikes or other work stoppages affecting production by such customers), continued reduction of prices to these customers, or a failure to obtain new customers, could have a significant adverse effect on our financial results. There can be no assurance that we will not lose all or a portion of sales to our large volume customers, or that we will be able to offset any reduction of prices to these customers with reductions in our costs or by obtaining new customers.

During fiscal year 2017, sales to our three largest customers, AB Volvo, Daimler AG and PACCAR represented approximately 22 percent, 17 percent and 10 percent, respectively. No other customer accounted for 10% or more of our total sales in fiscal year 2017.

The level of our sales to large OEM customers, including the realization of future sales from awarded business or obtaining new business or customers, is inherently subject to a number of risks and uncertainties, including the number of vehicles that these OEM customers actually produce and sell. Several of our significant customers have major union contracts that expire periodically and are subject to renegotiation. Any strikes or other actions that affect our customers' production during this process would also affect our sales. Further, to the extent that the financial condition, including bankruptcy or market share of any of our largest customers, deteriorates or their sales otherwise continue to decline, our financial position and results of operations could be adversely affected. In addition, our customers generally have the right to replace us with another supplier under certain circumstances. Accordingly, we may not in fact realize all of the future sales represented by our awarded business. Any failure to realize these sales could have a material adverse effect on our financial condition and results of operations.

Our ability to manage rapidly changing production and sales volume in the commercial vehicle market may adversely affect our results of operations.

Production and sales in the commercial vehicle market have historically been volatile. Our business may experience difficulty in adapting to rapidly changing production and sales volumes. In an upturn of the cycle, when demand increases for production, we may have difficulty in meeting such extreme or rapidly increasing demand. This difficulty may include not having sufficient manpower or working capital to meet the needs of our customers or relying on other suppliers who may not be able to respond quickly to a changed environment when demand increases rapidly. In addition, certain volume requirements can necessitate premium freight and the associated costs to support the customer demand. In contrast, in the downturn of the cycle, we may have difficulty sustaining profitability given fixed costs (as further discussed below).

A downturn in the global economy could materially adversely affect our results of operations, financial condition and cash flows.

Past recessions have had a significant adverse impact on our business, customers and suppliers. Our cash and liquidity needs were impacted by the level, variability and timing of our customers' worldwide vehicle production and other factors outside of our control. If the global economy were to take another significant downturn, depending upon the length, duration and severity of another recession, our results of operations, financial condition and cash flow would be materially adversely affected again.

Our levels of fixed costs can make it difficult to adjust our cost base to the extent necessary, or to make such adjustments on a timely basis, and continued volume declines can result in non-cash impairment charges as the value of certain long-lived assets is reduced. As a result, our financial condition and results of operations have been and would be expected to continue to be adversely affected during periods of prolonged declining production and sales volumes in the commercial vehicle markets.

The negative impact on our financial condition and results of operations from continued volume declines could also have negative effects on our liquidity. If cash flows are not available from our operations, we may be required to rely on the banking and credit markets to meet our financial commitments and short-term liquidity needs; however, we cannot predict whether that funding will be available at all or on commercially reasonable terms. In addition, in the event of reduced sales, levels of receivables would decline, which would lead to a decline in funding available under our U.S. receivables facilities or under our European factoring arrangements.

Our working capital requirements may negatively affect our liquidity and capital resources.

Our working capital requirements can vary significantly, depending in part on the level, variability and timing of our customers' worldwide vehicle production and the payment terms with our customers and suppliers. As production volumes increase, our working capital requirements to support the higher volumes generally increase. If our working capital needs exceed our other cash flows from operations, we would look to our cash balances and availability for borrowings under our borrowing arrangements to satisfy those needs, as well as potential sources of additional capital, which may not be available on satisfactory terms or in adequate amounts.

In addition, since many of our accounts receivable factoring programs support our working capital requirements in Europe, any dissolution of the European monetary union, if it were to occur, or any other termination of our European factoring agreements could have a material adverse effect on our liquidity if we were unable to renegotiate such agreements or find alternative sources of liquidity.

One of our consolidated joint ventures in China participates in bills of exchange programs to settle accounts receivable from its customers and obligations to its trade suppliers. These programs are common in China and generally require the participation of local banks. Any disruption in these programs, if it were to occur, could have an adverse effect on our liquidity if we were unable to find alternative sources of liquidity.

Our liquidity, including our access to capital markets and financing, could be constrained by limitations in the overall credit market, our credit ratings, our ability to comply with financial covenants in our debt instruments, and our suppliers suspending normal trade credit terms on our purchases, or by other factors beyond our control.

Our current senior secured revolving credit facility matures in March 2022. Upon expiration of this facility, we will require a new or renegotiated facility (which may be smaller and have less favorable terms than our current facility) or other financing arrangements. 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, and there is no guarantee that we will be able to access additional capital.

On November 15, 2017, our Standard & Poor's corporate credit rating and senior unsecured credit rating were BB- and B+, respectively, and our Moody's Investors Service corporate credit rating and senior unsecured credit rating were B1 and B2, 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.

Our liquidity could also be adversely impacted if our suppliers were to suspend normal trade credit terms and require more accelerated payment terms, including payment in advance or payment on delivery of purchases. If this were to occur, we would be dependent on other sources of financing to bridge the additional period between payment of our suppliers and receipt of payments from our customers.

We operate in an industry that is cyclical and that has periodically experienced significant year-to-year fluctuations in demand for vehicles; we also experience seasonal variations in demand for our products.

The industries in which we operate have been characterized historically by significant periodic fluctuations in overall demand for medium- and heavy-duty trucks and other vehicles for which we supply products, resulting in corresponding fluctuations in demand for our products. The length and timing of any cycle in the vehicle industry cannot be predicted with certainty.

Production and sales of the vehicles for which we supply products generally depend on economic conditions and a variety of other factors that are outside our control, including freight tonnage, customer spending and preferences, vehicle age, labor relations and regulatory requirements. In particular, demand for our Commercial Truck & Industrial segment products can be affected by a pre-buy before the effective date of new regulatory requirements, such as changes in emissions standards. Historically, implementation of new, more stringent, emissions standards, has increased heavy-duty truck demand prior to the effective date of the new regulations, and correspondingly decreased this demand after the new standards are implemented. In addition, any expected increase in the heavy-duty truck demand prior to the effective date of new emissions standards may be offset by instability in the financial markets and resulting economic contraction in the U.S. and worldwide markets.

Sales from the aftermarket portion of our Aftermarket & Trailers segment depend on overall levels of truck ton miles and gross domestic product (GDP), among other things, and may be influenced by times of slower economic growth or economic contraction based on the average age of commercial truck fleets.

We may also experience seasonal variations in the demand for our products to the extent that vehicle production fluctuates. Historically, for most of our business, demand has been somewhat lower in the quarters ended September 30 and December 31, when OEM plants may close during model changeovers and vacation and holiday periods or when there are fewer selling days during the quarter. In addition, our aftermarket business and our operations in India and China generally experience seasonally higher demand in the quarters ending March 31 and June 30.

Disruptions in the financial markets could impact the availability and cost of credit which could negatively affect our business.

Disruptions in the financial markets, including the bankruptcy, insolvency or restructuring of certain financial institutions, and the lack of liquidity generally could impact the availability and cost of incremental credit for many companies and may adversely affect the availability of credit already arranged. Such disruptions could adversely affect the U.S. and world economy, further negatively impacting consumer spending patterns in the transportation and industrial sectors. In addition, as our customers and suppliers respond to rapidly changing consumer preferences, they may require access to additional capital. If that capital is not available or its cost is prohibitively high, their business would be negatively impacted, which could result in further restructuring or even reorganization under bankruptcy laws. Any such negative impact, in turn, could negatively affect our business either through loss of sales to any of our customers so affected or through inability to meet our commitments (or inability to meet them without excess expense) because of loss of supplies from any of our suppliers so affected. There are no assurances that government responses to these disruptions would restore consumer confidence or improve the liquidity of the financial markets.

In addition, disruptions in the capital and credit markets could adversely affect our ability to draw on our senior secured revolving credit facility or our U.S. accounts receivable securitization facility. Our access to funds under the facilities is dependent on the ability of the banks that are parties to the facilities to meet their funding commitments. Those banks may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from Meritor and other borrowers within a short period of time. Longer-term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives, or failures of significant financial institutions could adversely affect our access to liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged.

Continued fluctuation in the prices of raw materials and transportation costs has adversely affected our business and, together with other factors, will continue to pose challenges to our financial results.

Prices of raw materials, primarily steel, for our manufacturing needs and costs of transportation have fluctuated sharply in past years, including rapid increases which had a negative impact on our operating income for certain periods. These steel price increases, along with increasing transportation costs, created pressure on profit margins, and if they recur in the future, they could unfavorably impact our financial results going forward. While we have had steel pricing adjustment programs in place with most major OEMs, the price adjustment programs typically lag the increase in steel costs and have generally not contemplated all non-index-related increases in steel costs. Raw material price fluctuation, together with the volatility of the commodity markets, will continue to pose risks to our financial results. If we are unable to pass price increases on to our customer base or otherwise mitigate the costs, our operating income could be adversely affected.

Escalating price pressures from customers may adversely affect our business.

Pricing pressure by OEMs is a characteristic, to a certain extent, of the commercial vehicle industry. Virtually all OEMs have aggressive price reduction initiatives and objectives each year with their suppliers, and such actions are expected to continue in the future. Accordingly, we must be able to reduce our operating costs in order to maintain our current margins. Price reductions have impacted our margins and may do so in the future. There can be no assurance that we will be able to avoid future customer price reductions or offset future customer price reductions through improved operating efficiencies, new manufacturing processes, sourcing alternatives or other cost reduction initiatives.

We operate in a highly competitive industry.

Each of Meritor's businesses operates in a highly competitive environment. We compete worldwide with a number of North American and international providers of components and systems, some of which are owned by or associated with some of our customers. Certain OEMs manufacture products for their own use that compete with the types of products we supply, and any future increase in this activity could displace Meritor's sales. In addition, cost reduction strategies in our industry have led to an increase in the consolidation and globalization of OEMs and their suppliers, which could increase the amount of competition or displacement we face from OEMs that manufacture products similar to ours for their own use or from suppliers that are affiliated with or otherwise supported by OEMs.

Exchange rate fluctuations could adversely affect our financial condition and results of operations.

As a result of our substantial international operations, we are exposed to foreign currency risks that arise from our normal business operations, including risks in connection with our transactions that are denominated in foreign currencies. While we employ financial instruments to hedge certain of our foreign currency exchange risks relating to these transactions, our efforts to manage these risks may not be successful. In addition, we translate sales and other 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 fiscal years 2015 and 2016, our reported financial results were adversely affected by appreciation of the U.S. dollar against foreign currencies. For fiscal year 2017, our reported financial results benefited from depreciation of the U.S. dollar against foreign currencies.

A disruption in supply of raw materials or parts could impact our production and increase our costs.

Some of our significant suppliers have experienced weak financial condition in recent years. In addition, some of our significant suppliers are located in developing countries. We are dependent upon the ability of our suppliers to meet performance and quality specifications and delivery schedules. The inability of a supplier to meet these requirements, the loss of a significant supplier, or any labor issues or work stoppages at a significant supplier could disrupt the supply of raw materials and parts to our facilities and could have an adverse effect on us.

Work stoppages or similar difficulties could significantly disrupt our operations.

A work stoppage at one or more of our manufacturing facilities could have a material adverse effect on our business. In addition, if a significant customer were to experience a work stoppage, that customer could halt or limit purchases of our products, which could result in shutting down the related manufacturing facilities. Also, a significant disruption in the supply of a key component due to a work stoppage at one of our suppliers could result in shutting down manufacturing facilities, which could have a material adverse effect on our business.

Our international operations are subject to a number of risks.

We have a significant number of facilities and operations outside the United States, including investments and joint ventures in developing countries. During fiscal year 2017, approximately 47 percent of our sales from continuing operations were generated outside of the United States. Our strategy to grow in emerging markets may put us at risk due to the risks inherent in operating in such markets. Our international operations are subject to a number of risks inherent in operating abroad, including, but not limited to:

- risks with respect to currency exchange rate fluctuations (as more fully discussed above);

- risks to our liquidity if the European monetary union were to dissolve and we were unable to renegotiate European factoring agreements;

- risks arising from the United Kingdom's decision to exit the European Union, or in the event one or more other countries exit the European monetary union;

- local economic and political conditions;

- disruptions of capital and trading markets;

possible terrorist attacks or acts of aggression that could affect vehicle production or the availability of raw materials or supplies;

restrictive governmental actions (such as restrictions on transfer of funds and trade protection measures, including import and export duties, quotas and customs duties and tariffs);

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 and foreign governments affecting trade, foreign investment and loans;
- 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 adverse impact on our ability to increase or maintain our foreign sales or on our financial condition or results of operations.

Certain of our operations are conducted through joint ventures, which have unique risks.

We conduct certain of our operations through joint ventures, many of which act as our suppliers, pursuant to the terms of the agreements that we entered into with our partners. We may share management responsibilities and information with one or more partners that may not share our goals and objectives. Additionally, one or more partners may fail to satisfy contractual obligations, conflicts may arise between us and any of our partners, the ownership of one of our partners may change or our ability to control decision making or compliance with applicable rules and regulations may be limited. Additionally, our ability to sell our interest in a joint venture may be subject to contractual and other limitations. Accordingly, any of the foregoing could adversely affect our results of operations, financial condition and cash flow.

A violation of the financial covenants in our senior secured revolving credit facility could result in a default thereunder and could lead to an acceleration of our obligations under this facility and, potentially, other indebtedness.

Our ability to borrow under our existing financing arrangements depends on our compliance with covenants in the related agreements and on our performance against covenants in our bank credit facility that require compliance with certain financial ratios as of the end of each fiscal quarter. To the extent that we are unable to maintain compliance with these requirements or to perform against the financial ratio covenants due to one or more of the various risk factors discussed herein or otherwise, our ability to borrow, and our liquidity, would be adversely impacted. Availability under the senior secured revolving credit facility is subject to a collateral test, performed quarterly, pursuant to which borrowings on the senior secured revolving credit facility cannot exceed 1.0x the collateral test value. Availability under the senior secured revolving credit facility is also subject to certain financial covenants based on (i) the ratio of our priority debt (consisting principally of amounts outstanding under the senior secured 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 not more than 2.25 to 1.00 as of the last day of each fiscal quarter through maturity.

If an amendment or waiver is needed (in the event we do not meet one of these covenants) and not obtained, we would be in violation of that covenant, and the lenders would have the right to accelerate the obligations upon the vote of the lenders holding more than 50% of outstanding loans thereunder. A default under the senior secured revolving credit facility could also constitute a default under our outstanding convertible notes as well as our U.S. receivables facility and could result in the acceleration of these obligations. In addition, a default under our senior secured

revolving credit facility could result in a cross-default or the acceleration of our payment obligations under other financing agreements. If our obligations under our senior secured revolving credit facility and other financing arrangements are accelerated as described above, our assets and cash flow may be insufficient to fully repay these obligations, and the lenders under our senior secured revolving credit facility could institute foreclosure proceedings against our assets.

Our strategic initiatives may be unsuccessful, may take longer than anticipated, or may result in unanticipated costs.

The success and timing of any future divestitures and acquisitions will depend on a variety of factors, many of which are not within our control. If we engage in acquisitions, we may finance these transactions by issuing additional debt or equity securities. The additional debt from any such acquisitions, if consummated, could increase our debt to capitalization ratio. In addition, the

ultimate benefit of any acquisition would depend on our ability to successfully integrate the acquired entity or assets into our existing business and to achieve any projected synergies. There is no assurance that the total costs and total cash costs associated with any current and future restructuring will not exceed our estimates, or that we will be able to achieve the intended benefits of these restructurings.

We are exposed to environmental, health and safety and product liabilities.

Our business is subject to liabilities with respect to environmental and health and safety matters. In addition, we are required to comply with federal, state, local and foreign laws and regulations governing the protection of the environment and health and safety, and we could be held liable for damages arising out of human exposure to hazardous substances or other environmental or natural resource damages. Environmental health and safety laws and regulations are complex, change frequently and tend to be increasingly stringent. As a result, our future costs to comply with such laws may increase significantly. There is also an inherent risk of exposure to warranty and product liability claims, as well as product recalls, in the commercial vehicle industry if our products fail to perform to specifications or are alleged to cause property damage, injury or death.

With respect to environmental liabilities, we have been designated as a potentially responsible party at nine Superfund sites (excluding sites as to which our records disclose no involvement or as to which our liability has been finally determined). In addition to the Superfund sites, various other lawsuits, claims and proceedings have been asserted against us alleging violations of federal, state and local and foreign environmental protection requirements or seeking remediation of alleged environmental impairments. We establish reserves for these liabilities when we determine that the company has a probable obligation and we can reasonably estimate it, but the process of estimating environmental liabilities is complex and dependent on evolving physical and scientific data at the site, uncertainties as to remedies and technologies to be used, and the outcome of discussions with regulatory agencies. The actual amount of costs or damages for which we may be held responsible could materially exceed our current estimates because of these and other uncertainties which make it difficult to predict actual costs accurately. In future periods, new laws and regulations, changes in remediation plans, advances in technology and additional information about the ultimate clean-up remedy could significantly change our estimates and have a material impact on our financial position and results of operations. Management cannot assess the possible effect of compliance with future requirements.

We are exposed to asbestos litigation liability.

One of our subsidiaries, Maremont Corporation, manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. We 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. We, along with many other companies, have also been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos used in certain components of products of Rockwell International Corporation ("Rockwell"). Liability for these claims was transferred to us at the time of the spin-off of Rockwell's automotive business to Meritor in 1997.

The uncertainties of asbestos claim and other litigation including the outcome of litigation with insurance companies regarding the scope of asbestos coverage, and the long-term solvency of our insurance carriers, make it difficult to predict accurately the ultimate resolution of asbestos claims. The possibility of adverse rulings or new legislation affecting asbestos claim litigation or the settlement process increases that uncertainty. Although we have established reserves to address asbestos liability and corresponding receivables for recoveries from our insurance carriers, if our 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 asbestos-related claims, and the effect on us, could differ materially from our current estimates and, therefore, could have a material impact on our financial position and results of operations.

We are exposed to the rising cost of pension benefits and uncertainty regarding the provision of postemployment benefits.

The commercial vehicle industry, like other industries, continues to be impacted by the cost of pension and other postemployment benefits. In estimating our expected obligations under our pension benefit plans, we make certain assumptions as to economic and demographic factors, such as discount rates, and investment returns. If actual experience of these factors is worse than our assumptions, our obligations could grow which could in turn increase the amount of mandatory contributions to these plans in the coming years. Additionally, in September 2017, we modified the retiree healthcare benefits provided to certain former unionized employees, but we may not ultimately realize the expected benefits of these modifications as our ability to make them is the subject of a petition for a writ of certiorari pending before the Supreme Court of the United States as of November 15, 2017. Our pension plans and other postemployment benefits were underfunded by \$84 million and \$104 million, respectively, as of September 30, 2017.

Impairment in the carrying value of long-lived assets and goodwill could negatively affect our operating results and financial condition.

We have a significant amount of long-lived assets and goodwill on our consolidated balance sheet. Under generally accepted accounting principles, long-lived assets, excluding goodwill, are required to be reviewed for impairment whenever adverse events or changes in circumstances indicate a possible impairment. If business conditions or other factors cause our operating results and cash flows to decline, we may be required to record non-cash impairment charges. Goodwill must be evaluated for impairment at least annually. If the carrying value of our reporting units exceeds their current fair value, the goodwill is considered impaired and is reduced to fair value via a non-cash charge to earnings. Events and conditions that could result in impairment in the value of our long-lived assets and goodwill include changes impacting the industries in which we operate, particularly the impact of any downturn in the global economy, as well as competition and advances in technology, adverse changes in the regulatory environment, or other factors leading to reduction in expected long-term sales or operating results. If the value of long-lived assets or goodwill is impaired, our earnings and financial condition could be adversely affected.

The value of our deferred tax assets could become impaired, which could materially and adversely affect our results of operations and financial condition.

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 "Income Taxes," each quarter we determine the probability of the realization of deferred tax assets, using significant judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. If we determine in the future that there is not sufficient positive evidence to support the valuation of these assets, due to the risk factors described herein or other factors, we may be required to adjust the valuation allowance to reduce our deferred tax assets. Such a reduction could result in material non-cash expenses in the period in which the valuation allowance is adjusted and could have a material adverse effect on our results of operations and financial condition. In addition, future changes in laws or regulations could have a material impact on the company's overall tax position.

Our overall effective tax rate is equal to our total tax expense as a percentage of our total earnings before tax. However, tax expenses and benefits are determined separately for each tax paying component (an individual entity) or group of entities that is consolidated for tax purposes in each jurisdiction. Losses in certain jurisdictions that have valuation allowances against their deferred tax assets provide no current financial statement tax benefit unless required under the intra-period allocation requirements of ASC Topic 740. As a result, changes in the mix of projected earnings between jurisdictions, among other factors, could have a significant impact on our overall effective tax rate.

Our unrecognized tax benefits recorded in accordance with FASB ASC Topic 740 could significantly change.

FASB ASC Topic 740, "Income Taxes," defines the confidence level that a tax position must meet in order to be recognized in the financial statements. This topic requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more likely than not to be sustained based solely on its technical merits, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. In the event that the more-likely-than-not threshold is not met, we would be required to change the relevant tax position which could have an adverse effect on our results of operations and financial condition.

We may be restricted on the use of tax attributes from a tax law "ownership change."

Section 382 of the U.S. Internal Revenue Code of 1986, as amended, limits the ability of a corporation that undergoes an “ownership change” to use its tax attributes, such as net operating losses and tax credits. In general, an “ownership change” occurs if shareholders owning five percent or more (applying certain look-through rules) of an issuer's outstanding common stock, collectively, increase their ownership percentage by more than fifty percentage points within any three-year period over such shareholders' lowest percentage ownership during this period. If we were to issue new shares of stock, such new shares could contribute to such an “ownership change” under U.S. tax law. Moreover, not every event that could contribute to such an “ownership change” is within our control. If an “ownership change” under Section 382 were to occur, our ability to utilize tax attributes in the future may be limited.

Assertions against us or our customers relating to intellectual property rights could materially impact our business.

Our industry is characterized by companies that hold large numbers of patents and other intellectual property rights and that vigorously pursue, protect and enforce intellectual property rights. From time to time, third parties may assert against us and our customers and distributors their patent and other intellectual property rights to technologies that are important to our business.

Claims that our products or technology infringe third-party intellectual property rights, regardless of their merit or resolution, are frequently costly to defend or settle and divert the efforts and attention of our management and technical personnel. In addition, many of our supply agreements require us to indemnify our customers and distributors from third-party infringement claims, which have in the past and may in the future require that we defend those claims and might require that we pay damages in the case of adverse rulings. Claims of this sort also could harm our relationships with our customers and might deter future customers from doing business with us. We do not know whether we will prevail in these proceedings given the complex technical issues and inherent uncertainties in intellectual property litigation. If any pending or future proceedings result in an adverse outcome, we could be required to:

- cease the manufacture, use or sale of the infringing products or technology;

- pay substantial damages for infringement;

- expend significant resources to develop non-infringing products or technology;

- license technology from the third-party claiming infringement, which license may not be available on commercially reasonable terms, or at all;

- enter into cross-licenses with our competitors, which could weaken our overall intellectual property portfolio;

- lose the opportunity to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property against others;

- pay substantial damages to our customers or end users to discontinue use or replace infringing technology with non-infringing technology; or

- relinquish rights associated with one or more of our patent claims, if our claims are held invalid or otherwise unenforceable.

Any of the foregoing results could have a material adverse effect on our business, financial condition and results of operations.

We utilize a significant amount of intellectual property in our business. If we are unable to protect our intellectual property, our business could be adversely affected.

Our success depends in part upon our ability to protect our intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, trademarks and trade secrets, as well as customary contractual protections with our customers, distributors, employees and consultants, and security measures to protect our trade secrets. We cannot guarantee that:

- any of our present or future patents will not lapse or be invalidated, circumvented, challenged, abandoned or, in the case of third-party patents licensed or sub-licensed to us, be licensed to others;

any of our pending or future patent applications will be issued or have the coverage originally sought;

- our intellectual property rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak; or

any of the trademarks, trade secrets or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged, abandoned or licensed to others.

In addition, we may not receive competitive advantages from the rights granted under our patents and other intellectual property rights. Our competitors may develop technologies that are similar or superior to our proprietary technologies, duplicate our proprietary technologies, or design around the patents we own or license. Our existing and future patents may be circumvented, blocked, licensed to others, or challenged as to inventorship, ownership, scope, validity or enforceability. Effective intellectual

property protection may be unavailable or more limited in one or more relevant jurisdictions relative to those protections available in the United States, or may not be applied for in one or more relevant jurisdictions. If we pursue litigation to assert our intellectual property rights, an adverse decision in any of these legal actions could limit our ability to assert our intellectual property rights, limit the value of our technology or otherwise negatively impact our business, financial condition and results of operations.

We are a party to a number of patent and intellectual property license agreements. Some of these license agreements require us to make one-time or periodic payments. We may need to obtain additional licenses or renew existing license agreements in the future. We are unable to predict whether these license agreements can be obtained or renewed on acceptable terms.

A breach or failure of our information technology infrastructure could adversely impact our business and operations.

We recognize the increasing volume of cyber-attacks and employ commercially practical efforts to provide reasonable assurance such attacks are appropriately mitigated. Each year, we evaluate the threat profile of our industry to stay abreast of trends and to provide reasonable assurance our existing countermeasures will address any new threats identified. Despite our implementation of security measures, our IT systems and those of our service providers are vulnerable to circumstances beyond our reasonable control including acts of malfeasance, acts of terror, acts of government, natural disasters, civil unrest, and denial of service attacks, any of which may lead to the theft of our intellectual property and trade secrets or business disruption. To the extent that any disruption or security breach results in a loss or damage to our data or an inappropriate disclosure of confidential information, it could cause significant damage to our reputation, affect our relationships with our customers, suppliers and employees, lead to claims against the company and ultimately harm our business. Additionally, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

Ineffective internal controls could impact our business and financial results.

Our internal control over financial reporting may not prevent or detect misstatements because of inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in our implementation, our business and financial results could be harmed and we could fail to meet our financial reporting obligations. For example, in connection with management's evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2016, management determined that we did not maintain effective controls over the design and operating effectiveness of our controls over the assessment of uncertain tax positions and our deferred tax asset valuation allowance. Management determined that these ineffective controls over income tax accounting constituted material weaknesses. See Item 9A, Controls and Procedures, for a discussion of our internal control over financial reporting, including a discussion of the now-remediated material weaknesses.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

At September 30, 2017, our operating segments, including all consolidated joint ventures, had the following facilities in the United States, Europe, South America, Canada, Mexico and the Asia-Pacific region. For purposes of these numbers, multiple facilities in one geographic location are counted as one facility.

	Manufacturing and Distribution Facilities	Engineering Facilities, Sales Offices, Warehouses and Service Centers
Commercial Truck & Industrial	21	14
Aftermarket & Trailer	5	8
Other	—	3
Total	26	25

These facilities had an aggregate floor space of approximately 9.3 million square feet, substantially all of which is in use. We owned approximately 63 percent and leased approximately 37 percent of this floor space. Substantially all of our owned domestic plants and equipment are subject to liens securing our obligations under our revolving credit facility with a group of banks (see Note 17 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data). In the

opinion of management, our properties have been well maintained, are in sound operating condition and contain all equipment and facilities necessary to operate at present levels.

A summary of floor space (in square feet) of these facilities at September 30, 2017, (including new space under construction) is as follows:

Location	Owned Facilities			Leased Facilities			Total
	Commercial Truck & Industrial	Aftermarket & Trailer	Other	Commercial Truck & Industrial	Aftermarket & Trailer	Other	
United States	2,029,291	769,037	417,800	608,270	526,226	—	4,350,624
Canada	—	—	—	—	40,517	—	40,517
Europe	1,870,150	68,326	—	536,567	67,087	12,376	2,554,506
Asia Pacific	173,155	—	—	998,641	87,335	—	1,259,131
Latin America	494,913	—	—	571,743	—	—	1,066,656
Total	4,567,509	837,363	417,800	2,715,221	721,165	12,376	9,271,434

Item 3. Legal Proceedings.

See Note 21 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data for information with respect to class action lawsuits previously filed against the company as a result of modifications made to our retiree medical benefits, which is incorporated herein by reference thereto.

See Note 24 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data for information with respect to litigation related to asbestos, product liability and our Mexican joint venture, which is incorporated herein by reference thereto.

See Item 1. Business, “Environmental Matters” and Note 24 of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data for information relating to environmental proceedings, which is incorporated herein by reference thereto.

In March 2016, we were served with a complaint filed against our company and other defendants in the United States District Court for the Eastern District of Michigan. The complaint is a proposed class action and alleges that we violated federal and state antitrust and other laws in connection with a former business of ours that manufactured and sold exhaust systems for automobiles. The alleged class is comprised of persons and entities that purchased or leased a passenger vehicle during a specified time period. In April 2016, we were served with a virtually identical suit also naming the company as a defendant on behalf of a purported class of automobile dealers. We are also aware of a similar suit naming the company as a defendant on behalf of a purported class of purchasers in Canada, but the company has not yet been served with a complaint in this suit. In August 2017, our subsidiary, Meritor do Brasil Sistema Automotivos Ltda., received notice that it was made a formal party to an investigation by the antitrust authority of the Brazilian government relating to the alleged existence of a cartel in the exhaust systems and components market in Brazil. We intend to defend ourselves vigorously against these claims. We believe at this time that liabilities associated with these claims, while possible, are not probable, and therefore we did not record an accrual as of September 30, 2017 or September 30, 2016. Further, any possible range of loss cannot be reasonably estimated at this time.

Various other lawsuits, claims and proceedings have been or may be instituted or asserted against Meritor or our subsidiaries relating to the conduct of our business, including those pertaining to product liability, tax, warranty or recall claims, intellectual property, safety and health, contract and employment matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to Meritor, management believes, after consulting with Meritor's General Counsel, that the disposition of matters that are pending will not have a material effect on our business, financial condition or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

23

Item 4A. Executive Officers of the Registrant.

The name, age, positions and offices held with Meritor and principal occupations and employment during the past five years of each of our executive officers as of November 16, 2017, are as follows:

Jeffrey A. Craig, 57 - Chief Executive Officer and President since April 2015 and President and Chief Operating Officer from June 2014 until April 2015. Mr. Craig has served as a director of Meritor since April 2015; Senior Vice President and President, Commercial Truck & Industrial from February 2013 until May 2014; Senior Vice President and Chief Financial Officer from May 2008 until January 2013; Acting Controller from May 2008 to January 2009; Senior Vice President and Controller from May 2007 until May 2008; Vice President and Controller from May 2006 until April 2007; Prior to joining Meritor, he was President and Chief Executive Officer of GMAC Commercial Finance (commercial lending service) from 2001 to May 2006 and President and Chief Executive Officer of GMAC's Business Credit division from 1999 to 2001. He joined GMAC as general auditor in 1997 from Deloitte & Touche, where he served as an audit partner.

Kevin Nowlan, 45 - Senior Vice President and Chief Financial Officer since May 2013; Vice President and Chief Financial Officer from February 2013 until April 2013; Vice President and Controller from December 2010 until February 2013 and Vice President and Treasurer from July 2009 until his appointment as Vice President and Controller. From July 2008 until July 2009, served as Vice President and Assistant Treasurer of Meritor and from, March 2007 until July 2008, served as Vice President of Shared Services. Prior to joining Meritor, Mr. Nowlan worked in various roles at GMAC and General Motors Corporation from 1995 through March 2007.

April Miller Boise, 49 - Senior Vice President, General Counsel and Corporate Secretary since August 2016. Prior to joining Meritor, Ms. Boise was Senior Vice President, General Counsel, Head of Global Mergers and Acquisitions and Corporate Secretary at Avintiv, Inc. (formerly known as The Polymer Group). From 2011 until 2015, she was Vice President, General Counsel, Corporate Secretary and Chief Privacy Officer at Veyance Technologies, Inc. (formerly known as Goodyear Engineered Products). From 1999 to 2010, Ms. Boise was an attorney with Thompson Hine LLP, where she held positions of increasing responsibility, including Managing Partner, Cleveland Office, Executive Committee Member and Hiring Partner, 2009-2010; Chair, Private Equity Group, 2007-2010; Co-Founder and Chair, Women's Initiative, 2006-2009; and Partner, Corporate Transactions and Securities, 2002-2010.

Timothy Heffron, 53 - Senior Vice President, Human Resources and Chief Information Officer since August 2013; Vice President, Chief Information Officer and Shared Services from July 2011 until August 2013; Vice President of Shared Services from June 2008 until July 2011; Prior to joining Meritor, Mr. Heffron was Executive Vice President and Chief Information Officer of GMAC Commercial Finance from January 2002 until June 2008; Director of Reengineering for GMAC from December 1999 until December 2001, Director of Global Information Technology Audit for General Motors Corporation from June 1999 until November 1999; Assistant General Auditor for GMAC from March 1998 until May 1999. Prior to that, Mr. Heffron spent nine years in public accounting, most recently as an audit senior manager with Ernst & Young.

Chris Villavarayan, 47 - Senior Vice President and President, Americas since February 2014; Vice President of Global Manufacturing and Supply Chain Management from June 2012 until February 2014; Managing Director of Meritor India and CEO of MHVSIL and Automotive Axles Ltd. (joint venture between Meritor and Kalyani Group of India) from December 2009 until June 2012; General Manager of European Operations and Worldwide Manufacturing Planning and Strategy from June 2007 until December 2009; Director of Manufacturing Performance Plus from November 2006 until June 2007; Regional Manager of Continuous Improvement from July 2005 until November 2006; Industrialization Project Manager from September 2001 until July 2005; Site Manager of Meritor St. Thomas, Ontario facility from June 2000 until September 2001.

Joseph Plomin, 55 - Senior Vice President and President, International since January 2014; Vice President of International from July 2013 until January 2014; Vice President of Global Brakes from June 2012 until January 2013; Vice President of Truck North America and South America from July 2011 until May 2012; Vice President of Commercial Vehicle Systems Truck from September 2007 until July 2011. Prior to joining Meritor, Mr. Plomin held a variety of executive positions at Delco Remy International, including Senior Vice President of Sales/Marketing/Product Line Management from October 2006 until September 2007; President of Electrical Aftermarket from February 2006 until October 2006; General Manager/Senior Vice President of Heavy Duty/Industrial Division from June 2001 until February 2006; and Senior Vice President of Sales and Marketing, Electrical Division from September 1998 until December 2000.

Robert Speed, 46 - Senior Vice President and President, Aftermarket & Trailer and Chief Procurement Officer since April 2015; Vice President and Chief Procurement Officer from February 2014 until April 2015; Vice President of Procurement from March 2013 until February 2014; Vice President of Purchasing from January 2012 until March 2013; Managing Director of Meritor's Australia operations from July 2010 until January 2012; Senior Director of Finance, Truck Americas, from February

2009 until July 2010; Senior Director of Finance, Truck Group, from July 2008 until February 2009; Director of Finance for Truck and Procurement from January 2008 until July 2008; Director of Financial Planning and Analysis from March 2006 until January 2008. Prior to joining Meritor, Mr. Speed was Manager of Capital Markets at NOP Automotive Worldwide from February 2005 until March 2006. Director of Finance & Administration at NOP Automotive Worldwide from September 2000 until June 2003; Manager of Finance at NOP Automotive Worldwide from February 2000 until August 2000; M&A Arbitrage Trader at Peter Securities, LLC from July 1998 until February 2000; Senior Equity Trader at First of America Bank from May 1997 until July 1998.

There are no family relationships, as defined in Item 401 of Regulation S-K, between any of the above executive officers and any director, executive officer or person nominated to become a director or executive officer. No officer of Meritor was selected pursuant to any arrangement or understanding between him or her and any person other than Meritor. All executive officers are elected annually.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Meritor's common stock, par value \$1 per share ("Common Stock"), is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "MTOR." On November 15, 2017, there were 11,358 shareholders of record of Meritor's Common Stock.

The high and low sale prices per share of Meritor Common Stock for each quarter of fiscal years 2017 and 2016 were as follows:

Quarter Ended	Fiscal Year 2017		Fiscal Year 2016	
	High	Low	High	Low
December 31	\$13.28	\$9.98	\$11.85	\$7.57
March 31	17.13	12.83	8.30	6.11
June 30	17.86	15.42	8.95	6.44
September 30	26.61	16.66	11.29	6.92

There were no dividends declared and paid in fiscal year 2017 or in fiscal year 2016. Our payment of cash dividends and the amount of the dividend are subject to review and change at the discretion of our Board of Directors.

Our revolving credit facility permits us to declare and pay up to \$40 million of dividends in any fiscal year provided that no default or unmatured default, as defined in the agreement, has occurred and is continuing at the date of declaration or payment.

Additionally, our indentures permit us to pay dividends under the following primary conditions:

- if a default on the notes, as defined in the indentures, has not occurred and is not continuing or shall not occur as a consequence of the payment;
- if the interest coverage ratio, as defined in the indentures, is greater than 2.00 to 1.00 after giving effect to the dividend;
- if the cumulative amount of the dividends paid does not exceed certain cumulative cash and earnings measurements;
- if the dividends are less than \$60 million per fiscal year (with a carryover to the next fiscal year of up to \$60 million if unused in the current fiscal year); and
- if after giving effect to the dividend, the total leverage ratio, as defined in the indenture, would not exceed 4.00 to 1.00.

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for information on securities authorized for issuance under equity compensation plans.

Issuer repurchases

The table below sets forth information with respect to purchases made by or on behalf of us of shares of our common stock during the three months ended September 30, 2017:

Period	Total Number of	Average Price	Total Number of	Maximum Approximate
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	Shares Purchased	Paid PerShare	Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
July 1- 31, 2017	—	\$	—	\$99,881,011
August 1- 31, 2017	—	\$	—	\$99,881,011
September 1- 30, 2017	—	\$	—	\$99,881,011
Total	—		—	

26

(1) On July 21, 2016, the Board of Directors authorized the repurchase of up to \$100 million of the company's common stock and up to \$150 million aggregate principal amount of any of the company's debt securities (including convertible debt securities), in each case from time to time through open market purchases, privately negotiated transactions or otherwise, until September 30, 2019, subject to compliance with legal and regulatory requirements and the company's debt covenants.

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 5 of this Report on Form 10-K. 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 fiscal year 2017.

Shareholder Return Performance Presentation

The line graph below compares the cumulative total shareholder return of the S&P 500, Meritor, Inc. and the peer group of companies for the period from September 30, 2012 to September 30, 2017, assuming a fixed investment of \$100 at the respective closing prices on the last day of each fiscal year and reinvestment of cash dividends.

	9/12	9/13	9/14	9/15	9/16	9/17
Meritor, Inc.	100.00	185.38	255.90	250.71	262.50	613.44
S&P 500	100.00	119.34	142.89	142.02	163.93	194.44
Peer Group ⁽¹⁾	100.00	151.04	153.02	136.38	160.51	219.65

The peer group consists of representative commercial vehicle suppliers of approximately comparable products to Meritor. The peer group consists of Accuride Corporation, Commercial Vehicle Group, Inc., Cummins Inc., Dana Incorporated, Haldex AB, Modine Manufacturing Company, SAF-Holland SA, Stoneridge, Inc., and Wabco Holdings Inc.

The information included under the heading “Shareholder Return Performance Presentation” is not to be treated as “soliciting material” or as “filed” with the SEC, and is not incorporated by reference into any filing by the company under the Securities Act of 1933 or the Securities Exchange Act of 1934 that is made on, before or after the date of filing of this Annual Report on Form 10-K.

Item 6. Selected Financial Data.

The following sets forth selected consolidated financial data. The data should be read in conjunction with the information included under Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data below. Fiscal year 2013 has been recast to reflect our Mascot business as discontinued operations.

	Year Ended September 30,				
	2017	2016	2015	2014	2013
	(in millions, except per share amounts)				
SUMMARY OF OPERATIONS					
Sales					
Commercial Truck & Industrial	\$2,615	\$2,445	\$2,739	\$2,980	\$2,920
Aftermarket & Trailer	853	860	884	920	871
Intersegment Sales	(121)	(106)	(118)	(134)	(119)
Total Sales	\$3,347	\$3,199	\$3,505	\$3,766	\$3,672
Operating Income					
Income Before Income Taxes	381	155	67	315	51
Net Income Attributable to Noncontrolling Interests	(4)	(2)	(1)	(5)	(2)
Net Income (Loss) Attributable to Meritor, Inc.:					
Income (Loss) from Continuing Operations	\$325	\$577	\$65	\$279	\$(15)
Loss from Discontinued Operations	(1)	(4)	(1)	(30)	(7)
Net Income (Loss)	\$324	\$573	\$64	\$249	\$(22)
BASIC EARNINGS (LOSS) PER SHARE					
Continuing Operations	\$3.69	\$6.40	\$0.67	\$2.86	\$(0.15)
Discontinued Operations	(0.01)	(0.04)	(0.01)	(0.31)	(0.07)
Basic Earnings (Loss) per Share	\$3.68	\$6.36	\$0.66	\$2.55	\$(0.22)
DILUTED EARNINGS (LOSS) PER SHARE					
Continuing Operations	\$3.60	\$6.27	\$0.65	\$2.81	\$(0.15)
Discontinued Operations	(0.01)	(0.04)	(0.01)	(0.30)	(0.07)
Diluted Earnings (Loss) per Share	\$3.59	\$6.23	\$0.64	\$2.51	\$(0.22)
FINANCIAL POSITION AT SEPTEMBER 30					
Total Assets ⁽¹⁾	\$2,782	\$2,494	\$2,195	\$2,485	\$2,552
Short-term Debt	288	14	15	7	13
Long-term Debt ⁽¹⁾	750	982	1,036	948	1,107

(1) Fiscal years 2014 and 2013 have been recast to reflect the early adoption of ASU 2015-03, Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.

Income (loss) from continuing operations attributable to Meritor, Inc. in the selected financial data information presented above includes the following items specific to the period of occurrence (in millions):

	Year Ended September 30,				
	2017	2016	2015	2014	2013
Pretax items:					
Restructuring costs	\$(6)	\$(16)	\$(16)	\$(10)	\$(23)
Asset impairment charges	(4)	—	(2)	—	—
Goodwill impairment charges	—	—	(15)	—	—
Impact of pension settlement losses and curtailment gain	—	—	(59)	15	(109)
Antitrust settlement with Eaton (including recovery of past legal fees)	—	—	—	209	—
Gain on sale of equity investment	243	—	—	—	125
Specific warranty contingency, net of supplier recovery	—	—	—	8	(7)
Loss on debt extinguishment	(36)	—	(25)	(31)	(19)
Asbestos-related liability remeasurement	(4)	(4)	(1)	(20)	(7)
Asbestos-related insurance settlements, net	13	30	—	—	—
Supplier litigation settlement	—	6	—	—	—
Legal settlement charge related to joint venture	(10)	—	—	—	—
Non-operating gains, net	—	—	5	—	3
After tax items:					
Tax valuation allowance reversal, net and other ⁽¹⁾	68	454	16	—	—

The fiscal year ended September 30, 2017 includes non-cash income tax benefit (expense) of \$52 million related to the partial reversal of the U.S. valuation allowance, \$15 million related to capital losses associated with the sale of equity investment and \$1 million related to other correlated tax relief. The fiscal year ended September 30, 2016

(1) includes non-cash income tax benefit (expense) of \$438 million related to the partial reversal of the U.S. valuation allowance, (\$9) million related to the establishment of a valuation allowance in Brazil and \$25 million related to other correlated tax relief. The fiscal year ended September 30, 2015 includes non-cash income tax benefit of \$16 million related to the reversal of valuation allowances in Germany, Italy, Mexico and Sweden.

Loss from discontinued operations attributable to Meritor, Inc. in the selected financial data information presented above includes the following items specific to the period of occurrence (in millions):

	Year Ended September 30,			
	2016	2015	2014	2013
Pretax items:				
Gain (loss) on divestitures of businesses, net	\$—	\$—	—	\$(23)
Restructuring costs	—	—	—	(3)
Litigation settlement	—	(3)	—	—

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations.

Overview

Headquartered in Troy, Michigan, we are a premier global supplier of a broad range of integrated systems, modules and components to OEMs and the aftermarket for the commercial vehicle, transportation and industrial sectors. We serve commercial truck, trailer, military, bus and coach, construction, and other industrial OEMs and certain aftermarkets. Meritor common stock is traded on the New York Stock Exchange under the ticker symbol MTOR.

Our sales for fiscal year 2017 were \$3,347 million, an increase compared to \$3,199 million in the prior year. The increase was primarily due to new business wins and higher truck production in Europe, China and South America, which more than offset lower Class 8 truck production in North America and India.

Net income attributable to Meritor for fiscal year 2017 and 2016 was \$324 million and \$573 million, respectively. The decrease in net income attributable to Meritor was due primarily to a \$438 million reversal of our tax valuation allowance in the United States in fiscal year 2016 that did not repeat in fiscal year 2017, partially offset by a \$154 million after-tax gain on the sale of an equity investment in fiscal year 2017.

Net income from continuing operations attributable to the company for fiscal years 2017 and 2016 was \$325 million and \$577 million, respectively. Adjusted income from continuing operations attributable to the company for fiscal years 2017 and 2016 was \$170 million and \$151 million, respectively (see Non-GAAP Financial Measures below).

Adjusted EBITDA (see Non-GAAP Financial Measures below) for fiscal year 2017 was \$347 million compared to \$327 million in fiscal year 2016. Our Adjusted EBITDA margin (see Non-GAAP Financial Measures below) in fiscal year 2017 was 10.4 percent compared to 10.2 percent in the same period a year ago. Adjusted EBITDA and Adjusted EBITDA margin increased year over year as higher revenue and continued material, labor and burden performance partially offset the impact of higher steel costs and higher variable compensation accruals.

Cash flows provided by operating activities were \$176 million in fiscal year 2017 compared to cash flows provided by operating activities of \$204 million in the prior fiscal year. The decrease was due in part to \$52 million received in fiscal year 2016 related to insurance settlements for recoveries for defense and indemnity costs associated with asbestos liabilities, which did not recur in fiscal year 2017 (see Note 24 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data).

Repurchase Authorization

On July 21, 2016, our Board of Directors authorized the repurchase of up to \$100 million of our common stock and up to \$150 million aggregate principal amount of any of our debt securities (including convertible debt securities), in each case from time to time through open market purchases, privately negotiated transactions or otherwise, until September 30, 2019, subject to compliance with legal and regulatory requirements and our debt covenants. The amounts remaining available for repurchases under these authorizations were \$100 million of our common stock and \$50 million of our public debt securities, in each case as of November 15, 2017.

Capital Markets Transactions and Revolving Credit Facility

On March 31, 2017, we amended and restated our senior secured revolving credit facility. Pursuant to the amended and restated revolving credit agreement, we have a \$525 million revolving credit facility that matures in March 2022.

During the fourth quarter of fiscal year 2017, we issued \$325 million principal amount of 3.25 percent convertible senior notes due 2037. Net proceeds were used, together with cash on hand, to repurchase approximately \$119 million principal amount of our 4.0 percent convertible senior notes due 2027 and approximately \$117 million principal amount at maturity of our 7.875 percent convertible senior notes due 2026. These transactions resulted in a loss on debt extinguishment of approximately \$31 million. The loss on debt extinguishment is included in Interest expense, net in the consolidated statement of operations.

On September 28, 2017, we redeemed \$100 million of the outstanding \$275 million aggregate principal amount of our 6.75 percent notes due 2021. This transaction resulted in a loss on debt extinguishment of approximately \$5 million. The loss on debt extinguishment is included in Interest expense, net in the consolidated statement of operations. This redemption was made pursuant to our July 2016 debt repurchase authorization. On November 2, 2017, we redeemed the remaining \$175 million aggregate principal amount outstanding of our 6.75 percent notes due 2021 pursuant to a special authorization of the Board of Directors.

Sale of Ownership Interest in Meritor WABCO JV

On September 15, 2017, we entered into an agreement to sell our interest in Meritor WABCO Vehicle Control Systems (the "Meritor WABCO JV") to a subsidiary of our joint venture partner, WABCO Holdings Inc. The total purchase price for the sale was \$250 million, and we received a \$8 million final partnership distribution immediately prior to closing of the transaction on October 1, 2017, the last day of fiscal year 2017. We recognized a \$243 million pre-tax (\$154 million, after-tax) gain associated with this sale. We used a portion of the proceeds to redeem the remaining \$175 million aggregate principal amount outstanding of our 6.75 percent notes due 2021.

Retiree Medical Benefit Modifications

On September 6, 2017, pursuant to a mandate from the United States Court of Appeals for the Sixth Circuit in the case of Cole et al., v. Meritor, Inc. et al., the District Court for the Eastern District of Michigan dissolved its 2006 injunction which previously barred the modification of the benefits provided to the class of United Auto Workers retirees.

On September 8, 2017, we determined to modify the benefits provided to union retirees. These benefit modifications reduced our retiree medical liability by \$315 million in fiscal year 2017. In future periods, total company annual cash benefit payments are expected to reduce from \$32 million in fiscal year 2017 to approximately \$19 million in fiscal year 2018. Total company retiree medical expense is expected to improve by \$39 million from an expense of approximately \$24 million in fiscal year 2017 to income of approximately \$15 million in fiscal year 2018.

Acquisition of Products and Technologies from Fabco Holdings, Inc.

On August 31, 2017, we acquired the product portfolio and related technologies of Fabco Holdings, Inc. ("Fabco") and its subsidiaries, for a cash purchase price of \$34 million. This transaction allows us to offer global customers a wider breadth of capabilities and an expanded portfolio of complementary products. The acquisition is expected to also help us to diversify our customer base and expand into the rail and oil & gas industries not currently served. Fabco's sales for the twelve-month period ended September 30, 2017 were \$41 million.

Trends and Uncertainties

Industry Production Volumes

The following table reflects estimated on-highway commercial truck production volumes for selected original equipment (OE) markets based on available sources and management's estimates.

	Year Ended September 30,				
	2017	2016	2015	2014	2013
Estimated Commercial Truck production (in thousands):					
North America, Heavy-Duty Trucks	237	253	328	281	243
North America, Medium-Duty Trucks	246	239	235	220	198
North America, Trailers	281	292	303	254	235
Western Europe, Heavy- and Medium-Duty Trucks	460	440	399	395	414
South America, Heavy- and Medium-Duty Trucks	73	61	89	156	186
India, Heavy- and Medium-Duty Trucks	297	327	287	216	208

North America:

During fiscal year 2017, production volumes in North America decreased compared to the levels experienced in fiscal year 2016; however, volumes in the second half of fiscal year 2017 increased from those in the first half. We expect

fiscal year 2018 production volumes in North America to be more in line with the higher production levels experienced in the second half of fiscal year 2017.

Western Europe:

31

During fiscal year 2017, production volumes in Western Europe increased slightly compared to the levels experienced in fiscal year 2016. We expect fiscal year 2018 production volumes to remain relatively consistent with the levels experienced in fiscal year 2017.

South America:

During fiscal year 2017, production volumes in South America increased approximately 20 percent from the depressed levels experienced in fiscal year 2016. We expect fiscal year 2018 production volumes to increase slightly from the levels experienced in fiscal year 2017.

China:

During fiscal year 2017, production volumes in China increased from the levels experienced in fiscal year 2016 due to improvements in the construction market. We expect fiscal year 2018 production volumes in China to remain relatively consistent with the levels experienced in fiscal year 2017.

India:

During fiscal year 2017, production volumes in India remained strong but decreased slightly from the levels experienced in fiscal year 2016 due to tax and regulatory uncertainties. We expect fiscal year 2018 production volumes in India to increase from the levels experienced in fiscal year 2017.

Industry-Wide Issues

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

• Uncertainty around the global market outlook;

• Volatility in price and availability of steel, components and other commodities;

• Potential for disruptions in the financial markets and their impact on the availability and cost of credit;

• Volatile energy and transportation costs;

• Impact of currency exchange rate volatility;

• Consolidation and globalization of OEMs and their suppliers; and

• Significant pension costs.

Other

Other significant factors that could affect our results and liquidity include:

• Significant contract awards or losses of existing contracts or failure to negotiate acceptable terms in contract renewals;

• Ability to successfully launch a significant number of new products, including potential product quality issues, and obtain new business;

• Ability to manage possible adverse effects on our European operations, or financing arrangements related thereto, following the United Kingdom's decision to exit the European Union, or in the event one or more other countries exit the European monetary union;

• Ability to further implement planned productivity, cost reduction, and other margin improvement initiatives;

• Ability to successfully execute and implement strategic initiatives;

• Ability to work with our customers to manage rapidly changing production volumes;

• Ability to recover, and timing of recovery of, steel price and other cost increases from our customers;

• Any unplanned extended shutdowns or production interruptions by us, our customers or our suppliers;

• A significant deterioration or slowdown in economic activity in the key markets in which we operate;

• Competitively driven price reductions to our customers;

Potential price increases from our suppliers;
Additional restructuring actions and the timing and recognition of restructuring charges, including any actions associated with the prolonged softness in markets in which we operate;
Higher-than-planned warranty expenses, including the outcome of known or potential recall campaigns;
Uncertainties of asbestos claim and other litigation, including the outcome of litigation with insurance companies regarding scope of asbestos coverage, and the long-term solvency of our insurance carriers; and
Restrictive government actions (such as restrictions on transfer of funds and trade protection measures, including import and export duties, quotas and customs duties and tariffs).

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 attributable to the company, Adjusted diluted earnings (loss) per share from continuing operations, Adjusted EBITDA, Adjusted EBITDA margin, Segment adjusted EBITDA, Segment adjusted EBITDA margin, Free cash flow and Net debt.

Adjusted income (loss) from continuing operations attributable to the company and Adjusted diluted earnings (loss) per share from continuing operations are defined as reported income (loss) from continuing operations and reported diluted earnings (loss) per share from continuing operations before restructuring expenses, asset impairment charges, non-cash tax expense related to the use of deferred tax assets in jurisdictions with net operating loss carry forwards, and other special items as determined by management. Adjusted EBITDA is defined as income (loss) from continuing operations before interest, income taxes, depreciation and amortization, non-controlling interests in consolidated joint ventures, loss on sale of receivables, restructuring expenses, asset impairment charges and other special items as determined by management. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by consolidated sales from continuing operations. Segment adjusted 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, asset impairment charges and other special items as determined by management. Segment adjusted EBITDA excludes unallocated legacy and corporate expense (income), net. Segment adjusted EBITDA margin is defined as Segment adjusted EBITDA divided by consolidated sales from continuing operations, either in the aggregate or by segment as applicable. Free cash flow is defined as cash flows provided by (used for) operating activities less capital expenditures. Net debt is defined as total debt less cash and cash equivalents.

Management believes these non-GAAP financial measures are useful to both management and investors in their analysis of the company's financial position and results of operations. In particular, Adjusted EBITDA, Adjusted EBITDA margin, Segment adjusted EBITDA, Segment adjusted EBITDA margin, Adjusted income (loss) from continuing operations attributable to the company and Adjusted diluted earnings (loss) per share from continuing operations are meaningful measures of performance to investors as they are commonly utilized to analyze financial performance in our industry, perform analytical comparisons, benchmark performance between periods and measure our performance against externally communicated targets.

Free cash flow is used by investors and management to analyze our ability to service and repay debt and return value directly to shareholders. Net debt over Adjusted EBITDA is a specific financial measure in our current M2019 plan used to measure the company's leverage in order to assist management in its assessment of appropriate allocation of capital.

Management uses the aforementioned non-GAAP financial measures for planning and forecasting purposes, and Segment adjusted EBITDA is also used as the primary basis for the CODM to evaluate the performance of each of our reportable segments.

Our Board of Directors uses Adjusted EBITDA margin, Free cash flow, Adjusted diluted earnings (loss) per share from continuing operations and Net debt over Adjusted EBITDA as key metrics to determine management's performance under our performance-based compensation plans.

Adjusted income (loss) from continuing operations attributable to the company, Adjusted diluted earnings (loss) per share from continuing operations, Adjusted EBITDA, Adjusted EBITDA margin, Segment adjusted EBITDA and Segment adjusted EBITDA margin 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 financial performance. 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, this non-GAAP cash flow measure does not reflect cash used to repay debt or cash received from the divestitures of businesses or sales of other assets and thus does not reflect funds available for investment or other discretionary uses. Net debt should not be considered a substitute for total debt as reported on the balance

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

	Year Ended		
	September 30,		
	2017	2016	2015 (1)
Income from continuing operations attributable to the company	\$325	\$577	\$65
Restructuring costs	6	16	16
Pension settlement losses	—	—	59
Loss on debt extinguishment	36	—	24
Goodwill impairment charges	—	—	15
Asset impairment charges, net of noncontrolling interests	3	—	2
Gain on sale of equity investment	(243)	—	—
Non-cash tax expense (2)	37	13	4
Tax valuation allowance reversal, net and other (3)	(68)	(454)	(16)
Income tax expense (benefits) (4)	74	(1)	(10)
Adjusted income from continuing operations attributable to the company	\$170	\$151	\$159
Diluted earnings per share from continuing operations	\$3.60	\$6.27	\$0.65
Impact of adjustments on diluted earnings per share	(1.72)	(4.63)	0.94
Adjusted diluted earnings per share from continuing operations	\$1.88	\$1.64	\$1.59

(1) The year ended September 30, 2015 has been recast to reflect non-cash tax expense.

(2) Represents tax expense related to the use of deferred tax assets in jurisdictions with net operating loss carry forwards.

(3) The year ended September 30, 2017 includes non-cash income tax benefit (expense) of \$52 million related to the partial reversal of the U.S. valuation allowance, \$15 million related to capital losses associated with the sale of an equity investment and \$1 million related to other correlated tax relief. The year ended September 30, 2016 includes non-cash income tax benefit (expense) of \$438 million related to the partial reversal of the U.S. valuation allowance (\$9) million related to the establishment of a valuation allowance in Brazil and \$25 million related to other correlated tax relief.

(4) The year ended September 30, 2017 includes \$89 million of income tax expense related to the gain on sale of an equity investment, \$14 million of income tax benefit related to the loss on debt extinguishment and \$1 million of income tax benefits related to other adjustments.

Free cash flow is reconciled to cash flows provided by operating activities below (in millions).

	Year Ended		
	September 30,		
	2017	2016	2015
Cash provided by operating activities	\$176	\$204	\$97
Capital expenditures	(95)	(93)	(79)
Free cash flow	\$81	\$111	\$18

Adjusted EBITDA and Segment adjusted EBITDA are reconciled to net income attributable to Meritor, Inc. below (in millions).

	Year Ended September 30,		
	2017	2016	2015
Net income attributable to Meritor, Inc.	\$324	\$573	\$64
Loss from discontinued operations, net of tax, attributable to Meritor, Inc.	1	4	1
Income from continuing operations, net of tax, attributable to Meritor, Inc.	\$325	\$577	\$65
Interest expense, net	119	84	105
Gain on sale of equity investment	(243)	—	—
Provision (benefit) for income taxes	52	(424)	1
Depreciation and amortization	75	67	65
Restructuring costs	6	16	16
Loss on sale of receivables	5	5	5
Pension settlement losses	—	—	59
Goodwill impairment charges	—	—	15
Asset impairment charges	4	—	2
Noncontrolling interests	4	2	1
Adjusted EBITDA	\$347	\$327	\$334
Adjusted EBITDA margin ⁽¹⁾	10.4 %	10.2 %	9.5 %
Unallocated legacy and corporate expense (income), net ⁽²⁾	3	(4)	5
Segment adjusted EBITDA	\$350	\$323	\$339
Commercial Truck & Industrial			
Segment adjusted EBITDA	\$244	\$208	\$216
Segment adjusted EBITDA margin ⁽³⁾	9.3 %	8.5 %	7.9 %
Aftermarket & Trailer			
Segment adjusted EBITDA	\$106	\$115	\$123
Segment adjusted EBITDA margin ⁽³⁾	12.4 %	13.4 %	13.9 %

(1) Adjusted EBITDA margin equals Adjusted EBITDA divided by consolidated sales from continuing operations.

(2) Unallocated legacy and corporate expense (income), net represents items that are not directly related to the company's business segments. These items primarily include asbestos-related charges and settlements, pension and retiree medical costs associated with sold businesses, and other legacy costs for environmental and product liability.

(3) Segment adjusted EBITDA margin equals Segment adjusted EBITDA divided by consolidated sales from continuing operations, either in the aggregate or by segment as applicable.

Net debt is reconciled to total debt below (dollars in millions).

	September 30,	
	2017	2016
Short-term debt ⁽¹⁾	\$288	\$14
Long-term debt	750	982
Total debt	1,038	996
Less: Cash and cash equivalents	(88)	(160)
Net debt	\$950	\$836

⁽¹⁾ On November 2, 2017, we redeemed the remaining \$175 million aggregate principal amount outstanding of the 6.75 Percent Notes.

	September 30,	
	2017	2016
Adjusted EBITDA	\$347	\$327

Net debt over Adjusted EBITDA 2.7 2.6

Non-Consolidated Joint Ventures

At September 30, 2017, our continuing operations included investments in joint ventures that are not majority owned or controlled and are accounted for under the equity method of accounting. Our investments in non-consolidated joint ventures totaled \$101 million at September 30, 2017 and \$100 million at September 30, 2016.

These strategic alliances provide for sales, product design, development and/or manufacturing in certain product and geographic areas. Aggregate sales of our non-consolidated joint ventures were \$1,156 million, \$1,101 million and \$1,288 million in fiscal years 2017, 2016 and 2015, respectively.

Our equity in the earnings of affiliates was \$48 million, \$36 million and \$39 million in fiscal years 2017, 2016 and 2015, respectively. The increase in fiscal year 2017 compared to fiscal year 2016 was primarily attributable to improved profitability of our joint venture in Mexico and improved markets in South America. Our equity in the earnings of the Meritor WABCO JV was \$27 million, \$26 million and \$29 million in fiscal years 2017, 2016 and 2015, respectively. We received cash dividends from our affiliates of \$44 million, \$37 million and \$32 million in fiscal years 2017, 2016 and 2015, respectively. We received cash dividends from our Meritor WABCO JV of \$36 million, which includes a \$8 million final partnership distribution received immediately prior to closing of the sale transaction on October 1, 2017, \$33 million and \$24 million in fiscal years 2017, 2016 and 2015, respectively.

For more information about our non-consolidated joint ventures, see Note 14 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Results of Operations

Fiscal Year 2017 Compared to Fiscal Year 2016

Sales

The following table reflects total company and business segment sales for fiscal years 2017 and 2016 (dollars in millions). 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.

	2017	2016	Dollar Change	% Change	Dollar Change Due To Currency	Volume/ Other
Sales:						
Commercial Truck & Industrial						
North America	\$1,358	\$1,358	\$—	— %	\$—	\$—
Europe	607	559	48	9 %	(7)	55
South America	168	130	38	29 %	17	21
China	127	84	43	51 %	(5)	48
India	184	152	32	21 %	3	29
Other	89	86	3	3 %	2	1
Total External Sales	\$2,533	\$2,369	\$ 164	7 %	\$10	\$ 154
Intersegment Sales	82	76	6	8 %	(3)	9
Total Sales	\$2,615	\$2,445	\$ 170	7 %	\$7	\$ 163
Aftermarket & Trailer						
North America	\$706	\$716	\$(10)	(1)%	\$(1)	\$(9)
Europe	108	114	(6)	(5)%	—	(6)
Total External Sales	\$814	\$830	\$(16)	(2)%	\$(1)	\$(15)
Intersegment Sales	39	30	9	30 %	—	9
Total Sales	\$853	\$860	\$(7)	(1)%	\$(1)	\$(6)
Total External Sales	\$3,347	\$3,199	\$ 148	5 %	\$9	\$ 139

Commercial Truck & Industrial sales were \$2,615 million in fiscal year 2017, up 7 percent from fiscal year 2016. The increase in sales was driven by increased production in Europe, South America and China and by new business wins. The increase more than offset lower class 8 truck production in North America and India.

Aftermarket & Trailer sales were \$853 million in fiscal year 2017, down 1 percent from fiscal year 2016. The decrease in sales was primarily due to lower production in our trailer business.

Cost of Sales and Gross Profit

Cost of sales primarily represents material, labor and overhead production costs associated with the company's products and production facilities. Cost of sales for fiscal year 2017 was \$2,863 million compared to \$2,763 million in the prior year, representing a 3.6 percent increase, primarily driven by increased sales revenue. Total cost of sales was

approximately 85.5 percent of sales for fiscal year 2017 compared to approximately 86.4 percent for the prior fiscal year.

The following table summarizes significant factors contributing to the changes in costs of sales during fiscal year 2017 compared to the prior fiscal year (in millions):

	Cost of Sales
Fiscal year ended September 30, 2016	\$2,763
Volumes, mix and other, net	106
Foreign exchange	(6)
Fiscal year ended September 30, 2017	\$2,863

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

	Change in Cost of Sales
Higher material costs	\$ 73
Higher labor and overhead costs	41
Other, net	(14)
Total change in costs of sales	\$ 100

Material costs represent the majority of our cost of sales and include raw materials, composed primarily of steel and purchased components. Material costs increased by \$73 million compared to the prior fiscal year primarily due to higher volumes and higher steel prices, partially offset by material performance programs.

Labor and overhead costs increased by \$41 million compared to the prior fiscal year primarily due to higher sales revenue, partially offset by savings associated with labor and burden cost reduction programs.

Other, net decreased by \$14 million compared to the prior fiscal year. The decrease was primarily driven by hedge impacts and net foreign currency transaction gains.

Gross margin for fiscal year 2017 was \$484 million compared to \$436 million in fiscal year 2016. Gross margin, as a percentage of sales, was 14.5 percent and 13.6 percent for fiscal years 2017 and 2016, respectively. Gross margin as a percentage of sales increased due to the impacts of higher sales and continued material, labor and burden performance programs.

Other Income Statement Items

Selling, general and administrative expenses ("SG&A") for fiscal years 2017 and 2016 are summarized as follows (dollars in millions):

	2017	2016	Increase (Decrease)
	Amount	Amount	
	% of sales	% of sales	
SG&A			
Loss on sale of receivables	\$(5)	\$(5)	\$—
	(0.2)%	(0.2)%	—
Short- and long-term variable compensation	(51)	(30)	\$21
	(1.5)%	(1.0)%	0.5 pts
Asbestos-related liability remeasurement	(4)	(4)	\$—
	(0.1)%	(0.1)%	—

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Asbestos-related expense, net of asbestos related insurance recoveries	(10)	(0.3)%	5	0.2 %	\$15	0.5	pts
Litigation settlements	(10)	(0.3)%	6	0.2 %	\$16	0.5	pts
All other SG&A	(184)	(5.5)%	(185)	(5.8)%	\$(1)	(0.3)	pts
Total SG&A	\$(264)	(7.9)%	\$(213)	(6.7)%	\$51	1.2	pts

Asbestos-related expense, net of asbestos related insurance recoveries

We recognized \$13 million and \$27 million related to previous cash settlements with insurance companies for recoveries of defense and indemnity costs associated with asbestos liabilities in fiscal year 2017 and 2016, respectively (refer to Note 24 in the

Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data). In the fourth quarter of 2016, we recognized \$12 million to reflect expected reimbursement of future defense and indemnity payments under a coverage-in-place arrangement with an insurer associated with Rockwell asbestos liabilities (refer to Note 24 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data). In the fourth quarter of fiscal year 2016, the collection of \$9 million of Rockwell asbestos-related insurance receivables associated with policies in dispute had become doubtful; therefore, in fiscal year 2016 we recorded a \$9 million reserve (refer to Note 24 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data).

Litigation Settlements

We recognized a \$10 million charge for a legal settlement related to a dispute with a joint venture in the second quarter of fiscal year 2017 (refer to Note 24 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data). In the prior year, we recognized approximately \$6 million related to a favorable supplier litigation settlement (refer to Note 24 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data).

Short- and long-term variable compensation

The increase in SG&A was also attributable to higher variable compensation recognized in the current year, which is based on full-year company performance.

All other SG&A

All other SG&A, which represents normal selling, general and administrative expense decreased as a percentage of sales.

Restructuring costs were \$6 million in fiscal year 2017, compared to \$16 million in fiscal year 2016. In fiscal year 2017, these costs primarily related to employee severance costs recognized by our Aftermarket & Trailer segment. In fiscal year 2016, \$6 million of restructuring costs were recognized by our Commercial Truck & Industrial segment, \$8 million by our Aftermarket & Trailer segment and \$2 million by our corporate locations, primarily related to employee severance.

Other operating expense, net was \$7 million in fiscal year 2017, compared to \$3 million in fiscal year 2016. In fiscal year 2017, \$4 million related to impairment charges and \$3 million related to environmental remediation costs. Of the \$4 million of impairment charges, \$3 million was the result of the carrying value of a business, classified as held for sale, exceeding its fair value less costs to sell in fiscal year 2017. In fiscal year 2016, other operating expense, net primarily related to environmental remediation costs.

Operating income for fiscal year 2017 was \$207 million, compared to \$204 million in fiscal year 2016. Key items affecting income are discussed above.

Gain on sale of equity investment of \$243 million was recognized in fiscal year 2017 associated with the sale of our 50-percent ownership interest in our Meritor WABCO JV in the fourth quarter of fiscal year 2017.

Equity in earnings of affiliates was \$48 million in fiscal year 2017, compared to \$36 million in the prior year. The increase was primarily attributable to improved profitability of our joint venture in Mexico and improved markets in South America. Our equity in earnings of the Meritor WABCO JV was \$27 million in fiscal year 2017, compared to \$26 million in fiscal year 2016.

Interest expense, net was \$119 million in fiscal year 2017, compared to \$84 million in fiscal year 2016. In the fourth quarter of fiscal year 2017, we recognized approximately \$5 million loss on debt extinguishment, which is included in

Interest expense, net, related to the redemption of our 6.75 percent notes due 2021. In addition, we recognized approximately \$23 million and \$8 million loss on debt extinguishment, related to the repurchase of our 7.875 percent convertible senior notes due 2026 and 4.0 percent convertible senior notes due 2027, respectively, in the fourth quarter of fiscal year 2017. The loss on debt extinguishment related to these repurchases is included in Interest expense, net in the consolidated statement of operations.

Provision for income taxes was \$52 million in fiscal year 2017 compared to benefit for income taxes of \$424 million in fiscal year 2016. The year-over-year increase in tax expense was primarily driven by a reversal of a portion of our valuation allowance in the U.S. resulting in a non-cash income tax benefit of \$438 million in the prior year and \$89 million of tax expense related to the sale of our Meritor WABCO JV interest in fiscal year 2017.

Income from continuing operations (before noncontrolling interests) for fiscal year 2017 was \$329 million compared to \$579 million in fiscal year 2016. The reasons for the decrease are previously discussed.

Loss from discontinued operations, net of tax for fiscal year 2017 was \$1 million compared to a loss of \$4 million in the prior year. In fiscal year 2016, loss from discontinued operations, net of tax, was primarily attributable to changes in estimates related to legal costs incurred in connection with previously divested businesses.

Net income attributable to noncontrolling interests was \$4 million in fiscal year 2017 compared to \$2 million in fiscal year 2016. Noncontrolling interests represent our minority partners' share of income or loss associated with our less than 100-percent-owned consolidated subsidiaries. The increase was primarily attributable to higher production in these subsidiaries' respective markets.

Net Income attributable to Meritor, Inc. was \$324 million for fiscal year 2017 compared to net income of \$573 million for fiscal year 2016. Various factors affecting the decrease in net income were previously discussed.

Segment adjusted EBITDA and Segment adjusted EBITDA Margins

Segment adjusted 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, asset impairment charges and other special items as determined by management. Segment adjusted EBITDA excludes unallocated legacy and corporate expense (income), net. We use Segment adjusted EBITDA as the primary basis for the CODM to evaluate the performance of each of our reportable segments. Segment adjusted EBITDA margin is defined as Segment adjusted EBITDA divided by consolidated sales from continuing operations, either in the aggregate or by segment as applicable. See Non-GAAP Financial Measures above.

The following table reflects Segment adjusted EBITDA and Segment adjusted EBITDA margins for fiscal years 2017 and 2016 (dollars in millions).

	Segment adjusted EBITDA			Segment adjusted EBITDA Margins		
	2017	2016	Change	2017	2016	Change
Commercial Truck & Industrial	\$244	\$208	\$ 36	9.3 %	8.5 %	0.8 pts
Aftermarket & Trailer	106	115	(9)	12.4%	13.4%	(1.0) pts
Segment adjusted EBITDA	\$350	\$323	\$ 27	10.5%	10.1%	0.4 pts

Significant items impacting year-over-year Segment adjusted EBITDA include the following (in millions):

	Commercial Truck & Industrial	Aftermarket & Trailer	TOTAL
Segment adjusted EBITDA—Year ended September 30, 2016	\$ 208	\$ 115	\$ 323
Higher earnings from unconsolidated affiliates	12	—	12
Impact of foreign currency exchange rates	11	1	12
Higher short- and long-term variable compensation	(14)	(7)	(21)
Litigation settlements	(10)	(6)	(16)
Lower pension and retiree medical expense, net	10	1	11
Allocated asbestos-related expense, net of allocated asbestos-related insurance recoveries	(2)	(1)	(3)
Volume, mix, pricing and other	29	3	32
Segment adjusted EBITDA – Year ended September 30, 2017	\$ 244	\$ 106	\$ 350

Commercial Truck & Industrial Segment adjusted EBITDA was \$244 million in fiscal year 2017, compared to \$208 million in the prior fiscal year. Segment adjusted EBITDA margin increased to 9.3 percent in fiscal year 2017 compared to 8.5 percent in the prior fiscal year. The increase in segment adjusted EBITDA and segment adjusted

EBITDA margin was primarily driven by increased sales revenue and strong material, labor and burden performance, which more than offset the net impact of higher steel costs and higher allocated variable compensation accruals.

Aftermarket & Trailer Segment adjusted EBITDA was \$106 million in fiscal year 2017, down \$9 million compared to the prior fiscal year. Segment adjusted EBITDA margin decreased to 12.4 percent in fiscal year 2017 compared to 13.4 percent in fiscal year 2016. The decrease in segment adjusted EBITDA and segment adjusted EBITDA margin was primarily driven by a favorable supplier litigation settlement recognized in the third quarter of fiscal year 2016 (refer to Note 24 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data) and higher allocated variable compensation accruals.

Fiscal Year 2016 Compared to Fiscal Year 2015

Sales

The following table reflects total company and business segment sales for fiscal years 2016 and 2015 (dollars in millions). 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.

	2016	2015	Dollar Change	% Change	Dollar Change Due To	
					Currency	Volume/ Other
Sales:						
Commercial Truck & Industrial						
North America	\$1,358	\$1,560	\$(202)	(13)%	\$—	\$(202)
Europe	559	574	(15)	(3)%	(20)	5
South America	130	198	(68)	(34)%	(28)	(40)
China	84	90	(6)	(7)%	(4)	(2)
India	152	140	12	9%	(9)	21
Other	86	87	(1)	(1)%	(4)	3
Total External Sales	\$2,369	\$2,649	\$(280)	(11)%	\$(65)	\$(215)
Intersegment Sales	76	90	(14)	(16)%	(7)	(7)
Total Sales	\$2,445	\$2,739	\$(294)	(11)%	\$(72)	\$(222)
Aftermarket & Trailer						
North America	\$716	\$734	\$(18)	(2)%	\$(9)	\$(9)
Europe	114	122	(8)	(7)%	(4)	(4)
Total External Sales	\$830	\$856	\$(26)	(3)%	\$(13)	\$(13)
Intersegment Sales	30	28	2	7%	(5)	7
Total Sales	\$860	\$884	\$(24)	(3)%	\$(18)	\$(6)
Total External Sales	\$3,199	\$3,505	\$(306)	(9)%	\$(78)	\$(228)

Commercial Truck & Industrial sales were \$2,445 million in fiscal year 2016, down 11 percent from fiscal year 2015. The decrease in sales was driven by lower production in the North America Class 8 truck market and South America and the effect of foreign exchange translation primarily driven by the strong U.S. dollar relative to the Brazilian real and the euro. The decrease was partially offset by new business wins and increasing market volumes in India.

Aftermarket & Trailer sales were \$860 million in fiscal year 2016, down 3 percent from fiscal year 2015. Sales decreased due to the unfavorable impact of the softer North America and Europe aftermarket business and foreign exchange translation driven by the strong U.S. dollar compared to the same period in the prior fiscal year.

Cost of Sales and Gross Profit

Cost of sales primarily represents material, labor and overhead production costs associated with our products and production facilities. Cost of sales for fiscal year 2016 was \$2,763 million compared to \$3,043 million in the prior year, representing a 9.0 percent decrease. Total cost of sales was approximately 86.4 percent of sales for fiscal year 2016 compared to approximately 86.8 percent for the prior fiscal year.

The following table summarizes significant factors contributing to the changes in costs of sales during fiscal year 2016 compared to the prior fiscal year (in millions):

	Cost of Sales
Fiscal year ended September 30, 2015	\$3,043
Volumes, mix and other, net	(203)
Foreign exchange	(77)
Fiscal year ended September 30, 2016	\$2,763

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

	Change in Cost of Sales
Lower material costs	\$(238)
Lower labor and overhead costs	(54)
Other, net	12
Total change in costs of sales	\$(280)

Material costs represent the majority of our cost of sales and include raw materials, composed primarily of steel and purchased components. Material costs decreased by \$238 million compared to the same period in the prior fiscal year primarily due to lower volumes, movement in foreign currency rates, favorable material economics and material performance programs.

Labor and overhead costs decreased by \$54 million compared to the prior fiscal year primarily due to lower volumes, the movement in foreign currency exchange rates, and savings associated with labor and burden cost reduction programs.

Other, net increased by \$12 million compared to the prior fiscal year. The increase was primarily driven by foreign currency transaction losses related to the strengthening U.S. dollar, net of hedge impacts.

Gross margin for fiscal year 2016 was \$436 million compared to \$462 million in fiscal year 2015. Gross margin, as a percentage of sales, was 13.6 percent and 13.2 percent for fiscal years 2016 and 2015, respectively.

Other Income Statement Items

Selling, general and administrative expenses for fiscal years 2016 and 2015 are summarized as follows (dollars in millions):

	2016		2015		Increase (Decrease)	
	Amount	% of sales	Amount	% of sales	Amount	% of sales
SG&A						
Loss on sale of receivables	\$(5)	(0.2)%	\$(5)	(0.1)%	\$—	0.1 pts
Short- and long-term variable compensation	(30)	(0.9)%	(27)	(0.8)%	\$3	0.1 pts
Asbestos-related liability remeasurement	(4)	(0.1)%	2	— %	\$6	0.1 pts
	5	0.2 %	(25)	(0.7)%	\$(30)	(0.9) pts

Asbestos-related expense, net of asbestos- related insurance recoveries

Supplier litigation settlement	6	0.2 %	—	— %	\$(6)	(0.2) pts
All other SG&A	(185)	(5.8)%	(188)	(5.3)%	\$(3)	0.5 pts
Total SG&A	\$(213)	(6.6)%	\$(243)	(6.9)%	\$(30)	(0.3) pts

2016 Insurance and Litigation Settlements, net

In fiscal year 2016, we recognized \$27 million related to cash settlements with insurance companies for recoveries of defense and indemnity costs associated with asbestos liabilities. In addition, in the fourth quarter of fiscal year 2016, we recognized \$12 million to reflect expected reimbursement of future defense and indemnity payments under a coverage-in-place arrangement with

an insurer associated with Rockwell asbestos liabilities. Separately, although we continue to pursue litigation and believe we have insurance coverage, the collection of \$9 million of Rockwell asbestos-related insurance receivables associated with policies in dispute has become doubtful; therefore, in the fourth quarter of fiscal year 2016, we recorded a \$9 million reserve. In fiscal year 2016, we also recognized approximately \$6 million related to a supplier litigation settlement. (refer to Note 24 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data).

All other SG&A, which represents normal selling, general and administrative expense, remained relatively flat but increased as a percentage of sales due to lower sales.

Goodwill Impairment costs of \$15 million were recognized during the fourth quarter of fiscal year 2015 for our Defense reporting unit, which is included in the Commercial Truck & Industrial segment.

Restructuring costs were \$16 million in fiscal years 2016 and 2015. In fiscal year 2016, \$6 million of restructuring costs were recognized by our Commercial Truck & Industrial segment, \$8 million by our Aftermarket & Trailer segment and \$2 million by our corporate locations, primarily related to employee severance. In fiscal year 2015, our Commercial Truck & Industrial segment and corporate locations recognized \$14 million and \$2 million, respectively, of restructuring costs primarily related to employee severance costs.

Operating income for fiscal year 2016 was \$204 million, compared to \$128 million in fiscal year 2015. Key items affecting income are discussed above.

Equity in earnings of affiliates was \$36 million in fiscal year 2016, compared to \$39 million in the prior year. The decrease was primarily attributable to lower production in our affiliates' respective markets.

Interest expense, net was \$84 million and \$105 million in fiscal years 2016 and 2015, respectively. The decrease was primarily attributable to the recognized loss on debt extinguishment of \$25 million in fiscal year 2015, primarily related to the repurchase of our 7.875 percent convertible senior notes due 2026, partially offset by the increase of interest expense related to fixed-rate debt in fiscal year 2016.

Benefit for income taxes was \$424 million in fiscal year 2016 compared to provision for income taxes of \$1 million in fiscal year 2015. The decrease in tax expense was primarily attributable to a \$438 million tax benefit from the partial reversal of the U.S. valuation allowance and a \$25 million tax benefit related to a correlated tax relief. This decrease was partially offset by a \$9 million non-cash charge to income tax expense in Brazil related to the establishment of a valuation allowance and the recording of tax expense in jurisdictions in which we previously recognized a valuation allowance.

Income from continuing operations (before noncontrolling interests) for fiscal year 2016 was \$579 million compared to \$66 million in fiscal year 2015. The reasons for the increase are discussed above.

Loss from discontinued operations, net of tax for fiscal year 2016 was \$4 million, compared to a loss of \$1 million in the prior year. The increase in loss from discontinued operations, net of tax, was primarily attributable to a litigation settlement in the current year.

Net income attributable to noncontrolling interests was \$2 million in fiscal year 2016 compared to \$1 million in fiscal year 2015. Noncontrolling interests represent our minority partners' share of income or loss associated with our less than 100-percent-owned consolidated subsidiaries.

Net Income attributable to Meritor, Inc. was \$573 million for fiscal year 2016 compared to net income of \$64 million for fiscal year 2015. The various factors affecting net income are discussed above.

Segment adjusted EBITDA and Segment adjusted EBITDA Margins

The following table reflects Segment adjusted EBITDA and Segment adjusted EBITDA margins for fiscal years 2016 and 2015 (dollars in millions).

45

	Segment adjusted EBITDA			Segment adjusted EBITDA Margins		
	2016	2015	Change	2016	2015	Change
Commercial Truck & Industrial	\$208	\$216	\$ (8)	8.5 %	7.9 %	0.6 pts
Aftermarket & Trailer	115	123	(8)	13.4%	13.9%	(0.5) pts
Segment adjusted EBITDA	\$323	\$339	\$ (16)	10.1%	9.7 %	0.4 pts

Significant items impacting year-over-year Segment adjusted EBITDA include the following (in millions):

	Commercial Truck & Industrial	Aftermarket & Trailer	TOTAL
Segment adjusted EBITDA—Year ended September 30, 2015	\$ 216	\$ 123	\$ 339
Lower earnings from unconsolidated affiliates	(3)	—	(3)
Impact of foreign currency transactions, net of hedge impacts	(18)	(11)	(29)
Impact of foreign currency translation	(7)	(1)	(8)
Short- and long-term variable compensation	(4)	(2)	(6)
Allocated asbestos-related insurance recoveries, net of allocated asbestos-related expense	10	3	13
Supplier litigation settlement	—	6	6
Volume, mix, pricing and other	14	(3)	11
Segment adjusted EBITDA – Year ended September 30, 2016	\$ 208	\$ 115	\$ 323

Commercial Truck & Industrial Segment adjusted EBITDA was \$208 million in fiscal year 2016, compared to \$216 million in the prior fiscal year. Segment adjusted EBITDA margin increased to 8.5 percent in fiscal year 2016 compared to 7.9 percent in the prior fiscal year. The increase in Segment adjusted EBITDA margin was primarily driven by strong material, labor and burden performance, which continued to lower costs year-over-year and insurance settlements for recoveries for defense and indemnity costs associated with asbestos liabilities (refer to Note 24 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data). In addition, material costs have been favorably impacted by lower year-over-year steel prices. The overall increase in Segment adjusted EBITDA margin was partially offset by foreign currency impacts, which included a \$5 million non-recurring foreign currency option contract hedge gain in 2015, unfavorable product mix and the impact of lower sales in fiscal year 2016.

Aftermarket & Trailer Segment adjusted EBITDA was \$115 million in fiscal year 2016, compared to \$123 million in the prior fiscal year. Segment adjusted EBITDA margin decreased to 13.4 percent in the current fiscal year compared to 13.9 percent in fiscal year 2015. The decreases in Segment adjusted EBITDA and Segment adjusted EBITDA margin were primarily driven by lower revenue, foreign currency impacts, and unfavorable product mix, which were partially offset by a supplier litigation settlement (see Note 24 of the Notes to the Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data).

Cash Flows (in millions)

	Year Ended September 30,		
	2017	2016	2015
OPERATING CASH FLOWS			
Income from continuing operations	\$329	\$579	\$66
Depreciation and amortization	75	67	65
Loss on debt extinguishment	36	—	25
Deferred income tax expense (benefit)	38	(415)	(24)
Pension and retiree medical expense	11	20	82
Gain on sale of equity investment	(243)	—	—
Gain on sale of property	—	(2)	(3)
Goodwill and asset impairment charges	4	—	17
Equity in earnings of affiliates	(48)	(36)	(39)
Restructuring costs	6	16	16
Dividends received from equity method investments	44	37	32
Pension and retiree medical contributions	(38)	(42)	(141)
Restructuring payments	(15)	(11)	(16)
Decrease (increase) in working capital	(70)	28	(12)
Changes in off-balance sheet accounts receivable securitization and factoring	26	(31)	39
Other, net	24	(1)	—
Cash flows provided by continuing operations	179	209	107
Cash flows used for discontinued operations	(3)	(5)	(10)
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	\$176	\$204	\$97

Cash provided by operating activities for fiscal year 2017 was \$176 million compared to \$204 million in fiscal year 2016 and \$97 million in fiscal year 2015. The decrease in cash flows provided by operating activities in fiscal year 2017 is due in part to \$52 million received related to insurance settlements for recoveries for defense and indemnity costs associated with asbestos liabilities in fiscal year 2016, which did not recur in fiscal year 2017 (see Note 24 of the Notes to the Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data). The increase in cash flows provided by continuing operations in fiscal year 2016, compared to fiscal 2015, was due in part to the \$52 million received related to insurance settlements noted above, as well as \$94 million used in fiscal year 2015 to fund a voluntary buyout of our German and Canadian pension plan obligations.

	Year Ended September 30,		
	2017	2016	2015
INVESTING CASH FLOWS			
Capital expenditures	\$(95)	\$(93)	\$(79)
Cash paid for acquisition of Fabco	(34)	—	—
Cash paid for acquisition of Morganton	—	—	(16)
Other investing activities	—	3	4
Net investing cash flows provided by discontinued operations	2	4	4
CASH USED FOR INVESTING ACTIVITIES	\$(127)	\$(86)	\$(87)

Cash used for investing activities was \$127 million in fiscal year 2017, compared to cash used for investing activities of \$86 million in fiscal year 2016 and \$87 million in fiscal year 2015. The increase in cash used for investing activities in fiscal year 2017 is due largely to the acquisition of the product portfolio and related technologies of Fabco. Further, capital expenditures continue to increase as we invest in new product development to support our

revenue growth and operational performance initiatives. Capital expenditures were \$95 million in fiscal year 2017 compared to \$93 million in fiscal year 2016 and \$79 million in fiscal year 2015.

Cash paid for acquisition of Morganton represents the purchase of the majority of the assets of Sypris' Morganton, North Carolina manufacturing facility for \$16 million in fiscal year 2015.

Net investing cash flows provided by discontinued operations in fiscal year 2016 and 2015 includes \$3 million for receipt of the final and fourth installments, respectively, on the note receivable that was issued at the time of the sale of our Body Systems business.

	Year September 30,		
	2017	2016	2015
FINANCING CASH FLOWS			
Repayment of notes and term loan	\$(408)	\$(55)	\$(199)
Borrowings and Securitization	89	—	—
Proceeds from debt issuance	325	—	225
Redemption of notes	(103)	—	—
Debt issuance costs	(12)	—	(4)
Other financing activities	(13)	(16)	(9)
Net change in debt	(122)	(71)	13
Repurchase of common stock	—	(81)	(55)
CASH USED FOR FINANCING ACTIVITIES	\$(122)	\$(152)	\$(42)

Cash used for financing activities was \$122 million in fiscal year 2017 compared to cash used for financing activities of \$152 million in fiscal year 2016 and \$42 million in fiscal year 2015. The decrease in cash used for financing activities in fiscal year 2017 compared to fiscal year 2016 was driven by differences in financing activity each year. In fiscal year 2017, cash was provided by financing activities through the issuance of \$325 million principal amount of our 3.25 percent convertible senior notes due 2037 and outstanding borrowings against our securitization facility of \$89 million in the current year. The net proceeds from the offering of the 3.25 percent convertible senior notes due 2037 were used, together with cash on hand, to repurchase portions of our outstanding 7.875 percent convertible senior notes due 2026 and our 4.0 percent convertible senior notes due 2027. In fiscal year 2017, we spent approximately \$272 million on the repurchase of \$117 million principal amount of our 7.875 percent convertible senior notes due 2026 (see Note 17 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data) and approximately \$139 million on the repurchase of \$119 million principal amount of our 4.0 percent convertible senior notes due 2027 (see Note 17 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data). In addition, we spent approximately \$105 million on the redemption of \$100 million principal amount of our 6.75 percent notes due 2021 in fiscal year 2017.

In fiscal year 2016, cash used for financing activities was primarily related to the repurchase of all of the \$55 million of outstanding principal amount 4.625 percent convertible senior notes due 2026 at 100 percent of the face value of the notes and the repurchase 8.7 million shares of our common stock for \$81 million (including commission costs). In fiscal year 2015, cash was provided by the issuance of an additional \$225 million principal amount of our 6.25 percent notes due 2024. A portion of net proceeds from this offering was used to replenish cash used to repurchase \$110 million principal amount at maturity of our 7.875 percent convertible senior notes due 2026. Additionally, in fiscal year 2015, we spent \$20 million on the repurchase of \$19 million principal amount of our 4.0 percent convertible senior notes due 2027 (see Note 17 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data). We also spent \$55 million on the repurchase of 4.2 million shares of our common stock in fiscal year 2015 under our equity and equity-linked repurchase authorizations (see Note 19 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data).

Contractual Obligations

As of September 30, 2017, we are contractually obligated to make payments as follows (in millions):

	Total	2018	2019	2020	2021	2022	Thereafter ⁽²⁾
Total debt ⁽¹⁾	\$1,098	\$ 4	\$ 2	\$90	\$ 2	\$177	\$ 823
Operating leases	87	15	13	12	12	12	23
Interest payments on long-term debt	414	42	41	41	41	41	208
Total	\$1,599	\$ 61	\$ 56	\$143	\$ 55	\$230	\$ 1,054

(1) Total debt excludes unamortized discount on convertible notes of \$42 million, unamortized issuance costs of \$17 million, and original issuance discount of \$1 million.

Includes the 6.25 percent senior notes, which contain a call feature that allows for early redemption and includes the 3.25 percent, 4.0 percent and 7.875 percent convertible senior notes, which contain a put and call feature that (2) allows for earlier redemption beginning in 2025, 2019 and 2020, respectively (refer to Note 17 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data Convertible Securities below).

We also sponsor defined benefit pension plans that cover certain of our U.S. employees and certain non-U.S. employees. Our funding practice provides that annual contributions to the pension trusts will be at least equal to the minimum amounts required by ERISA in the U.S. and the actuarial recommendations or statutory requirements in other countries. Management expects funding for our retirement pension plans of approximately \$6 million in fiscal year 2018.

We also sponsor retirement medical plans that cover certain of our U.S. and non-U.S. employees and retirees, including certain employees of divested businesses, and provide for medical payments to eligible employees and dependents upon retirement. Management expects gross retiree medical plan benefit payments of approximately \$20 million, \$20 million, \$14 million, \$14 million and \$14 million in fiscal years 2018, 2019, 2020, 2021 and 2022, respectively, before consideration of any Part D reimbursement from the U.S. government.

Contractual obligations identified in the table above do not include liabilities associated with uncertain tax positions of \$32 million due to the high degree of uncertainty regarding the future cash outflows associated with these amounts. For additional discussion of uncertain tax positions, refer to Note 23 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Liquidity

Our outstanding debt, net of discounts and unamortized debt issuance costs where applicable, is summarized below (in millions). For a detailed discussion of terms and conditions related to this debt, see Note 17 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

	September 30,	
	2017	2016
Fixed-rate debt securities	\$616	\$713
Fixed-rate convertible notes	363	271
Unamortized discount on convertible notes	(42)	(14)
Other borrowings	101	26
Total debt	\$1,038	\$996

Overview – Our principal operating and capital requirements are for working capital needs, capital expenditure requirements, debt service requirements, funding of pension and retiree medical costs, restructuring and product development programs. We expect fiscal year 2018 capital expenditures to be approximately \$100 million.

We generally fund our operating and capital needs with cash on hand, cash flow from operations, our various accounts receivable securitization and factoring arrangements and availability under our revolving credit facility. Cash in excess of local operating needs is generally used to reduce amounts outstanding, if any, under our revolving credit facility or U.S. accounts receivable securitization program. Our ability to access additional capital in the long term will depend on availability of capital markets and pricing on commercially reasonable terms as well as our credit profile at the time we are seeking funds. We continuously evaluate our capital structure to ensure the most appropriate and optimal structure and may, from time to time, retire, repurchase, exchange or redeem outstanding indebtedness or common equity, issue new equity or debt securities or enter into new lending arrangements if conditions warrant. In December 2014, we filed a shelf registration statement with the Securities and Exchange Commission, registering an unlimited amount of debt and/or equity securities that we may offer in one or more offerings on terms to be determined at the time of sale.

We believe our current financing arrangements provide us with the financial flexibility required to maintain our operations and fund future growth, including actions required to improve our market share and further diversify our global operations, through the term of our revolving credit facility, which matures in March 2022. Sources of liquidity as of September 30, 2017, in addition to cash on hand, are as follows (in millions):

	Total Facility Size	Utilized as of 9/30/17	Readily Available as of 9/30/17	Current Expiration
On-balance sheet arrangements:				
Revolving credit facility ⁽¹⁾	\$ 525	\$ —	\$ 525	March 2022 ⁽¹⁾
Committed U.S. accounts receivable securitization ⁽²⁾	100	89	10	December 2019
Total on-balance sheet arrangements	625	89	535	
Off-balance sheet arrangements: ⁽²⁾				
Committed Swedish Factoring Facility ⁽³⁾	\$ 183	\$ 164	\$ —	March 2020
Committed U.S. Factoring Facility ⁽³⁾	94	43	—	February 2019
Uncommitted U.K. Factoring Facility	29	9	—	February 2018
Uncommitted Italy Factoring Facility	35	26	—	June 2022
Other uncommitted factoring facilities	29	19	—	None
Letter of credit facility	25	18	7	March 2019
Total off-balance sheet arrangements	395	279	7	
Total available sources	\$ 1,020	\$ 368	\$ 542	

(1)The availability under the revolving credit facility is subject to a collateral test and a priority debt-to-EBITDA ratio covenant.

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

(3)Actual amounts may exceed bank's commitment at bank's discretion.

Cash and Liquidity Needs – At September 30, 2017, we had \$88 million in cash and cash equivalents, of which \$25 million was held in jurisdictions outside of the U.S. that, if repatriated, could result in withholding taxes. It is our intent to reinvest those cash balances in our foreign operations as we expect to meet our liquidity needs in the U.S. through ongoing cash flows from operations in the U.S., external borrowings or both.

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 those covenants as of the quarter end, we have full availability (up to the amount of collateral under the collateral test) 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, access to other borrowing arrangements such as factoring or securitization facilities, vehicle production

schedules and customer demand. 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. At September 30, 2017, we were in compliance with all covenants under our credit agreement.

Equity and Equity-Linked Repurchase Authorization - In June 2014, our Board of Directors authorized the repurchase of up to \$210 million of our equity and equity-linked securities (including convertible debt securities), subject to the achievement of our M2016 net debt reduction target and compliance with legal and regulatory requirements and our debt covenants. Under

this program, we repurchased 12.8 million shares of our common stock for \$136 million (including commission costs), \$19 million principal amount of our 4.0 percent convertible senior notes due 2027, and all \$55 million outstanding principal amount of our 4.625 percent convertible senior notes due 2026 (see Note 19 of the Notes to Consolidated Financial Statements). The repurchase program under the \$210 million authorization was complete as of September 30, 2016.

Equity Repurchase Authorization- On July 21, 2016, our Board of Directors authorized the repurchase of up to \$100 million of our common stock from time to time through open market purchases, privately negotiated transactions or otherwise, until September 30, 2019, subject to compliance with legal and regulatory requirements and our debt covenants. The amount remaining available for repurchases under this authorization was \$100 million as of November 15, 2017.

Debt Repurchase Authorization - On July 21, 2016, our Board of Directors authorized the repurchase of up to \$150 million aggregate principal amount of any of our debt securities (including convertible debt securities) from time to time through open market purchases, privately negotiated transactions or otherwise, until September 30, 2019, subject to compliance with legal and regulatory requirements and our debt covenants. The amount remaining available for repurchases under this authorization was \$50 million as of November 15, 2017.

7.875 Percent Convertible Notes Repurchase Authorization - In May 2015, the Offering Committee of our Board of Directors approved a repurchase program for up to \$175 million aggregate principal amount at maturity of our 7.875 percent convertible senior notes due 2026 (the "7.875 Percent Convertible Notes") from time to time prior to September 30, 2015, subject to compliance with legal and regulatory requirements and our debt covenants. This repurchase program was in addition to the equity and equity-linked repurchase authorizations and debt repurchase program described above. This repurchase authorization expired on September 30, 2015.

Redemption of 6.75 Percent Notes - On September 28, 2017, we redeemed \$100 million of the outstanding \$275 million aggregate principal amount of our 6.75 percent Notes due 2021 (the "6.75 Percent Notes") at a price of \$1,033.75 per \$1,000 of principal amount, plus accrued and unpaid interest. As a result, a loss on debt extinguishment of \$5 million was recorded in the consolidated statement of operations within Interest expense, net. The redemption was made pursuant to the July 2016 debt repurchase authorization (see Note 19 of the Notes to Consolidated Financial Statements).

On November 2, 2017, we redeemed the remaining \$175 million aggregate principal amount outstanding of the 6.75 Percent Notes at a price of \$1033.75 per \$1,000 of principal amount, plus accrued and unpaid interest. The redemption was made pursuant to a special authorization from the Board of Directors in connection with the sale of the Meritor WABCO joint venture.

Repurchase of 4.625 Percent Convertible Notes - On March 1, 2016, substantially all \$55 million of our principal amount outstanding 4.625 percent convertible senior notes due 2026 (the "4.625 Percent Convertible Notes") were repurchased at 100 percent of the face value of the notes. On April 15, 2016, the remaining 4.625 Percent Convertible Notes were redeemed at 100 percent of the face value. At September 30, 2016, none of the 4.625 Percent Convertible Notes remained outstanding. The repurchases were made under our equity and equity-linked repurchase authorization (see Note 19 of the Notes to Consolidated Financial Statements). The repurchase program under this authorization was complete as of September 30, 2016.

Repurchase of 7.875 Percent Convertible Notes - In fiscal year 2015, we repurchased \$110 million principal amount at maturity of our 7.875 Percent Convertible Notes, of which \$85 million were repurchased at a premium equal to approximately 64 percent of their principal amount in the third quarter of fiscal year 2015, and \$25 million were repurchased at a premium equal to approximately 58 percent of their principal amount in the fourth quarter of fiscal year 2015. The premium paid over par reflected the market price of these notes at the time, which included the embedded option value of the security. Since the conversion option with a conversion price of \$12 per share was in the money at the time of repurchase, this drove a significant premium. Of the fiscal year 2015 total cash consideration of \$179 million paid, \$121 million and \$58 million were allocated between the liability and equity components, respectively. These repurchases were accounted for as extinguishments of debt, and accordingly, we recognized a loss on debt extinguishment of \$24 million. The loss on debt extinguishment was included in Interest expense, net in the consolidated statement of operations. The repurchases were made under our 7.875 Percent Convertible Notes

repurchase authorization described above.

Repurchase of 4.0 Percent Convertible Notes - In fiscal year 2015, we repurchased \$19 million principal amount of our 4.0 percent convertible notes due 2027 (the "4.0 Percent Convertible Notes"). The repurchases were accounted for as extinguishments of debt, and accordingly, we recognized an insignificant loss on debt extinguishment. The loss on debt extinguishment was included in the consolidated statement of operations in interest expense, net. The repurchases were made under our equity and equity-linked repurchase authorization.

Revolving Credit Facility - On March 31, 2017, we amended and restated our revolving credit facility. Pursuant to the revolving credit agreement, as amended, we have a \$525 million revolving credit facility that matures in March 2022. Additionally, \$4 million was capitalized as deferred issuance costs and will be amortized over the term of the agreement.

The availability under the revolving credit facility is subject to certain financial covenants based on (i) the ratio of our priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. We are required to maintain a total priority-debt-to-EBITDA ratio, as defined in the agreement, of 2.25 to 1.00 or less as of the last day of each fiscal quarter throughout the term of the agreement. At September 30, 2017, we were in compliance with all covenants under the revolving credit facility with a ratio of approximately 0.44x for the priority debt-to-EBITDA ratio covenant.

The availability under the revolving credit facility is also subject to a collateral test, pursuant to which borrowings on the revolving credit facility cannot exceed 1.0x the collateral test value. The collateral test is performed on a quarterly basis. At September 30, 2017, the revolving credit facility was collateralized by approximately \$749 million of our assets, primarily consisting of eligible domestic U.S. accounts receivable, inventory, plant, property and equipment, intellectual property and our investment in all or a portion of certain of our wholly-owned subsidiaries.

Borrowings under the revolving credit facility are subject to interest based on quoted LIBOR rates plus a margin and a commitment fee on undrawn amounts, both of which are based upon our current corporate credit rating. At September 30, 2017, the margin over LIBOR rate was 300 basis points, and the commitment fee was 45 basis points. Overnight revolving credit loans are at the prime rate plus a margin of 200 basis points.

Certain of our subsidiaries, as defined in the revolving credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the publicly-held notes outstanding under our indentures (see Note 28 of the Notes to the Consolidated Financial Statements).

No borrowings were outstanding under the revolving credit facility at September 30, 2017 and September 30, 2016. The amended and extended revolving credit facility includes \$100 million of availability for the issuance of letters of credit. At September 30, 2017 and September 30, 2016, there were no letters of credit outstanding under the revolving credit facility.

Convertible Note Issuances and Repurchases - On September 22, 2017, we issued \$325 million principal amount of the 3.25 percent convertible senior notes due 2037 (the "3.25 Percent Convertible Notes"). The 3.25 Percent Convertible Notes were sold in an underwritten offering to qualified institutional buyers in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended. The 3.25 Percent Convertible Notes were issued in minimum denominations of \$1,000 principal amount per note and multiples of \$1,000 in excess thereof. Net proceeds received by us, after issuance costs and discounts, were approximately \$317 million. We pay 3.25 percent cash interest per year on the principal amount of the 3.25 Percent Convertible Notes, payable semiannually in arrears on April 15 and October 15 of each year, beginning April 15, 2018, to holders of record at the close of business on the preceding April 1 or October 1, respectively. Interest accrues on the principal amount of the 3.25 Percent Convertible Notes from and including the date the 3.25 Percent Convertible Notes were issued or from, and including, the last date in respect of which interest has been paid or provided for, as the case may be, to, but excluding, the next interest payment date.

The 3.25 Percent Convertible Notes are fully and unconditionally guaranteed on a senior unsecured basis by our wholly-owned subsidiaries that guarantee our amended and restated revolving credit facility. The 3.25 Percent Convertible Notes are our senior unsecured obligations and rank equally in right of payment with all of our existing and future senior unsecured indebtedness and effectively junior to any of our existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness. The guarantee by each subsidiary guarantor will rank equally with existing and future senior unsecured indebtedness of such subsidiary and effectively junior to all of the existing and future secured indebtedness of such subsidiary, to the extent of the value of the assets securing such indebtedness.

The 3.25 Percent Convertible Notes will be convertible into cash up to the principal amount of the 3.25 Percent Convertible Notes surrendered for conversion and, pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, in respect of the remainder, if any, of our conversion obligation in excess of the principal amount of the notes being converted. The initial conversion rate, subject to adjustment, is 25.0474 shares of common stock per \$1,000 principal amount of the 3.25 Percent Convertible

Notes (which represents an initial conversion price of \$39.92 per share). Holders may convert their notes, at their option, only under the following circumstances prior to the close of business on the business day immediately preceding July 15, 2037, other than during the period from, and including, July 15, 2025 to the close of business on the business day immediately preceding October 15, 2025:

during any calendar quarter after the calendar quarter ending on December 31, 2017, if the closing sale price of our common stock for 20 or more trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter equals or exceeds 130 percent of the applicable conversion price on each applicable trading day;

during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of the 3.25 Percent Convertible Notes for each trading day during such five consecutive trading day period was less than 98 percent of the product of the closing sale price of our common stock and the conversion rate on each such trading day;

• if we call any of the 3.25 Percent Convertible Notes for redemption, at any time from the delivery of the redemption notice through the close of business on the scheduled trading day immediately preceding the redemption date; or

• upon the occurrence of specified corporate transactions.

During the period from, and including, July 15, 2025 to the close of business on the business day immediately preceding October 15, 2025, and on or after July 15, 2037 until the close of business on the business day immediately preceding the maturity date, holders may convert the 3.25 Percent Convertible Notes at any time, regardless of the foregoing circumstances.

On or after October 15, 2025, but prior to July 15, 2037, we may redeem the 3.25 Percent Convertible Notes at our option, in whole or in part, at a redemption price in cash equal to 100 percent of the principal amount of the 3.25 Percent Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Further, holders may require us to purchase all or a portion of their 3.25 Percent Convertible Notes at a purchase price in cash equal to 100 percent of the principal amount of the 3.25 Percent Convertible Notes to be purchased, plus accrued and unpaid interest to, but excluding, the repurchase date, on October 15, 2025 or upon certain fundamental changes.

Accounting guidance requires that cash-settled convertible debt, such as the 3.25 Percent Convertible Notes, be separated into debt and equity components at issuance and a value be assigned to each. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar bond without the conversion feature. The difference between the bond cash proceeds and this estimated fair value, representing the value assigned to the equity component, is recorded as a debt discount. We measure the debt component at fair value by utilizing a discounted cash flow model. This model utilizes observable inputs such as contractual repayment terms, benchmark forward yield curves, yield curves and quoted market prices of its own nonconvertible debt. The yield curves are acquired from an independent source that is widely used in the financial industry and reviewed internally by personnel with appropriate expertise in valuation methodologies.

The net proceeds received by us, after issuance costs and discounts, of approximately \$317 million from the offering of the 3.25 Percent Convertible Notes were used to acquire portions of our outstanding 7.875 Percent Convertible Notes and our 4.0 Percent Convertible Notes in transactions that settled concurrently with the closing of the 3.25 Percent Convertible Note offering on September 22, 2017. In total, we repurchased \$117 million of the \$140 million principal amount of our 7.875 Percent Convertible Notes and \$119 million of the \$143 million principal amount of our 4.0 Percent Convertible Notes. The 7.875 Percent Convertible Notes and 4.0 Percent Convertible Notes were repurchased at premiums equal to 130 percent and 16 percent, respectively, above their principal amount. These repurchases were accounted for as extinguishments of debt, and accordingly we recognized a loss on debt extinguishment of \$31 million in the aggregate, comprising \$23 million with respect to the 7.875 Percent Convertible Notes and \$8 million with respect to the 4.0 Percent Convertible Notes. The loss on extinguishment is recorded in the consolidated statement of operations within Interest expense, net.

U.S. Securitization Program – We have a \$100 million U.S. accounts receivables securitization facility, which expires December 2019. The maximum permitted priority debt-to-EBITDA ratio as of the last day of each fiscal quarter under the facility is 2.25 to 1.00. This program is provided by PNC Bank, National Association, as Administrator and Purchaser, and the other Purchasers and Purchaser Agents from time to time (participating lenders), which are party to the agreement. Under this program, we have the ability to sell an undivided percentage ownership interest in substantially all of our trade receivables (excluding the receivables due from AB Volvo and subsidiaries eligible for sale under the U.S. accounts receivable factoring facility) of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation ("ARC"), a wholly-owned, special purpose subsidiary. ARC funds these purchases with borrowings from participating lenders under a loan agreement. This program also includes a letter of credit facility pursuant to which ARC may request the issuance of letters of credit issued for our U.S. subsidiaries (originators) or their designees, which when issued will constitute a utilization of the facility for the amount of letters of credit issued. Amounts

outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the consolidated balance sheet. At September 30, 2017, \$89 million was outstanding under this program, and no amounts were outstanding under related letters of credit. At September 30, 2016, no amounts, including letters of credit, were outstanding under this program. This securitization program contains a cross default to our revolving credit facility. At September 30, 2017, we were in compliance with all covenants under our credit agreement (see Note 17 in the Notes to the Consolidated Financial Statements). At certain times during any given month, we may sell eligible accounts receivable under this program to fund intra-month working capital needs. In such months, we would then typically utilize the cash received 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 year ends.

Capital Leases – In March 2012, we entered into a master lease agreement with Wells Fargo Equipment Finance, under which we can enter into lease arrangements for equipment. Each lease term is for 60 months and the lease interest rate is equal to the 5-year Swap Rate published by the Federal Reserve Board plus 564 basis points. We had \$3 million and \$7 million outstanding under this capital lease arrangement as of September 30, 2017 and 2016, respectively. In addition, we had another \$10 million and \$9 million outstanding through other capital lease arrangements at September 30, 2017 and 2016, respectively.

Export financing arrangements - Our export financing arrangements were entered into through our Brazilian subsidiary pursuant to an incentive program of the Brazilian government to fund working capital for Brazilian companies in exportation programs. The arrangements bore interest at 5.5 percent and had maturity dates in 2017. These financing arrangements were paid off at maturity, as of March 31, 2017. There was \$9 million outstanding under these arrangements at September 30, 2016.

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 our revolving credit facility if the defaulted amount exceeds \$35 million per bank. As of September 30, 2017 and 2016, we had \$24 million and \$10 million, respectively, outstanding under this program at more than one bank.

Credit Ratings –At September 30, 2017, our Standard & Poor’s corporate credit rating and senior unsecured credit rating were BB- and B+, respectively, and our Moody’s Investors Service corporate credit rating and senior unsecured credit rating are B1 and B2, 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 September 30, 2017 of \$261 million, of which \$207 was attributable to committed factoring facilities involving the sale of AB Volvo accounts receivables. The remaining amount of \$54 million was related to factoring by certain of our European subsidiaries under uncommitted factoring facilities with financial institutions. The receivables under all of these programs are sold at face value and are excluded from the consolidated balance sheet. Total facility size, utilized amounts, readily available amounts and expiration dates for each of these programs are shown in the table above under Liquidity.

The Swedish facility is backed by 364-day liquidity commitment from Nordea Bank, which was renewed through April 23, 2018. Commitments under all of our factoring facilities are subject to standard terms and conditions for these types of arrangements (including, in case of the U.K. and Italy commitments, a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the respective programs).

Letter of Credit Facilities – On February 21, 2014, we amended and restated our letter of credit facility with Citicorp USA, Inc., as administrative agent and issuing bank, and the other lenders party thereto. Under the terms of this amended credit agreement, which expires in March 2019, we have the right to obtain the issuance, renewal, extension and increase of letters of credit up to an aggregate availability of \$25 million. This facility contains covenants and events of default generally similar to those existing in our public debt indentures. At September 30, 2017 and 2016, we had \$18 million and \$23 million, respectively, of letters of credit outstanding under this facility. In addition, we had another \$5 million of letters of credit outstanding through other letter of credit facilities as of September 30, 2017 and 2016.

Contingencies

Contingencies related to environmental, asbestos and other matters are discussed in Note 24 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Critical Accounting Policies

Critical accounting policies are those that are most important to the portrayal of the company's financial condition and results of operations. These policies require management's most difficult, subjective or complex judgments in the preparation of the financial statements and accompanying notes. Management makes estimates and assumptions about the effect of matters that are inherently uncertain, relating to the reporting of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Our most critical accounting policies are discussed below.

Pensions — Our defined benefit pension plans and retirement medical plans are accounted for on an actuarial basis, which requires the selection of various assumptions, including the mortality of participants. Our pension obligations are determined annually and were measured as of September 30, 2017 and 2016.

The mortality assumptions for participants in our U.S. plans incorporates future mortality improvements from tables published by the Society of Actuaries ("SOA"). We periodically review the mortality experience of our U.S. plans' participants against these assumptions. In October 2014, the SOA issued new mortality and mortality improvement tables that raised the life expectancies. We reviewed the new SOA mortality and mortality improvement tables and utilized our actuary to conduct a study based on our plan participants. We have determined that the best representation of our plans' mortality is to utilize the new SOA mortality and mortality improvement tables as the reference table for credibility-weighted mortality rates, blended with our specific mortality based on the study conducted by our actuary. We incorporated the updated tables into our 2015 year-end measurement of the plans' benefit obligations. As a result of this change in actuarial assumption, our U.S. pension obligations increased by \$24 million, and our U.S. OPEB obligations decreased by \$18 million, in fiscal year 2015. We consider improvement scales released annually by the SOA. These did not have an impact in fiscal years 2017 and 2016.

The U.S. plans include a qualified and non-qualified pension plan. In fiscal years 2017 and 2016, the only significant non-U.S. plan is located in the U.K. The following are the significant assumptions used in the measurement of the projected benefit obligation ("PBO") and net periodic pension expense:

	2017		2016	
	U.S.	U.K. (2)	U.S.	U.K. (2)
Assumptions as of September 30:				
Discount rate	3.70%	3.75%	2.80%	3.50%
Assumed return on plan assets (beginning of the year) ⁽¹⁾	7.75%	6.00%	7.75%	6.00%

(1) The assumed return on plan assets for fiscal year 2018 is 7.75 percent for the U.S. plan and 6.00 percent for the U.K. plan.

(2) In fiscal year 2015, our German and Canadian pension plans were settled. In 2017 and 2016, assumptions presented are for the U.K. pension plan, which is the only significant non-U.S. plan remaining.

The discount rate is used to calculate the present value of the PBO at the balance sheet date and net periodic pension expense for the subsequent fiscal year. The rate used reflects a rate of return on high-quality fixed income investments that match the duration of expected benefit payments. Generally we use a portfolio of long-term corporate AA/Aa bonds that match the duration of the expected benefit payments, except for our U.K. pension plan which uses an annualized yield curve, to establish the discount rate for this assumption.

The assumed return on plan assets is used to determine net periodic pension expense. The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations. An incremental amount for diversification, rebalancing and active management, where appropriate, is included in the rate of return assumption. The return assumptions are reviewed annually.

These assumptions reflect our historical experience and our best judgments regarding future expectations. The effects of the indicated increase and decrease in selected assumptions, assuming no changes in benefit levels and no amortization of gains or losses for the plans in 2017, are shown below (in millions):

Effect on All Plans – September 30, 2017			
Assumption:	Percentage Point Change	Increase (Decrease) in PBO	Increase (Decrease) in Pension Expense
Discount rate	-0.5 pts	\$ 119	\$ 1
	+0.5 pts	(106)	(1)
Assumed return on plan assets	-1.0 pts	N/A ⁽¹⁾	14
	+1.0 pts	N/A ⁽¹⁾	(14)

⁽¹⁾ Not Applicable

Accounting guidance applicable to pensions does not require immediate recognition of the effects of a deviation between actual and assumed experience and the revision of an estimate. This approach allows the favorable and unfavorable effects that fall within an acceptable range to be netted and disclosed as an unrecognized gain or loss in the footnotes. Based on the September 30, 2017 and 2016 measurement dates, we had an unrecognized loss of \$742 million and \$791 million, respectively. A portion of this loss is amortized into earnings each fiscal year. Unrecognized losses for the U.S. and U.K. plans are being amortized into net periodic pension expense over the average life expectancy of the inactive participants of approximately 18 years and 26 years, respectively.

In recognition of the long-term nature of the liabilities of the pension plans, we have targeted an asset allocation strategy designed to promote asset growth while maintaining an acceptable level of risk over the long term. Asset-liability studies are performed periodically to validate the continued appropriateness of these asset allocation targets. The asset allocation ranges for the U.S. plan are 20–50 percent equity investments, 30–60 percent fixed income investments and 10–25 percent alternative investments. Alternative investments include private equities, real estate, hedge funds and partnership interests. The target asset allocation ranges for the non-U.S. plans are 15–35 percent equity investments, 30–60 percent fixed income investments, 0–10 percent real estate and 10–30 percent alternative investments. The asset class mix and the percentage of securities in any asset class or market may vary as the risk/return characteristics of either individual market or asset classes vary over time.

The investment strategies for the pension plans are designed to achieve an appropriate diversification of investments as well as safety and security of the principal invested. Assets invested are allocated to certain global sub-asset categories within prescribed ranges in order to promote international diversification across security type, issuer type, investment style, industry group, and economic sector. Assets of the plans are both actively and passively managed. Policy limits are placed on the percentage of plan assets that can be invested in a security of any single issuer and minimum credit quality standards are established for debt securities. Meritor securities did not comprise any of the value of our worldwide pension assets as of September 30, 2017.

Based on current assumptions, the fiscal year 2018 net pension income is estimated to be \$16 million.

Retiree Medical — We have retirement medical plans that cover certain of our U.S. and non-U.S. employees and provide for medical payments to eligible employees and dependents upon retirement. Our retiree medical obligations were measured as of September 30, 2017 and September 30, 2016.

The following are the significant assumptions used in the measurement of the accumulated postretirement benefit obligation (APBO):

	2017	2016
Assumptions as of September 30:		
Discount rate	3.32 %	3.45 %
Health care cost trend rate	6.52 %	7.10 %
Ultimate health care trend rate	4.65 %	4.75 %
Year ultimate rate is reached	2024	2024

The discount rate is the rate used to calculate the present value of the APBO. The rate is determined based on high-quality fixed income investments that match the duration of expected benefit payments. We used the corporate AA/Aa bond rate for this assumption.

The health care cost trend rate represents the company's expected annual rates of change in the cost of health care benefits. Our projection for fiscal year 2018 is 6.52 percent. For measurement purposes, the annual increase in health care costs was assumed to decrease gradually to 4.65 percent by fiscal year 2024 and remain at that level thereafter.

A one-percentage point change in the assumed health care cost trend rate for all years to, and including, the ultimate rate would have the following effects (in millions):

	2017	2016
Effect on total of service and interest cost		
1% Increase	\$ —	\$ 1
1% Decrease	—	(1)
Effect on APBO		
1% Increase	5	40
1% Decrease	(4)	(35)

Based on current assumptions, fiscal year 2018 retiree medical income is estimated to be approximately \$15 million.

Product Warranties — Our business segments record estimated product warranty costs at the time of shipment of products to customers. 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.

Significant factors and information used by management when estimating product warranty liabilities include:

- Past claims experience;
- Sales history;
- Product manufacturing and industry developments; and
- Recoveries from third parties, where applicable.

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 2,800 and 5,800 pending asbestos-related claims at September 30, 2017 and 2016, respectively. Although Maremont has been named in these cases, in the cases where actual injury has been alleged, very few claimants have established that a Maremont product caused their injuries. Plaintiffs' lawyers often sue dozens or even hundreds of defendants in individual lawsuits, seeking damages against all named defendants irrespective of the disease or injury and irrespective of any causal connection with a particular product. For these reasons, the total number of claims filed is not necessarily the most meaningful factor in determining Maremont's asbestos related liability.

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

respect to events that may occur in the future.

As of September 30, 2017, Bates White provided a reasonable and probable estimate that consisted of a range of equally likely possibilities of Maremont's obligation for asbestos personal injury claims over the next ten years of \$68 million to \$82 million. After consultation with Bates White, Maremont recognized a liability for pending and future claims over the next ten years of \$68 million and \$70 million as of September 30, 2017 and 2016, respectively. 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. Maremont recognized \$5 million and \$2 million of expense in fiscal years 2017 and 2016, respectively, associated with its annual valuation of asbestos-related liabilities and receivables. Maremont has recognized incremental insurance

receivables associated with recoveries expected for asbestos-related liabilities as the estimate of asbestos-related liabilities for pending and future claims changes.

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 2027;

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

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

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

Recoveries: Maremont has historically had insurance that reimburses a substantial portion of the costs incurred defending against asbestos-related claims. The expected insurance receivable related to future asbestos-related liabilities was \$25 million and \$32 million as of September 30, 2017 and 2016, respectively. The receivable is for coverage provided by one insurance carrier based on a coverage-in-place agreement. Maremont currently expects to exhaust the remaining limits provided by this coverage sometime in the next ten years. The difference between the estimated liability and insurance receivable is primarily related to exhaustion of settled insurance coverage within the forecasted period and proceeds from settled insurance policies.

Maremont maintained insurance coverage with other insurance carriers that management believed also provided coverage for indemnity and defense costs. During fiscal year 2013, Maremont re-initiated lawsuits against these carriers, seeking a declaration of its rights to coverage for asbestos claims and to facilitate an orderly and timely collection of insurance proceeds. During the first quarter of fiscal year 2016, the dispute related to these insurance policies was settled. As part of this settlement, on December 12, 2015, Maremont received \$17 million in cash, of which \$5 million was recognized as reduction in asbestos expense and \$12 million was recorded as a liability to the insurance carrier as it is required to be returned to the carrier if additional asbestos liability is not incurred. During the fourth quarter of fiscal year 2016, Maremont recognized an additional \$9 million of the cash settlement proceeds as a reduction in asbestos expense. During the first quarter of fiscal year 2017, the company recognized the remaining \$3 million of the cash settlement proceeds as a reduction in asbestos expense. The settlement also provides additional recovery for Maremont if certain future defense and indemnity spending thresholds are met.

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

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

time of the spin-off of the automotive business from Rockwell in 1997. Rockwell had approximately 1,600 and 3,200 pending active asbestos claims in lawsuits that name AM, together with many other companies, as defendants at September 30, 2017 and 2016, respectively.

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

The company engaged Bates White to assist with determining whether it would be possible to estimate the cost of resolving pending and future Rockwell legacy asbestos-related claims that have been, and could reasonably be expected to be, filed against the company. As of September 30, 2017, Bates White provided a reasonable and probable estimate that consisted of a range of equally likely possibilities of Rockwell's obligation for asbestos personal injury claims over the next ten years of \$63 million to \$74 million. After consultation with Bates White, management recognized a liability for pending and future claims over the next ten years of \$63 million as of September 30, 2017 compared to \$60 million as of September 30, 2016. The ultimate cost of resolving pending and future claims is estimated based on the history of claims and expenses for plaintiffs represented by law firms in jurisdictions with an established history with Rockwell. The increase in the estimated liability is primarily due to higher settlement values, compared to the prior year. AM recognized \$1 million of income in fiscal year 2017 and a \$2 million charge in the fourth quarter of fiscal year 2016 associated with its annual valuation of asbestos-related liabilities and receivables.

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

• Pending and future claims were estimated for a ten-year period ending in fiscal year 2027;

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

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

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

Recoveries: Rockwell has insurance coverage that management believes covers indemnity and defense costs, over and above self-insurance retentions, for a significant portion of these claims. In 2004, the company initiated litigation against certain of these carriers to enforce the insurance policies. During the fourth quarter of fiscal year 2016, the company executed settlement agreements with two of these carriers, thereby resolving the litigation against those particular carriers. Pursuant to the terms of one of those settlement agreements, in the fourth quarter of fiscal year 2016, the company received \$32 million in cash from an insurer, of which \$10 million was recognized as a reduction in asbestos expense, and \$22 million was recorded as a liability to the insurance carrier as it is required to be returned to the carrier if additional asbestos liability is not ultimately incurred. During fiscal year 2017, Rockwell recognized an additional \$10 million of the cash settlement proceeds as a reduction in asbestos expense. Pursuant to the terms of a second settlement agreement, in the fourth quarter of fiscal year 2016, the company recorded a \$12 million receivable to reflect expected reimbursement of future defense and indemnity payments under a coverage-in-place arrangement with that insurer. In addition to the coverage provided from the settlement agreements executed during the fourth quarter of fiscal year 2016, the company continues to maintain a receivable of \$7 million related to a previously executed coverage-in-place arrangement with other insurers. The insurance receivables for Rockwell's asbestos-related liabilities totaled \$38 million and \$27 million as of September 30, 2017 and 2016, respectively. Included in these amounts are insurance receivables of \$17 million and \$9 million as of September 30, 2017 and 2016, respectively, which are associated with policies in dispute and have been fully reserved for.

Also, during the third quarter of fiscal year 2016, the company reached a settlement, relating to certain proofs of claim filed by the company under certain insurance policies, with an insolvent insurer for \$5.5 million (the "allowed claim"). On June 17, 2016, the company entered into an assignment of claim (the "Assignment") with Macquarie Bank to assign the allowed claim the company had against the insolvent insurer. The Assignment was approved by the liquidator, which resulted in the company receiving \$3 million in the third quarter of fiscal year 2016.

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 Rockwell could change significantly from its past experience, due, for example, to changes in the mix of claims filed against Rockwell in terms of plaintiffs' law firm, jurisdiction and disease; legislative or regulatory developments; Rockwell's approach to defending claims; or payments to plaintiffs from other defendants. Estimated recoveries are influenced by coverage issues among insurers and the continuing solvency of various insurance companies. If the assumptions with respect to the estimation period, the nature of pending 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.

Goodwill — Goodwill is reviewed for impairment annually or more frequently if certain indicators arise. If business conditions or other factors cause the operating results and cash flows of a reporting unit to decline, we may be required to record impairment charges for goodwill at that time.

We have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads us to determine that it is more-likely-than-not that the fair value of our reporting units is less than its carrying amount. If after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then a subsequent two-step impairment test is unnecessary. If we conclude otherwise, then we are required to test goodwill for impairment under a subsequent two-step process. We may elect to forgo this assessment and proceed directly to the two-step process.

Step one consists of a comparison of the fair value of a reporting unit with its carrying amount. An impairment loss may be recognized if the review indicates that the carrying value of a reporting unit exceeds its fair value. Estimates of fair value are primarily determined by using discounted cash flows and market multiples on earnings. If the carrying amount of a reporting unit exceeds its fair value, step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the goodwill of the reporting unit exceeds the implied fair value, an impairment charge is recorded equal to the excess.

The impairment review is highly judgmental and involves the use of significant estimates and assumptions. These estimates and assumptions have a significant impact on the amount of any impairment charge recorded. Discounted cash flow methods are dependent upon assumptions of future sales trends, market conditions and cash flows of each reporting unit over several years. Actual cash flows in the future may differ significantly from those previously forecasted.

Sales for our primary military program were at their peak during fiscal year 2012 and began to decline in fiscal year 2013. The program wound down to insignificant levels in 2015 and is expected to remain insignificant until completion of the program.

In the fourth quarter of fiscal year 2015, the U.S. Army awarded a new contract for the production of the Joint Light Tactical Vehicle to Oshkosh. We expect production for this program to ramp up over the next several years. Although we expect to supply wheel ends on this program, our revenue is expected to be significantly less than if the program was awarded differently and we were supplying our ProTec Independent Suspension.

Based on sales expectations for currently awarded programs, the fair value of our Defense business at September 30, 2015 did not exceed its carrying value enough to support the goodwill associated with it. As a result, we recorded an impairment of \$15 million, pre-tax, of goodwill in the fourth quarter of fiscal year 2015. The fair value of the other reporting units substantially exceeded their carrying values.

On August 31, 2017, we acquired certain assets, including the product portfolio and related technologies of Fabco Holdings, Inc., and its subsidiaries and assumed certain liabilities, for a cash purchase price of \$34 million. The Fabco acquisition was accounted for as a business combination. As a result, we recorded provisional goodwill in the amount of \$19 million for the excess of consideration paid over the fair value of the individual assets acquired and liabilities assumed, excluding identifiable intangible assets. This recorded goodwill consists largely of the synergies and economies of scale expected from combining the operations of the company and Fabco. All of the goodwill was assigned to the Commercial Truck & Industrial reportable segment. The assignment of goodwill to reporting units is not complete.

For fiscal year 2017, the fair value of all of our reporting units exceeded their carrying values.

Impairment of Long-Lived Assets - Long-lived assets, excluding goodwill, to be held and used are reviewed for impairment whenever adverse events or changes in circumstances indicate a possible impairment. An impairment loss is recognized when the long-lived assets' carrying value exceeds the fair value. If business conditions or other factors cause the operating results and cash flows to decline, we may be required to record impairment charges at that time. Long-lived assets held for sale are recorded at the lower of their carrying amount or fair value less cost to sell. Significant judgments and estimates used by management when evaluating long-lived assets for impairment include:

• An assessment as to whether an adverse event or circumstance has triggered the need for an impairment review;

• Undiscounted future cash flows generated by the asset; and

• Probability and estimated future cash flows associated with alternative courses of action that are being considered to recover the carrying amount of a long-lived asset.

In the fourth quarter of fiscal year 2015, the U.S. Army awarded a new contract for the production of the Joint Light Tactical Vehicle to Oshkosh, for which we will supply wheel ends. However, we made certain capital investments and commitments to supply our ProTec Independent Suspension had the JLTV program been awarded differently. As a result, we recorded an impairment of \$2 million of long-lived assets in the fourth quarter of fiscal year 2015.

During fiscal year 2017, we determined the carrying value of a business held for sale exceeded the fair value less costs to sell. As a result, an impairment charge of \$3 million was recorded within other operating expense, net. During fiscal year 2017, an additional \$1 million of other long-lived asset impairment charges were recorded.

Income Taxes - Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If it is more-likely-than-not that the deferred tax asset will be realized, no valuation allowance is recorded. Management's judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against the net deferred tax assets. The valuation allowance would need to be adjusted in the event future taxable income is materially different than amounts estimated. Significant judgments, estimates and factors considered by management in its determination of the probability of the realization of deferred tax assets include:

• Historical operating results;

• Expectations of future earnings;

• Tax planning strategies; and

• The extended period of time over which retirement medical and pension liabilities will be paid.

In prior years, we established valuation allowances against our U.S. net deferred tax assets and the net deferred tax assets of our 100-percent-owned subsidiaries, including those in France, Germany, Italy, Sweden, U.K. and certain other countries. In evaluating our ability to recover these net deferred tax assets, we utilize a consistent approach which considers our historical operating results, including an assessment of the degree to which any gains or losses are driven by items that are unusual in nature and/or tax planning strategies. In addition, we review changes in near-term market conditions and other factors that impact future operating results.

During the fourth quarter of fiscal year 2016, as a result of sustained profitability in the U.S. evidenced by a strong earnings history, future forecasted earnings, and additional positive evidence, we determined it was more likely than not that we would be able to realize our deferred tax assets. Accordingly, we reversed a portion of the valuation allowance in the U.S. resulting in a non-cash income tax benefit of \$438 million. In the fourth quarter of fiscal year 2017, an additional \$52 million of valuation allowance in the U.S. was released due to increased profitability. In fiscal year 2015, we reversed valuation allowances in Germany, Italy, Mexico and Sweden, resulting in non-cash income tax benefits of \$16 million.

During the fourth quarter of fiscal year 2016, due to a three-year cumulative loss and future economic uncertainty, we concluded that a valuation allowance was required in Brazil. This resulted in a non-cash charge to income tax expense of \$9 million. We continue to maintain the valuation allowances in France, U.K., and certain other jurisdictions, as we believe the negative evidence that we will be able to recover these net deferred tax assets continues to outweigh the positive evidence. If, in the future, we generate taxable income on a sustained basis, the conclusion regarding the need for valuation allowances in these jurisdictions could change.

The expiration periods for deferred tax assets related to net operating losses and tax credit carryforwards as of September 30, 2017 are included below (in millions). Also included are the associated valuation allowances on these deferred tax assets (in millions).

	Fiscal Year Expiration Periods				Total
	2018-2020	2021-2032	2033-2037	Indefinite	
Net Operating Losses and Tax Credit Carryforwards	\$895	\$14	\$232		\$349
Valuation Allowances on these Deferred Tax Assets	\$719	\$9	\$215		\$250

New Accounting Pronouncements

New Accounting Pronouncements are discussed in Note 2 in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

International Operations

Approximately 46 percent of our total assets as of September 30, 2017, and 47 percent of fiscal year 2017 sales from continuing operations were outside the United States. Management believes that international operations have significantly benefited the financial performance of the company. However, our international operations are subject to a number of risks inherent in operating abroad, as discussed in Item 1A. Risk Factors. There can be no assurance that these risks will not have a material adverse impact on our ability to increase or maintain our foreign sales or on our financial condition or results of operations.

Item 7A. 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 fiscal years 2015 and 2016, our reported financial results were adversely affected by the appreciation of the U.S. dollar against foreign currencies relative to the prior year. For fiscal year 2017, 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 when the underlying forecasted transaction impacts earnings. The contracts generally mature within 12 months.

We use foreign currency option contracts to mitigate foreign currency exposure on expected future Indian Rupee-denominated purchases. In the second quarter of fiscal year 2015, we monetized our outstanding foreign currency option contracts and entered into a new series of foreign currency option contracts with effective dates from the start of the third quarter of fiscal year 2015 through the end of fiscal year 2017. In the fourth quarter of fiscal year 2016, we entered into a new series of foreign currency option contracts with effective dates from the start of the first quarter of fiscal year 2017 through the end of fiscal year 2018. In the third quarter of fiscal year 2017, we monetized our outstanding foreign currency option contracts and, in the third and fourth quarters of fiscal year 2017, entered into a new series of foreign currency option contracts with maturity dates in fiscal year 2018 and fiscal year 2019. Changes in fair value associated with these contracts are recorded in cost of sales in the consolidated statements of operations. From time to time, we hedge against foreign currency exposure related to translations to U.S. dollars of our financial results denominated in foreign currencies. In the first quarter of fiscal year 2015, due to the volatility of the Brazilian real as compared to the U.S. dollar, we entered into a series of foreign currency option contracts that did not qualify for hedge accounting but were expected to mitigate foreign currency translation exposure of Brazilian real earnings to U.S. dollars. In the second quarter of fiscal year 2015, we monetized these outstanding foreign currency option contracts and entered into a new series of foreign currency option contracts with effective dates from the start of the third quarter of fiscal year 2015 through the end of fiscal year 2015. In the third and fourth quarters of fiscal year 2015, we monetized these outstanding foreign currency option contracts. Changes in fair value associated with these contracts were recorded in other income, net, in the consolidated statements of operations. As of September 30, 2017 and September 30, 2016, there were no Brazilian real foreign currency option contracts outstanding.

In the fourth quarter of fiscal year 2015 and first quarter of fiscal year 2016, due to the risk of volatility of the euro as compared to the U.S. dollar, we entered into a series of foreign currency option contracts that did not qualify for hedge accounting but were expected to mitigate foreign currency translation exposure of euro earnings to U.S. dollars. In the third and fourth quarters of fiscal year 2017, we entered into a new series of foreign currency option contracts with maturity dates in fiscal year 2017 and fiscal year 2018. Changes in fair value associated with these contracts were recorded in other income, net, in the consolidated statements of operations.

In the fourth quarter of fiscal year 2015 and first quarter of fiscal year 2016, due to the risk of volatility of the Swedish krona as compared to the U.S. dollar, we entered into a series of foreign currency option contracts that did not qualify for hedge accounting but were expected to mitigate foreign currency translation exposure of Swedish krona earnings

to U.S. dollars. In the fourth quarter of fiscal year 2017, we entered into a new series of foreign currency option contracts with maturity dates in fiscal year 2018. Changes in fair value associated with these contracts were recorded in other income, net, in the consolidated statements of operations.

Interest rate risk relates to the gain/increase or loss/decrease we could incur in our debt balances and interest expense associated with changes in interest rates. 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 analysis 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		Increase / (Decrease) In
	a 10% Increase in Rates	a 10% Decrease in Rates	
Foreign Currency Sensitivity:			
Forward contracts in USD ⁽¹⁾	5.4	(5.4) Fair Value
Forward contracts in Euro ⁽¹⁾	(6.4) 6.4	Fair Value
Foreign currency denominated debt ⁽²⁾	0.8	(0.8) Fair Value
Foreign currency option contracts in USD	7.1	3.1	Fair Value
Foreign currency option contracts in Euro	3.3	(0.4) Fair Value

Interest Rate Sensitivity:	Assuming		Increase / (Decrease) In
	a 50 BPS Increase in Rates	a 50 BPS Decrease in Rates	
Debt - fixed rate ⁽³⁾	\$ (42.8) \$ 45.7	Fair Value
Debt - variable rate	(0.4) 0.4	Cash Flow
Interest rate swaps	—	—	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.

⁽²⁾ At September 30, 2017, the fair value of outstanding foreign currency denominated debt was \$8 million. A 10% decrease in quoted currency exchange rates would result in a decrease of \$0.8 million in foreign currency denominated debt. At September 30, 2017, a 10% increase in quoted currency exchange rates would result in an increase of \$0.8 million in foreign currency denominated debt.

⁽³⁾ At September 30, 2017, the fair value of outstanding debt was \$1,188 million. A 50 basis points decrease in quoted interest rates would result in an increase of \$45.7 million in the fair value of fixed rate debt. A 50 basis points increase in quoted interest rates would result in a decrease of \$42.8 million in the fair value of fixed rate debt.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Troy, Michigan

We have audited the accompanying consolidated balance sheets of Meritor, Inc. and subsidiaries (the "Company") as of October 1, 2017 and October 2, 2016, and the related consolidated statements of operations, comprehensive income, equity (deficit), and cash flows for each of the three years in the period ended October 1, 2017. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Meritor, Inc. and subsidiaries as of October 1, 2017 and October 2, 2016, and the results of their operations and their cash flows for each of the three years in the period ended October 1, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of October 1, 2017, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 16, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP

Detroit, Michigan
November 16, 2017

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

	Year Ended September 30,		
	2017	2016	2015
Sales	\$3,347	\$3,199	\$3,505
Cost of sales	(2,863)	(2,763)	(3,043)
GROSS MARGIN	484	436	462
Selling, general and administrative	(264)	(213)	(243)
Pension settlement losses	—	—	(59)
Restructuring costs	(6)	(16)	(16)
Goodwill impairment	—	—	(15)
Other operating expense, net	(7)	(3)	(1)
OPERATING INCOME	207	204	128
Other income (expense), net	2	(1)	5
Gain on sale of equity investment	243	—	—
Equity in earnings of affiliates	48	36	39
Interest expense, net	(119)	(84)	(105)
INCOME BEFORE INCOME TAXES	381	155	67
Benefit (provision) for income taxes	(52)	424	(1)
INCOME FROM CONTINUING OPERATIONS	329	579	66
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(1)	(4)	(1)
NET INCOME	328	575	65
Less: Net income attributable to noncontrolling interests	(4)	(2)	(1)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$324	\$573	\$64
NET INCOME ATTRIBUTABLE TO MERITOR, INC.			
Net income from continuing operations	\$325	\$577	\$65
Loss from discontinued operations	(1)	(4)	(1)
Net income	\$324	\$573	\$64
BASIC EARNINGS (LOSS) PER SHARE			
Continuing operations	\$3.69	\$6.40	\$0.67
Discontinued operations	(0.01)	(0.04)	(0.01)
Basic earnings per share	\$3.68	\$6.36	\$0.66
DILUTED EARNINGS (LOSS) PER SHARE			
Continuing operations	\$3.60	\$6.27	\$0.65
Discontinued operations	(0.01)	(0.04)	(0.01)
Diluted earnings per share	\$3.59	\$6.23	\$0.64
Basic average common shares outstanding	88.0	90.1	96.9
Diluted average common shares outstanding	90.2	92.0	100.1
See Notes to Consolidated Financial Statements.			

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

	Year Ended September 30,		
	2017	2016	2015
Net income	\$328	\$575	\$65
Other comprehensive income:			
Foreign currency translation adjustments	25	(12)	(97)
Pension and other postretirement benefit related adjustments (net of tax of \$147, \$33 and \$5 at September 30, 2017, 2016 and 2015, respectively)	240	(35)	84
Unrealized gain (loss) on investment and foreign exchange contracts	(1)	4	(6)
Total comprehensive income	592	532	46
Less: Comprehensive (income) loss attributable to noncontrolling interest	(4)	(2)	1
Comprehensive income attributable to Meritor, Inc.	\$588	\$530	\$47
See Notes to Consolidated Financial Statements.			

MERITOR, INC.
CONSOLIDATED BALANCE SHEET
(In millions)

	September 30,	
	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents ⁽¹⁾	\$88	\$160
Receivables, trade and other, net ⁽¹⁾	789	396
Inventories ⁽¹⁾	378	316
Other current assets	43	33
TOTAL CURRENT ASSETS	1,298	905
NET PROPERTY⁽¹⁾	474	439
GOODWILL⁽¹⁾	414	390
OTHER ASSETS⁽¹⁾	596	760
TOTAL ASSETS	\$2,782	\$2,494
LIABILITIES, MEZZANINE EQUITY AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Short-term debt	\$288	\$14
Accounts and notes payable ⁽¹⁾	622	475
Other current liabilities	272	268
TOTAL CURRENT LIABILITIES	1,182	757
LONG-TERM DEBT	750	982
RETIREMENT BENEFITS	314	703
OTHER LIABILITIES	239	238
TOTAL LIABILITIES	2,485	2,680
COMMITMENTS AND CONTINGENCIES (NOTE 24)		
MEZZANINE EQUITY		
Convertible debt with cash settlement	2	—
EQUITY (DEFICIT):		
Common stock (September 30, 2017 and 2016, 101.4 and 99.6 shares issued and 88.6 and 86.8 shares outstanding, respectively)	101	99
Additional paid-in capital	765	876
Retained earnings (accumulated deficit)	83	(241)
Treasury stock, at cost (at both September 30, 2017 and 2016, 12.8 shares)	(136)	(136)
Accumulated other comprehensive loss	(545)	(809)
Total equity (deficit) attributable to Meritor, Inc.	268	(211)
Noncontrolling interests ⁽¹⁾	27	25
TOTAL EQUITY (DEFICIT)	295	(186)
TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY (DEFICIT)	\$2,782	\$2,494

(1) As of September 30, 2017, Assets and Liabilities held for sale were: (i) \$1 million Cash and cash equivalents; (ii) \$13 million Receivables, trade and other, net; (iii) \$2 million Inventories; (iv) \$3 million Net property; (v) \$1 million Goodwill; (vi) \$1 million Other assets; (vii) \$12 million Accounts and notes payable; and (viii) \$2 million Noncontrolling interests. As of September 30, 2016, Assets and Liabilities held for sale were: (i) \$1 million Cash and cash equivalents; (ii) \$8 million Receivables, trade and other, net; (iii) \$1 million Inventories; (iv) \$6 million Net property; (v) \$5 million Accounts and notes payable; and (vi) \$3 million Noncontrolling interests.

See Notes to Consolidated Financial Statements.

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

	Year Ended September 30,		
	2017	2016	2015
OPERATING ACTIVITIES			
CASH PROVIDED BY OPERATING ACTIVITIES (see Note 27)	\$176	\$204	\$97
INVESTING ACTIVITIES			
Capital expenditures	(95)	(93)	(79)
Cash paid for acquisition of Fabco	(34)	—	—
Cash paid for acquisition of Morganton	—	—	(16)
Other investing activities	—	3	4
Net investing cash flows used for continuing operations	(129)	(90)	(91)
Net investing cash flows provided by discontinued operations	2	4	4
CASH USED FOR INVESTING ACTIVITIES	(127)	(86)	(87)
FINANCING ACTIVITIES			
Borrowings and securitization	89	—	—
Proceeds from debt issuances	325	—	225
Redemption of notes	(103)	—	—
Repayment of notes and term loan	(408)	(55)	(199)
Debt issuance costs	(12)	—	(4)
Other financing activities	(13)	(16)	(9)
Net change in debt	(122)	(71)	13
Repurchase of common stock	—	(81)	(55)
CASH USED FOR FINANCING ACTIVITIES	(122)	(152)	(42)
EFFECT OF CHANGES IN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	1	1	(22)
CHANGE IN CASH AND CASH EQUIVALENTS	(72)	(33)	(54)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	160	193	247
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$88	\$160	\$193

See Notes to Consolidated Financial Statements.

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

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity (Deficit) Attributable to Meritor, Inc.	Non- controlling Interests	Total
Beginning balance at September 30, 2016	\$ 99	\$ 876	\$ (241)	\$ (136)	\$ (809)	\$ (211)	\$ 25	\$(186)
Comprehensive income (loss)	—	—	324	—	264	588	4	592
Vesting of restricted stock	2	(2)	—	—	—	—	—	—
Repurchase of convertible notes	—	(156)	—	—	—	(156)	—	(156)
Issuance of convertible notes	—	41	—	—	—	41	—	41
Equity based compensation expense	—	19	—	—	—	19	—	19
Debt issuance costs	—	(1)	—	—	—	(1)	—	(1)
Stock option exercises	—	2	—	—	—	2	—	2
Convertible securities with cash settlement	—	(2)	—	—	—	(2)	—	(2)
Non-controlling interest dividends	—	—	—	—	—	—	(2)	(2)
Other	—	(12)	—	—	—	(12)	—	(12)
Ending balance at September 30, 2017	\$ 101	\$ 765	\$ 83	\$ (136)	\$ (545)	\$ 268	\$ 27	\$295
Beginning balance at September 30, 2015	\$ 99	\$ 865	\$ (814)	\$ (55)	\$ (766)	\$ (671)	\$ 25	\$(646)
Comprehensive income (loss)	—	—	573	—	(43)	530	2	532
Equity based compensation expense	—	9	—	—	—	9	—	9
Repurchase of common stock	—	—	—	(81)	—	(81)	—	(81)
Non-controlling interest dividends	—	—	—	—	—	—	(2)	(2)
Other	—	2	—	—	—	2	—	2
Ending balance at September 30, 2016	\$ 99	\$ 876	\$ (241)	\$ (136)	\$ (809)	\$ (211)	\$ 25	\$(186)
Beginning balance at September 30, 2014	\$ 97	\$ 918	\$ (878)	\$ —	\$ (749)	\$ (612)	\$ 27	\$(585)
Comprehensive income (loss)	—	—	64	—	(17)	47	(1)	46
Vesting of restricted stock	2	(2)	—	—	—	—	—	—
Repurchase of convertible notes	—	(62)	—	—	—	(62)	—	(62)
Equity based compensation expense	—	10	—	—	—	10	—	10
Repurchase of common stock	—	—	—	(55)	—	(55)	—	(55)
Non-controlling interest dividends	—	—	—	—	—	—	(1)	(1)
Other	—	1	—	—	—	1	—	1

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Ending balance at September 30, 2015	\$ 99	\$ 865	\$ (814)	\$ (55)	\$ (766)	\$ (671)	\$ 25	\$(646)
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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, 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, military, bus and coach, construction 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, consolidated statement of cash flows and related notes for all periods presented. Additional information regarding discontinued operations is discussed in Note 3.

The company’s fiscal year ends on the Sunday nearest September 30. The 2017, 2016 and 2015 fiscal years ended on October 1, 2017, October 2, 2016 and September 27, 2015, 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 is used consistently throughout this report to represent the fiscal year end.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires the use of estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and related disclosures. Actual results could differ from these estimates. Significant estimates and assumptions were used to review goodwill and other long-lived assets for impairment (see Notes 5 and 12), costs associated with the company’s restructuring actions (see Note 6), product warranty liabilities (see Note 15), long-term incentive compensation plan obligations (see Note 20), retiree medical and pension obligations (see Notes 21 and 22), income taxes (see Note 23), and contingencies including asbestos (see Note 24).

Concentration of Credit Risk

In the normal course of business, the company provides credit to customers. The company limits its credit risk by performing ongoing credit evaluations of its customers and maintaining reserves for potential credit losses and through accounts receivable factoring programs. The company’s accounts receivables are generally due from medium- and heavy-duty truck OEMs, specialty vehicle manufacturers, aftermarket customers, and trailer producers. The company’s ten largest customers accounted for 74 percent, 73 percent and 75 percent of sales in fiscal years 2017, 2016 and 2015, respectively. Sales to the company’s top three customers were 49 percent, 50 percent and 55 percent of total sales in fiscal 2017, 2016 and 2015, respectively. At September 30, 2017 and 2016, 23 percent and 22 percent of the company’s trade accounts receivables were from the company’s three largest customers, respectively.

Consolidation and Joint Ventures

The consolidated financial statements include the accounts of the company and those subsidiaries in which the company has control. All intercompany balances and transactions are eliminated in consolidation. The results of operations of controlled subsidiaries are included in the consolidated financial statements and are offset by a related

noncontrolling interest recorded for the noncontrolling partners' ownership. Investments in affiliates that are not controlled or majority-owned are reported using the equity method of accounting (see Note 14).

Foreign Currency

Local currencies are generally considered the functional currencies for operations outside the U.S. For operations reporting in local currencies, assets and liabilities are translated at year-end exchange rates with cumulative currency translation adjustments included as a component of Accumulated Other Comprehensive Loss in the consolidated balance sheet. Income and expense items are translated at average rates of exchange during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Impairment of Long-Lived Assets

Long-lived assets, excluding goodwill, to be held and used are reviewed for impairment whenever adverse events or changes in circumstances indicate a possible impairment. An impairment loss is recognized when a long-lived asset's carrying value exceeds the fair value.

Long-lived assets held for sale are recorded at the lower of their carrying amount or estimated fair value less cost to sell.

Discontinued Operations

A business component that either has been disposed of or is classified as held for sale is reported as discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The results of discontinued operations are aggregated and presented separately in the consolidated statement of operations and consolidated statement of cash flows (see Note 3).

Revenue Recognition

Revenues are recognized upon shipment of product and transfer of ownership to the customer. Provisions for customer sales allowances and incentives are recorded as a reduction of sales at the time of product shipment.

Allowance for Doubtful Accounts

An allowance for uncollectible trade receivables is recorded when accounts are deemed uncollectible based on consideration of write-off history, aging analysis, and any specific, known troubled accounts.

Earnings per Share

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

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

	Year Ended September 30,		
	2017	2016	2015
Basic average common shares outstanding	88.0	90.1	96.9
Impact of stock options	—	—	0.1
Impact of restricted shares, restricted share units and performance share units	1.7	1.9	2.0
Impact of convertible notes	0.5	—	1.1
Diluted average common shares outstanding	90.2	92.0	100.1

In November 2016, the Board of Directors approved a grant of performance share units to all executives eligible to participate in the long-term incentive plan. Each performance share unit represents the right to receive one share of common stock or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit was \$12.77, which was the company's share price on the grant date of December 1, 2016. The Board of Directors also approved a grant of 0.5 million restricted share units to these executives. The restricted share units vest at the earlier of three years from the date of grant or upon termination of employment with the company under certain circumstances. The fair value of each restricted share unit was \$12.77, which was the company's share price on the grant date of December 1, 2016.

The actual number of performance share units that will vest depends upon the company's performance relative to the established M2019 goals for the three-year performance period of October 1, 2016 to September 30, 2019, measured at the end of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

performance period. The number of performance share units that vest will depend on meeting the established M2019 goals at the following weights: 50% associated with achieving an Adjusted diluted earnings per share from continuing operations target, 25% associated with achieving a target for revenue growth above market and 25% associated with achieving a Net debt to Adjusted EBITDA target. The number of performance share units that vest will be between 0% and 200% of the grant date amount of 0.6 million performance share units.

In November 2015, the Board of Directors approved a grant of performance share units to all executives eligible to participate in the long-term incentive plan. Each performance share unit represents the right to receive one share of common stock or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit was \$10.51, which was the company's share price on the grant date of December 1, 2015. The Board of Directors also approved a grant of 0.5 million restricted share units to these executives. The restricted share units vest at the earlier of three years from the date of grant or upon termination of employment with the company under certain circumstances. The fair value of each restricted share unit was \$10.51, which was the company's share price on the grant date of December 1, 2015.

The actual number of performance share units that will vest depends upon the company's performance relative to the established performance metrics for the three-year performance period of October 1, 2015 to September 30, 2018, measured at the end of the performance period. The number of performance share units that vest will depend on Adjusted EBITDA margin and Adjusted diluted earnings per share from continuing operations at the following weights: 50% associated with achieving an Adjusted EBITDA margin target and 50% associated with achieving an Adjusted diluted earnings per share from continuing operations target. The number of performance share units that vest will be between 0% and 200% of the grant date amount of 0.7 million performance share units.

In November 2014, the Board of Directors approved a grant of performance share units to all executives eligible to participate in the long-term incentive plan. Each performance share unit represents the right to receive one share of common stock or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit was \$13.74, which was the company's share price on the grant date of December 1, 2014. The Board of Directors also approved a grant of 0.4 million restricted share units to these executives. The restricted share units vest at the earlier of three years from the date of grant or upon termination of employment with the company under certain circumstances. The fair value of each restricted share unit was \$13.74, which was the company's share price on the grant date of December 1, 2014.

The actual number of performance share units that will vest depends upon the company's performance relative to the established performance metrics for the three-year performance period of October 1, 2014 to September 30, 2017, measured at the end of the performance period. The number of performance share units that vest will depend on Adjusted EBITDA margin and Adjusted diluted earnings per share from continuing operations at the following weights: 75% associated with achieving an Adjusted EBITDA margin target and 25% associated with achieving an Adjusted diluted earnings per share from continuing operations target. The number of performance share units that vest will be between 0% and 200% of the grant date amount of 0.6 million performance share units.

In November 2013, the Board of Directors approved a grant of performance share units to all executives eligible to participate in the long-term incentive plan. Each performance share unit represented the right to receive one share of common stock or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit was \$7.97, which was the company's share price on the grant date of December 1, 2013.

The actual number of performance share units that vested on December 1, 2016 depended upon the company's performance relative to the established M2016 goals for the three-year performance period of October 1, 2013 to September 30, 2016, which was measured after the end of the performance period. The company's performance resulted in the vesting of the performance share units at 112% of the grant date amounts. There were 0.4 million, 1.3 million and 0.9 million shares related to these performance share units included in the diluted earnings per share

calculation for the years ended September 30, 2017, 2016 and 2015, respectively, as certain payout thresholds were achieved relative to the established M2016 goals.

For the years ended September 30, 2017, 2016 and 2015, the dilutive impact of previously issued restricted shares, restricted share units, and performance share units was 1.7 million, 1.9 million and 2.0 million, respectively. For the years ended September 30, 2017, 2016 and 2015, compensation cost related to restricted shares, restricted share units, performance share units and stock options was \$19 million, \$9 million and \$10 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

For the fiscal years ended 2017 and 2015, 0.5 million and 1.1 million shares were included in the computation of diluted earnings per share because the average stock price exceeded the conversion price for the 7.875 percent convertible notes due 2026. For the year ended September 30, 2016, the company's convertible senior unsecured notes were excluded from the computation of diluted earnings per share, as the company's average stock price during this period was less than the conversion price for the 7.875 percent convertible notes due 2026.

Other

Other significant accounting policies are included in the related notes, specifically, goodwill (Note 5), inventories (Note 10), property and depreciation (Note 12), capitalized software (Note 13), product warranties (Note 15), financial instruments (Note 18), equity based compensation (Note 20), retirement medical plans (Note 21), retirement pension plans (Note 22), income taxes (Note 23) and environmental and asbestos-related liabilities (Note 24).

Accounting standards to be implemented

In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendment changes the recognition and presentation requirements of hedge accounting including: eliminating the requirement to separately measure and report hedge ineffectiveness; and presenting all items that affect earnings in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting components excluded from the assessment of hedge effectiveness. This standard is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is allowed at any time after the issuance of the ASU including in an interim period. If adopted at a period other than the beginning of a fiscal year, cumulative effect adjustments are reflected as of the beginning of the fiscal year. Changes to income statement classification and financial statement disclosures are applied prospectively from the date of adoption. The company is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 amends the scope of modification accounting for share-based payment arrangements and provides guidance on when an entity would be required to apply modification accounting. This standard is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The amendments in this update should be applied prospectively. The company is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. ASU 2017-08 affects entities who own investments in callable debt securities and aligns the amortization period of premiums on callable debt securities to expectations incorporated in market pricing on the underlying securities. This standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The amendments in this update should be applied on a modified retrospective basis through a cumulative-effective adjustment directly to retained earnings at the beginning of the adoption period. The company does not expect a material impact on its consolidated financial statements from adoption of this guidance.

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The new guidance requires entities to only include the service cost component of net periodic pension cost and net periodic postretirement benefit cost in operating expenses (together with other employee compensation costs). The other components of net benefit cost, including amortization of prior service cost/credit, are to be included in a separate line item(s) outside of any sub-total of operating income. ASU 2017-07 also provides guidance that only the service cost component of net benefit cost is eligible for capitalization. This standard is effective for public business entities for interim and annual periods beginning after December 15, 2017. The revisions in this amendment are to be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The company is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In February 2017, the FASB issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. ASU 2017-05 provides guidance which defines an “in substance nonfinancial asset”; unifies guidance related to partial sales of nonfinancial assets; eliminates rules specifically addressing sales of real estate; removes exceptions to the financial asset derecognition model; and clarifies the accounting for contributions of nonfinancial assets to joint ventures. The effective date and the transition requirements for the amendments in ASU 2017-05 are the same as the effective date and transition requirements in Topic 606, described below. The company is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new guidance eliminates the need to determine the fair value of individual assets and liabilities of a reporting unit to measure a goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value. The revised guidance will be applied prospectively, and is effective for calendar year-end SEC filers in 2020. Early adoption is permitted for any impairment tests performed after January 1, 2017. The new guidance is not expected to have a material impact on the company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU provides clarification on the definition of a business and adds guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. To be considered a business under the new guidance, it must include an input and a substantive process that together significantly contribute to the ability to create output. The amendment removes the evaluation of whether a market participant could replace missing elements. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and will be applied prospectively. The potential impact of this new guidance will be assessed for future acquisitions or dispositions, but it is not expected to have a material impact on the company's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810): Interests held through Related Parties that are under Common Control, which alters how a decision maker needs to consider indirect interests in a variable interest entity (VIE) held through an entity under common control. Under the ASU, if a decision maker is required to evaluate whether it is the primary beneficiary of a VIE, it will need to consider only its proportionate indirect interest in the VIE held through a common control party. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The company is currently evaluating the potential impact of this new guidance on its consolidated financial statements but does not expect a material impact upon adoption.

In October 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory. The ASU was issued to remove the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The amendments in this update are effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted however the guidance can only be adopted in the first interim period of a fiscal year. The company is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The ASU was issued to reduce differences in practice with respect to how specific transactions are classified in the statement of cash flows. The update provides guidance on the following eight types of transactions: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investments, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The company is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including accounts receivable. The ASU also modifies the impairment model for available-for-sale

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The amendments in this update are required to be adopted by public business entities in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The company is currently evaluating the potential impact of this new guidance on its accounting policies and its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The ASU clarifies the assessment of the likelihood that revenue will be collected from a contract, the guidance for presenting sales taxes and similar taxes, and the timing for measuring customer payments that are not in cash. The ASU also establishes a practical expedient for contract modifications at the transition. The amendments in this update affect the guidance in ASU 2014-09, which is not effective yet. The effective date and the transition requirements for the amendments in ASU 2016-12 are the same as the effective date and transition requirements in ASU 2014-09 as described below. Therefore, the company plans to implement this standard in the first quarter of the fiscal year beginning October 1, 2018 in connection with its planned implementation of ASU 2014-09 and is currently evaluating the potential impact of this new guidance on its accounting policies and its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update). The ASU was issued to remove from the Codification certain SEC staff guidance that the SEC staff stated would be rescinded: Revenue and Expense Recognition for Freight Services in Process; Accounting for Shipping and Handling Fees and Costs; and Accounting for Consideration Given by a Vendor to a Customer (including a Reseller of the Vendor's Products). The amendments in this update affect the guidance in ASU 2014-09, which is not effective yet. The effective date and the transition requirements for the amendments in ASU 2016-11 are the same as the effective date and transition requirements in ASU 2014-09 as described below. Therefore, the company plans to implement this standard in the first quarter of the fiscal year beginning October 1, 2018 in connection with its planned implementation of ASU 2014-09 and is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

In April, 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing. The ASU provides guidance regarding the identification of performance and licensing obligations. The amendments in this update affect the guidance in ASU 2014-09, which is not effective yet. The effective date and the transition requirements for the amendments in ASU 2016-10 are the same as the effective date and transition requirements in ASU 2014-09 as described below. Therefore, the company plans to implement this standard in the first quarter of the fiscal year beginning October 1, 2018 in connection with its planned implementation of ASU 2014-09 and is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The ASU intends to simplify how share-based payments are accounted for, including accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The standard is required to be adopted by public business entities in fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The company is assessing the potential impact of this new guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net) to clarify certain aspects of the principal-versus-agent guidance in its new revenue recognition standard. The amendments in this update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in ASU 2016-08 are the same as the effective date and transition requirements of ASU 2014-09. Therefore, the company plans to implement this standard in the first quarter of the fiscal year beginning October 1, 2018 in connection with its planned implementation of ASU 2014-09. The company is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, Investments-Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting. The ASU will eliminate the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. The standard is required to be adopted by public business entities in fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The company does not expect a material impact on its consolidated financial statements from adoption of this guidance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815), Contingent Put and Call Options in Debt Instruments. The ASU clarifies that an exercise contingency itself does not need to be evaluated to determine whether it is in an embedded derivative, just the underlying option. The standard is required to be adopted by public business entities in fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The company does not expect a material impact on its consolidated financial statements from adoption of this guidance.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815), Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The update clarifies that a change in a counterparty to a derivative instrument designated as a hedging instrument would not require the entity to dedesignate the hedging relationship and discontinue the application of hedge accounting. The standard is required to be adopted by public business entities in fiscal years beginning after December 15, 2016, including interim years within those fiscal periods. Early adoption is permitted. The company does not expect a material impact on its consolidated financial statements from adoption of this guidance.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The update will require lessees to recognize a right-of-use asset and lease liability for substantially all leases. The standard is required to be adopted by public business entities in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The company plans to implement this standard in the first quarter of the fiscal year beginning October 1, 2019 and is currently assessing the potential impact of this new guidance on its accounting policies and its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities, which requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The company does not expect a material impact on its consolidated financial statements from adoption of this guidance.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which requires entities that measure inventory using first-in, first-out (FIFO) or average cost to measure inventory at the lower of cost and net realizable value. The standard is required to be adopted by public business entities in fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The company does not expect a material impact on its consolidated financial statements from adoption of this guidance.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which requires companies to recognize revenue when a customer obtains control rather than when companies have transferred substantially all risks and rewards of a good or service and requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 was originally effective for fiscal periods beginning after December 15, 2016, including interim periods within those fiscal periods. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year making it effective for fiscal periods beginning after December 15, 2017, including interim periods within those fiscal periods, while also providing for early adoption but not before the original effective date. The company plans to implement this standard in the first quarter of the fiscal year beginning October 1, 2018 and expects to adopt the

standard on a modified retrospective basis through a cumulative adjustment to equity. The company continues to evaluate the potential impact of this new guidance on its on its accounting policies and its consolidated financial statements.

Accounting standards implemented during fiscal year 2017

In January 2017, the FASB issued ASU 2017-03 which amended Accounting Changes and Error Corrections (Topic 250) to state that registrants should consider additional qualitative disclosures if the impact of an issued but not yet adopted ASU is unknown or cannot be reasonably estimated and to include a description of the effect of the accounting policies that the registrant expects to apply, if determined. Transition guidance included in certain issued but not yet adopted ASUs was updated to reflect this amendment. The company adopted this standard in fiscal year 2017.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40), which provides guidance about management's responsibility in evaluating whether there is substantial doubt relating to an entity's ability to continue as a going concern and to provide related footnote disclosures as applicable. ASU 2014-15 is effective for the annual period ending after December 15, 2016 and for annual periods and interim periods thereafter. The company adopted this

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

standard in fiscal year 2017 and determined there is not substantial doubt relating to the company's ability to continue as a going concern, and footnote disclosure is not applicable.

In June 2014, the FASB issued ASU 2014-12, Compensation - Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved After the Requisite Service Period. This guidance requires that an award with a performance target that affects vesting and that could be achieved after the requisite service period, such as when an employee retires, but may still vest if and when the performance target is achieved, be treated as an award with performance conditions that affect vesting and the company apply existing guidance under ASC Topic 718, Compensation - Stock Compensation. The guidance is effective for fiscal periods beginning after December 15, 2015, including interim periods within those fiscal periods and may be applied either prospectively or retrospectively. The company adopted this standard prospectively in the first quarter of fiscal year 2017. This guidance did not have a material impact on its consolidated financial statements.

3. DISCONTINUED OPERATIONS

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

	Year Ended September 30,		
	2017	2016	2015
Sales	\$—	\$—	\$1
Litigation settlement	—	(3)	—
Other, net	(1)	(4)	(2)
Loss before income taxes	(1)	(7)	(2)
Benefit from income taxes	—	3	1
Loss from discontinued operations attributable to Meritor, Inc.	\$(1)	\$(4)	\$(1)

Loss from discontinued operations attributable to the company for the twelve months ended September 30, 2017 was primarily related to changes in estimates related to legal costs incurred in connection with a previously divested business.

Total discontinued operations assets and liabilities as of both September 30, 2017 and 2016 were \$1 million and \$6 million, respectively.

Prior Period Divestitures

Body Systems

In January 2011, the company completed the sale of its Body Systems business to Inteva Products Holding Coöperatieve U.A., an assignee of 81 Acquisition LLC and an affiliate of Inteva Products, LLC pursuant to the sale agreement signed in August 2010. The purchase price included a five-year, 8-percent promissory note for \$15 million, payable in five annual installments beginning in January 2012 with the final payment received in fiscal year 2016.

MSSC

In October 2009, the company closed on the sale of its 57 percent interest in MSSC, a joint venture that manufactured and supplied automotive coil springs, torsion bars and stabilizer bars in North America, to the joint venture partner, a subsidiary of Mitsubishi Steel Mfg. Co., LTD (MSM). In connection with the sale of its interest in MSSC, the

company provided certain indemnifications to the buyer for its share of potential obligations related to pension funding shortfall, environmental and other contingencies, and valuation of certain accounts receivable and inventories. The company's estimated exposure under these indemnities at September 30, 2017 and September 30, 2016 was approximately \$1 million and is included in other liabilities in the consolidated balance sheet. Adjustments to amounts previously reported in discontinued operations that are related to the disposal of the company's MSSC business are reflected in discontinued operations for all periods presented.

77

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

4. ASSETS AND LIABILITIES HELD FOR SALE

During the first quarter of fiscal year 2017, management approved a plan to sell a business within the Commercial Truck & Industrial reporting segment. The company expects to sell the business within one year from management's approval of the plan. The business and its associated assets and liabilities met the criteria for presentation as held for sale as of September 30, 2017.

Assets and liabilities held for sale are measured at the lower of the carrying value or fair value less costs to sell. Upon meeting the held for sale criteria, the company determined the carrying value of the business exceeded the fair value less costs to sell. As a result, an impairment charge of \$3 million was recorded within other operating expense, net in the company's consolidated statement of operations during fiscal year 2017.

5. GOODWILL

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

Annual Impairment Analysis

ASC Topic 350 allows entities to perform an initial qualitative evaluation to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform step one of the required two-step impairment test. As allowed by the revised guidance, the company has elected to bypass the qualitative assessment for fiscal year 2017 and proceed directly to the two-step impairment test.

Excluding the qualitative evaluation discussed above, the goodwill impairment review is a two-step process. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount. An impairment loss may be recognized if the review indicates that the carrying value of a reporting unit exceeds its fair value. Estimates of fair value are primarily determined by using discounted cash flows and market multiples on earnings. If the carrying amount of a reporting unit exceeds its fair value, step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the goodwill of the reporting unit exceeds the implied fair value, an impairment charge is recorded equal to the excess.

The impairment review is highly judgmental and involves the use of significant estimates and assumptions. These estimates and assumptions have a significant impact on the amount of any impairment charge recorded. Discounted cash flow methods are dependent upon assumptions of future sales trends, market conditions and cash flows of each reporting unit over several years. Actual cash flows in the future may differ significantly from those previously forecasted.

Sales of the company's primary military program wound down to insignificant levels in 2015. Additionally, the U.S. Army awarded a new contract for the production of the Joint Light Tactical Vehicle to Oshkosh for which the company is supplying wheel ends. Revenue is expected to be significantly less than if the program had been awarded differently and the company was supplying its ProTec independent suspension. The company continues to work toward securing participation in additional military programs; however, based on sales expectations for currently awarded programs, the company's fair value of the Defense business did not exceed its carrying value. Since the fair value of the business did not exceed the implied fair value of its net assets without goodwill enough to support the full amount of goodwill, the company's Defense reporting unit, which is included in the Commercial Truck & Industrial segment, recorded a goodwill impairment of \$15 million in the fourth quarter of 2015, which is the total accumulated impairment loss. The fair value of the other reporting units exceeded their carrying values. For fiscal year 2017, the fair value of all of the company's reporting units exceeded their carrying values.

On August 31, 2017, we acquired certain assets, including the product portfolio and related technologies of Fabco Holdings, Inc., and its subsidiaries and assumed certain liabilities, for a cash purchase price of \$34 million. The Fabco acquisition was accounted for as a business combination. As a result, we recorded provisional goodwill in the amount of \$19 million for the excess of consideration paid over the fair value of the individual assets acquired and liabilities assumed, excluding identifiable intangible

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

assets. This recorded goodwill consists largely of the synergies and economies of scale expected from combining the operations of the company and Fabco. All of the goodwill was assigned to the Commercial Truck & Industrial reportable segment. The assignment of goodwill to reporting units is not complete.

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

	Commercial Truck & Industrial	Aftermarket & Trailer	Total
Goodwill	\$ 254	\$ 163	\$417
Accumulated impairment losses	(15)	—	(15)
Balance at September 30, 2015	239	163	402
Impairment	—	—	—
Foreign currency translation	(9)	(3)	(12)
Balance at September 30, 2016	230	160	390
Impairment	—	—	—
Foreign currency translation	3	2	5
Goodwill acquired from acquisition	19	—	19
Balance at September 30, 2017	\$ 252	\$ 162	\$414

6. RESTRUCTURING COSTS

At September 30, 2017 and 2016, \$6 million and \$16 million, respectively, of restructuring reserves primarily related to unpaid employee termination benefits remained in the consolidated balance sheet. Asset impairment charges relate to manufacturing facilities that have been sold and machinery and equipment that became idle and obsolete as a result of these actions.

The following table summarizes changes in restructuring reserves (in millions):

	Employee Termination Benefits	Asset Impairment	Plant Shutdown & Other	Total
Balance at September 30, 2014	\$ 11	\$ —	\$ —	\$11
Activity during the period:				
Charges to continuing operations	15	1	—	16
Asset write-offs	—	(1)	—	(1)
Cash payments – continuing operations	(16)	—	—	(16)
Balance at September 30, 2015	10	—	—	10
Activity during the period:				
Charges to continuing operations	15	—	1	16
Cash payments – continuing operations	(11)	—	—	(11)
Other	1	—	—	1
Balance at September 30, 2016	15	—	1	16
Activity during the period:				
Charges to continuing operations	5	—	1	6
Cash payments – continuing operations	(14)	—	(1)	(15)

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Other	(1)	—	—	(1)
Total restructuring reserves, end of year	5		—	1	6	
Less: non-current restructuring reserves	(1)	—	—	(1)
Restructuring reserves – current, at September 30, 2017	\$ 4		\$ —	\$ 1	\$5	

79

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Restructuring costs attributable to the company's business segments during fiscal years 2017, 2016 and 2015 are as follows (in millions):

	Commercial Truck & Industrial	Aftermarket & Trailer	Corporate	Total
Fiscal year 2017:				
Aftermarket actions	\$ —	\$ 4	\$ —	\$ 4
Other	2	—	—	2
Total restructuring costs	\$ 2	\$ 4	\$ —	\$ 6
Fiscal year 2016:				
Market related actions	\$ 5	\$ 1	\$ 2	\$ 8
Aftermarket actions	—	5	—	5
Other	1	2	—	3
Total restructuring costs	\$ 6	\$ 8	\$ 2	\$ 16
Fiscal year 2015:				
South America labor reduction II	\$ 6	\$ —	\$ —	\$ 6
M2016 footprint actions	5	—	—	5
Closure of engineering facility	—	—	2	2
European labor reductions	2	—	—	2
Other	1	—	—	1
Total restructuring costs	\$ 14	\$ —	\$ 2	\$ 16

Aftermarket Actions: During the third quarter of fiscal year 2016, the company approved various restructuring plans in the North American and European Aftermarket businesses. The company recorded \$5 million of restructuring costs during the third quarter of fiscal year 2016 and \$4 million of restructuring costs during fiscal year 2017. Restructuring actions associated with these plans were substantially complete as of September 30, 2017.

Fourth Quarter 2016 Market Related Actions: In response to the decline in revenue in North America and South America, during the fourth quarter of fiscal year 2016, the company approved various headcount reduction plans targeting different areas of the business. During the fourth quarter of fiscal year 2016, the company incurred a total of \$5 million in restructuring costs in the Commercial Truck & Industrial segment, \$1 million in Aftermarket & Trailer segments and \$2 million in their corporate locations. Restructuring actions with these plans were substantially complete as of September 30, 2017.

Other Fiscal 2016 Actions: During the first half of fiscal year 2016, the company recorded restructuring costs of \$3 million primarily associated with a labor reduction program in China in the Commercial Truck & Industrial segment and a labor reduction program in the Aftermarket & Trailer segment. Restructuring actions with these plans were substantially complete as of September 30, 2016.

M2016 Footprint Actions: As part of the company's M2016 Strategy, during fiscal year 2013 the company announced a North American footprint realignment action and a European shared services reorganization. In total, the company eliminated approximately 140 hourly and salaried positions and incurred approximately \$7 million of associated restructuring costs, primarily in the Commercial Truck & Industrial segment in connection with the consolidation of certain gearing and machining operations in North America and the closure of a North America manufacturing facility. Restructuring actions associated with these programs were substantially complete as of September 30, 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

South America Labor Reduction: During fiscal years 2014 and 2015, the company completed a South America headcount reduction plan intended to reduce labor costs in response to softening economic conditions in the region. In response to decreasing production volumes in South America, the company eliminated approximately 420 hourly and 40 salaried positions and incurred \$13 million of restructuring costs, primarily severance benefits, in the Commercial Truck & Industrial segment. This plan was substantially complete as of September 30, 2015.

Closure of a Corporate Engineering Facility: During the second quarter of fiscal year 2015, the company notified approximately 30 salaried and contract employees that their positions were being eliminated due to the planned closure of a corporate engineering facility. The company recorded severance expenses of \$2 million associated with this plan. Restructuring actions associated with this program were substantially complete as of September 30, 2015.

European Labor Reductions: During the second quarter of fiscal year 2015, the company initiated a European headcount reduction plan intended to reduce labor costs in response to continued soft markets in the region. The company eliminated approximately 20 hourly and 20 salaried positions and recorded \$2 million of expected severance expenses in the Commercial Truck & Industrial segment in fiscal year 2015. Restructuring actions associated with this program were substantially complete as of June 30, 2015.

7. ACQUISITIONS

Fabco

On August 31, 2017, the company acquired certain assets, including the product portfolio and related technologies of Fabco Holdings, Inc. and its subsidiaries ("Fabco") and assumed certain liabilities, for a cash purchase price of \$34 million. The Fabco acquisition was accounted for as a business combination.

With the addition of Fabco's suite of products, Meritor will have an expanded portfolio of complementary products, including transfer cases, specialty gear boxes, auxiliary transmissions and power take off units for medium, heavy and extra heavy vehicles for on- and off-highway, construction, defense, rail and other industrial applications. These products are available to both OE and aftermarket customers. This transaction allows the company to offer global customers a wider breadth of capabilities and an expanded portfolio of complementary products. The acquisition is expected to also help the company diversify its customer base and expand into the rail and oil & gas industries not currently served.

Pro forma financial information of the company is presented in the following table for the years ended September 30, 2017 and 2016 as if the Fabco acquisition had occurred on October 1, 2015. The pro forma financial information is unaudited and is provided for informational purposes only and does not purport to be indicative of the results which would have actually been attained had the acquisition occurred on October 1, 2015 (in millions).

	Pro Forma Combined Year Ended September 30, 2017 2016 (Unaudited)	
Sales	\$3,388	\$3,242
Net income attributable to Meritor, Inc.	\$309	\$566

Actual amounts of revenue and earnings included in the consolidated financial statements for the year ended September 30, 2017 were not material.

The purchase price was allocated on a provisional basis as of August 31, 2017. Assets acquired and liabilities assumed were recorded at estimated fair values based on management's estimates, available information, and reasonable and supportable assumptions. Additionally, the Company is utilizing a third-party to assist with certain estimates of fair

values.

The provisional purchase price allocation, which is subject to change and may be subsequently adjusted to reflect final valuation results and other adjustments, is shown below (in millions).

81

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	August 31, 2017
Purchase price	\$ 34
Assets acquired and liabilities assumed	
Receivables, net	5
Inventories, net	13
Net property	9
Accounts payable	(6)
Other current liabilities	(6)
Identifiable net assets acquired	15
Goodwill resulting from the acquisition of Fabco	19
	\$ 34

Provisional fair value of trademarks, intellectual property, and other intangible assets is not included in the provisional purchase price allocation table above as final valuations of those intangible assets are not complete. The company recorded provisional goodwill in the amount of \$19 million for the excess of consideration paid over the fair value of the individual assets acquired and liabilities assumed, excluding identifiable intangible assets. This recorded goodwill consists largely of the synergies and economies of scale expected from combining the operations of the company and Fabco. All of the goodwill was assigned to the Commercial Truck & Industrial reportable segment. The assignment of goodwill to reporting units is not complete. All goodwill recognized is expected to be deductible for income tax purposes over the next 15 years. The company incurred acquisition related costs of \$1 million as of September 30, 2017, which were recorded as incurred and have been classified as selling, general, and administrative expenses in the company's consolidated statement of operations for the year ended September 30, 2017.

Morganton

On July 9, 2015, the company purchased from Sypris Solutions, Inc. ("Sypris"), a supplier of axle shafts and trailer beams for Meritor and Sistemas Automotrices De Mexico S.A. de C.V., a joint venture that is 50%-owned by Meritor, the majority of the assets of Sypris's Morganton, North Carolina manufacturing facility for \$16 million cash consideration. The fair value of the net assets acquired was \$16 million, which consisted mainly of property, plant and equipment. Of the equipment acquired, \$2 million was classified as held for sale at the acquisition date and was recorded in net property as of September 30, 2015. The revenue and earnings of the combined entity as though the business combination had occurred as of the beginning of the comparable prior annual reporting period was insignificant to the consolidated financial statements as the majority of sales were eliminated upon consolidation.

8. ACCOUNTS RECEIVABLE FACTORING AND SECURITIZATION**Off-balance sheet arrangements**

Swedish Factoring Facility: The company has an arrangement to sell trade receivables from AB Volvo through one of its European subsidiaries. Under this arrangement with Nordea Bank, which expires in March 2020, the company can sell up to, at any point in time, €155 million (\$183 million) of eligible trade receivables. The amount of eligible receivables sold may exceed Nordea Bank's commitment at Nordea Bank's discretion. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €139 million (\$164 million) and €121 million (\$135 million) of this accounts receivable factoring facility as of September

30, 2017 and 2016, respectively.

The facility is backed by a 364-day liquidity commitment from Nordea Bank which extends through April 23, 2018. The commitment is subject to standard terms and conditions for this type of arrangement.

U.S. Factoring Facility: The company has an arrangement to sell trade receivables due from AB Volvo and its U.S. subsidiaries through one of its U.S. subsidiaries. Under this arrangement with Nordea Bank, which expires in February 2019, the company can sell up to, at any point in time, €80 million (\$94 million) of eligible trade receivables. The amount of eligible receivables sold may exceed Nordea Bank's commitment at Nordea Bank's discretion. The receivables under this program are sold at face value and are excluded from the consolidated balance sheet. The company had utilized €37 million (\$43 million) and €39 million (\$44 million) of this accounts receivable factoring facility as of September 30, 2017 and 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

United Kingdom Factoring Facility: The company has an arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of its United Kingdom subsidiaries. Under this arrangement with Nordea Bank, which expires in February 2018, the company can sell up to, at any point in time, €25 million (\$29 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 €7 million (\$9 million) and €6 million (\$6 million) of this accounts receivable factoring facility as of September 30, 2017 and 2016, respectively. The agreement is subject to standard terms and conditions for these types of arrangements including a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the program.

Italy Factoring Facility: The company has an arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of its Italian subsidiaries. Under this arrangement with Nordea Bank, which expires in June 2022, the company can sell up to, at any point in time, €30 million (\$35 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 €22 million (\$26 million) and €22 million (\$24 million) of this accounts receivable factoring facility as of September 30, 2017 and 2016, respectively. The agreement is subject to standard terms and conditions for these types of arrangements including a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the program.

In addition to the above facilities, a number of the company's subsidiaries, primarily in Europe, factor eligible accounts receivable with financial institutions. Certain receivables are factored without recourse to the company and are excluded from accounts receivable in the consolidated balance sheet. The amount of factored receivables excluded from accounts receivable under these arrangements \$19 million and \$10 million at September 30, 2017 and 2016, respectively.

Total costs associated with all of the off-balance sheet arrangements described above were \$5 million, \$5 million and \$6 million in fiscal years 2017, 2016 and 2015, respectively, and are included in selling, general and administrative expenses in the consolidated statement of operations.

On-balance sheet arrangements

The company has a \$100 million U.S. accounts receivables securitization facility, which expires December 2019. The maximum permitted priority debt-to-EBITDA ratio as of the last day of each fiscal quarter under the facility is 2.25 to 1.00. This program is provided by PNC Bank, National Association, as Administrator and Purchaser, and the other Purchasers and Purchaser Agents from time to time (participating lenders), which are party to the agreement. Under this program, the company has the ability to sell an undivided percentage ownership interest in substantially all of its trade receivables (excluding the receivables due from AB Volvo and subsidiaries eligible for sale under the U.S. accounts receivable factoring facility) of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation ("ARC"), a wholly-owned, special purpose subsidiary. ARC funds these purchases with borrowings from participating lenders under a loan agreement. This program also includes a letter of credit facility pursuant to which ARC may request the issuance of letters of credit issued for the company's U.S. subsidiaries (originators) or their designees, which when issued will constitute a utilization of the facility for the amount of letters of credit issued. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the consolidated balance sheet. At September 30, 2017, \$89 million was outstanding under this program, and no amounts were outstanding under related letters of credit. At September, 30, 2016, no amounts, including letters of credit, were outstanding under this program. This securitization program contains a cross-default to the revolving credit facility. At certain times during any given month, the company may sell eligible accounts receivable under this program to fund intra-month working capital needs. In such months, the company would then typically utilize the cash received from

customers throughout the month to repay the borrowings under the program. Accordingly, during any given month, the company may borrow under this program in amounts exceeding the amounts shown as outstanding at fiscal year ends.

9. GAIN ON SALE OF PROPERTY AND OTHER OPERATING EXPENSE, NET

The company recognized a gain on sale of property of \$3 million during fiscal year 2015. This gain is associated with the sale of excess land at the company's facility at Cwmbran, Wales.

Other operating expense, net for fiscal years 2017 and 2016 primarily relates to environmental remediation costs incurred by the company (see Note 24).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

10. 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):

	September 30,	
	2017	2016
Finished goods	\$ 139	\$ 125
Work in process	34	26
Raw materials, parts and supplies	205	165
Total	\$ 378	\$ 316

11. OTHER CURRENT ASSETS

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

	September 30,	
	2017	2016
Asbestos-related recoveries (see Note 24)	\$ 14	\$ 10
Prepaid and other	29	23
Other current assets	\$ 43	\$ 33

12. NET PROPERTY

Property is stated at cost. Depreciation of property is based on estimated useful lives, generally using the straight-line method. Estimated useful lives for buildings and improvements range from 10 to 50 years and estimated useful lives for machinery and equipment range from 3 to 20 years. Significant improvements are capitalized, and disposed or replaced property is written off. Maintenance and repairs are charged to expense in the period they are incurred. Company-owned tooling is classified as property and depreciated over the shorter of its expected life or the life of the production contract, generally not to exceed three years.

In accordance with the FASB guidance on property, plant and equipment, the company reviews the carrying value of long-lived assets, excluding goodwill, to be held and used, for impairment whenever events or changes in circumstances indicate a possible impairment. An impairment loss is recognized when a long-lived asset's carrying value is not recoverable and exceeds estimated fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Net property is summarized as follows (in millions):

	September 30, 2017 2016	
Property at cost:		
Land and land improvements	\$30	\$30
Buildings	240	231
Machinery and equipment	892	839
Company-owned tooling	126	113
Construction in progress	69	56
Total	1,357	1,269
Less: accumulated depreciation (883)	(830)	
Net property	\$474	\$439

13. OTHER ASSETS

Other assets are summarized as follows (in millions):

	September 30, 2017 2016	
Investments in non-consolidated joint ventures (see Note 14)	\$101	\$100
Asbestos-related recoveries (see Note 24) ⁽¹⁾	32	40
Unamortized revolver debt issuance costs (see Note 17)	8	7
Capitalized software costs, net ⁽²⁾	27	29
Non-current deferred income tax assets (see Note 23)	229	413
Assets for uncertain tax positions (see Note 23)	48	35
Prepaid pension costs (see Note 22)	135	123
Other	16	13
Other assets	\$596	\$760

(1) Includes reserves for Rockwell insurance policies in dispute.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

14. INVESTMENTS IN NON-CONSOLIDATED JOINT VENTURES

The company's non-consolidated joint ventures and related direct ownership interest are as follows:

	September 30,		
	2017	2016	2015
Meritor WABCO Vehicle Control Systems (Commercial Truck & Industrial)	—%	50%	50%
Master Sistemas Automotivos Ltda. (Commercial Truck & Industrial)	49%	49%	49%
Sistemas Automotrices de Mexico S.A. de C.V. (Commercial Truck & Industrial)	50%	50%	50%
Ege Fren Sanayii ve Ticaret A.S. (Commercial Truck & Industrial)	49%	49%	49%
Automotive Axles Limited (Commercial Truck & Industrial)	36%	36%	36%

In the fourth quarter of fiscal year 2017, Meritor, Inc. closed on the sale of its interest in Meritor WABCO Vehicle Control Systems (the "Meritor WABCO JV") to a subsidiary of its joint venture partner, WABCO Holdings Inc. The total purchase price for the sale was \$250 million, which is recorded as a receivable as of September 30, 2017. The Company also received a final partnership distribution of \$8 million in the fourth quarter of fiscal year 2017, immediately prior to closing.

The Company will remain the exclusive distributor of a certain range of WABCO Holdings Inc.'s aftermarket products in the United States and Canada and the non-exclusive distributor in Mexico for a period of 10 years following the completion of the transaction, and the purchase agreement includes provisions regarding certain future options of the parties to terminate, at certain points during the first three and a half years, these distribution arrangements at an exercise price of between \$225 million and \$265 million based on the earnings of the business.

The company's investments in non-consolidated joint ventures are as follows (in millions):

	September 30,	
	2017	2016
Commercial Truck & Industrial	\$101	\$100
Aftermarket & Trailer	—	—
Total investments in non-consolidated joint ventures	\$101	\$100

The company's equity in earnings of non-consolidated joint ventures is as follows (in millions):

	Year Ended September 30,		
	2017	2016	2015
Commercial Truck & Industrial	\$48	\$36	\$39
Aftermarket & Trailer	—	—	—
Total equity in earnings of affiliates	\$48	\$36	\$39

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The summarized financial information presented below represents the combined accounts of the company's non-consolidated joint ventures related to its continuing operations (in millions):

	September 30, 2017		2016
	(1)		
Current assets	\$326	\$337	
Non-current assets	151	151	
Total assets	\$477	\$488	
Current liabilities	\$183	\$192	
Non-current liabilities	98	103	
Total liabilities	\$281	\$295	

(1) Does not include Meritor WABCO Vehicle Control Systems.

	Year Ended September 30,		
	2017	2016	2015
Sales	\$1,156	\$1,101	\$1,288
Gross profit	200	165	187
Net income	101	73	83

Dividends received from the company's non-consolidated joint ventures were \$44 million in fiscal year 2017, \$37 million in fiscal year 2016 and \$32 million in fiscal year 2015. Dividends from the company's Meritor WABCO joint venture were \$36 million, which includes a \$8 million final partnership distribution received immediately prior to closing of the sale transaction on October 1, 2017, \$33 million and \$24 million in fiscal years 2017, 2016 and 2015, respectively.

The company had sales to its non-consolidated joint ventures of approximately \$2 million, \$9 million and \$5 million in fiscal years 2017, 2016 and 2015, respectively. These sales exclude sales of \$138 million, \$124 million and \$135 million in fiscal years 2017, 2016 and 2015, respectively, to a joint venture in the company's Commercial Truck & Industrial segment, which are eliminated as the company purchases these components back after value add provided by the joint venture. The company had purchases from its non-consolidated joint ventures of approximately \$787 million, \$753 million and \$855 million in fiscal years 2017, 2016 and 2015, respectively. Additionally, the company leases space and provides certain administrative and technical services to various non-consolidated joint ventures. The company collected \$6 million, \$12 million and \$9 million for such leases and services during fiscal years 2017, 2016 and 2015, respectively.

Amounts due from the company's non-consolidated joint ventures were \$36 million and \$22 million at September 30, 2017 and 2016, respectively, and are included in Receivables, trade and other, net in the consolidated balance sheet. Amounts due to the company's non-consolidated joint ventures were \$99 million and \$84 million at September 30, 2017 and 2016, respectively, and are included in Accounts payable in the consolidated balance sheet.

The fair value of the company's investment in its Automotive Axles Limited joint venture was approximately \$72 million and \$59 million at September 30, 2017 and 2016, respectively, based on quoted market prices as this joint venture is listed and publicly traded on the Bombay Stock Exchange in India.

The company holds a variable interest in a joint venture accounted for under the equity method of accounting. The joint venture manufactures components for commercial vehicle applications primarily on behalf of the company. The variable interest relates to a supply arrangement between the company and the joint venture whereby the company supplies certain components to the joint venture on a cost-plus basis. The company is not the primary beneficiary of the joint venture, as the joint venture partner has shared or absolute control over key manufacturing operations, labor relationships, financing activities and certain other functions of the joint venture. Therefore, the company does not consolidate the joint venture. At September 30, 2017 and 2016, the company's investment in the joint venture was \$54 million and \$45 million, respectively, representing the company's maximum exposure to loss. This amount is included in investments in non-consolidated joint ventures (see Note 13).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

15. OTHER CURRENT LIABILITIES

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

	September 30,	
	2017	2016
Compensation and benefits	\$117	\$115
Income taxes	11	8
Taxes other than income taxes	34	21
Accrued interest	9	14
Product warranties	18	18
Restructuring (see Note 6)	5	14
Asbestos-related liabilities (see Note 24)	19	18
Indemnity obligations (see Note 24)	2	2
Other	57	58
Other current liabilities	\$272	\$268

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

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

	September 30,		
	2017	2016	2015
Total product warranties – beginning of year	\$44	\$48	\$51
Accruals for product warranties	14	10	15
Payments	(17)	(14)	(18)
Change in estimates and other	4	—	—
Total product warranties – end of year	45	44	48
Less: non-current product warranties (see Note 16)	(27)	(26)	(26)
Product warranties – current	\$18	\$18	\$22

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

16. OTHER LIABILITIES

Other liabilities are summarized as follows (in millions):

	September 30,	
	2017	2016
Asbestos-related liabilities (see Note 24)	\$124	\$136
Restructuring (see Note 6)	1	2
Non-current deferred income tax liabilities (see Note 23)	12	12
Liabilities for uncertain tax positions (see Note 23)	32	16
Product warranties (see Note 15)	27	26
Environmental (see Note 24)	4	6
Indemnity obligations (see Note 24)	10	11
Other	29	29
Other liabilities	\$239	\$238

17. LONG-TERM DEBT

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

	September 30,	
	2017	2016
3.25 percent convertible notes due 2037 ⁽¹⁾⁽³⁾	\$317	\$—
4.0 percent convertible notes due 2027 ⁽¹⁾⁽⁴⁾	24	142
7.875 percent convertible notes due 2026 ⁽¹⁾⁽⁵⁾	22	129
6.75 percent notes due 2021 ⁽²⁾⁽⁶⁾	173	271
6.25 percent notes due 2024 ⁽²⁾⁽⁷⁾	443	442
Capital lease obligation	12	16
Borrowings and securitization	89	—
Export financing arrangements and other	—	10
Unamortized discount on convertible notes ⁽⁸⁾	(42)	(14)
Subtotal	1,038	996
Less: current maturities	(288)	(14)
Long-term debt	\$750	\$982

⁽¹⁾ The 3.25 percent, 4.0 percent and 7.875 percent convertible notes contain a put and call feature, which allows for earlier redemption beginning in 2025, 2019 and 2020, respectively.

⁽²⁾ The 6.75 percent and 6.25 percent notes contain a call option, which allows for early redemption.

⁽³⁾ The 3.25 percent convertible notes due 2037 are presented net of \$8 million unamortized issuance costs as of September 30, 2017.

⁽⁴⁾ The 4.0 percent convertible notes due 2027 are presented net of unamortized issuance costs of an insignificant amount as of September 30, 2017 and \$1 million as of September 30, 2016.

⁽⁵⁾ The 7.875 percent convertible notes due 2026 are presented net of unamortized issuance costs of an insignificant amount as of September 30, 2017 and \$2 million as of September 30, 2016, respectively, and \$1 million and \$9

million original issuance discount as of September 30, 2017 and September 30, 2016.

⁽⁶⁾ The 6.75 percent notes due 2021 are presented net of \$2 million and \$4 million unamortized issuance costs as of September 30, 2017 and September 30, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(7) The 6.25 percent notes due 2024 are presented net of \$7 million and \$8 million unamortized issuance costs as of September 30, 2017 and September 30, 2016.

(8) The carrying amount of the equity component related to convertible debt.

Issuance of Debt Securities

On September 22, 2017, the company issued \$325 million principal amount of the 3.25 percent convertible senior notes due 2037 (the "3.25 Percent Convertible Notes"). The 3.25 Percent Convertible Notes were sold in an underwritten offering to qualified institutional buyers in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended. The 3.25 Percent Convertible Notes were issued in minimum denominations of \$1,000 principal amount per note and multiples of \$1,000 in excess thereof. Net proceeds received by the company, after issuance costs and discounts, were approximately \$317 million.

The company pays 3.25 percent cash interest per year on the principal amount of the 3.25 Percent Convertible Notes, payable semi-annually in arrears on April 15 and October 15 of each year, beginning April 15, 2018, to holders of record at the close of business on the preceding April 1 or October 1, respectively. Interest accrues on the principal amount of the 3.25 Percent Convertible Notes from and including the date the 3.25 Percent Convertible Notes were issued or from, and including, the last date in respect of which interest has been paid or provided for, as the case may be, to, but excluding, the next interest payment date.

The 3.25 Percent Convertible Notes are fully and unconditionally guaranteed on a senior unsecured basis by the company's wholly-owned subsidiaries that guarantee the company's amended and restated revolving credit facility. The 3.25 Percent Convertible Notes are the company's senior unsecured obligations and rank equally in right of payment with all of the company's existing and future senior unsecured indebtedness and effectively junior to any of the company's existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness. The guarantee by each subsidiary guarantor will rank equally with existing and future senior unsecured indebtedness of such subsidiary and effectively junior to all of the existing and future secured indebtedness of such subsidiary, to the extent of the value of the assets securing such indebtedness.

The 3.25 Percent Convertible Notes will be convertible into cash up to the principal amount of the 3.25 Percent Convertible Notes surrendered for conversion and, pay or deliver, as the case may be, cash, shares of the company's common stock or a combination of cash and shares of the company's common stock, at the company's election, in respect of the remainder, if any, of the company's conversion obligation in excess of the principal amount of the notes being converted. The initial conversion rate, subject to adjustment, is 25.0474 shares of common stock per \$1,000 principal amount of the 3.25 Percent Convertible Notes (which represents an initial conversion price of \$39.92 per share). Holders may convert their notes, at their option, only under the following circumstances prior to the close of business on the business day immediately preceding July 15, 2037, other than during the period from, and including, July 15, 2025 to the close of business on the business day immediately preceding October 15, 2025:

- during any calendar quarter after the calendar quarter ending on December 31, 2017, if the closing sale price of the company's common stock for 20 or more trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter equals or exceeds 130 percent of the applicable conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of the 3.25 Percent Convertible Notes for each trading day during such five consecutive trading day period was less than 98 percent of the product of the closing price of the company's common stock and the conversion rate on each such trading day;
- if the company calls any of the 3.25 Percent Convertible Notes for redemption, at any time from the delivery of the redemption notice through the close of business on the scheduled trading day immediately preceding the redemption

date; or

- upon the occurrence of specified corporate transactions.

During the period from, and including, July 15, 2025 to the close of business on the business day immediately preceding October 15, 2025, and on or after July 15, 2037 until the close of business on the business day immediately preceding the maturity date, holders may convert 3.25 Percent Convertible Notes at any time, regardless of the foregoing circumstances.

On or after October 15, 2025, but prior to July 15, 2037, the company may redeem the 3.25 Percent Convertible Notes at the company's option, in whole or in part, at a redemption price in cash equal to 100 percent of the principal amount of the 3.25 Percent Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Further, holders may require the company to purchase all or a portion of their 3.25 Percent Convertible Notes at a purchase price in cash equal to 100 percent of the principal amount of the 3.25 Percent Convertible Notes to be purchased, plus accrued and unpaid interest to, but

90

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

excluding, the repurchase date, on October 15, 2025 or upon certain fundamental changes. The maximum number of shares of common stock into which the 3.25 Percent Convertible Notes are convertible is approximately 8 million shares.

Accounting guidance requires that cash-settled convertible debt, such as the 3.25 Percent Convertible Notes, be separated into debt and equity components at issuance and a value be assigned to each. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar bond without the conversion feature. The difference between the bond cash proceeds and this estimated fair value, representing the value assigned to the equity component, is recorded as a debt discount. The company measures the debt component at fair value by utilizing a discounted cash flow model. This model utilizes observable inputs such as contractual repayment terms, benchmark forward yield curves, yield curves and quoted market prices of its own nonconvertible debt. The yield curves are acquired from an independent source that is widely used in the financial industry and reviewed internally by personnel with appropriate expertise in valuation methodologies.

Repurchase of Debt Securities

The company used the net proceeds, after issuance costs and discounts, of approximately \$317 million from the offering of the 3.25 Percent Convertible Notes to acquire portions of its outstanding 7.875 percent senior convertible notes due 2026 (the "7.875 Percent Convertible Notes") and its 4.0 percent senior convertible notes due 2027 (the "4.0 Percent Convertible Notes") in transactions that settled concurrently with the closing of the 3.25 Percent Convertible Note offering on September 22, 2017. In total, the company repurchased \$117 million of the \$140 million principal amount of its 7.875 Percent Convertible Notes and \$119 million of the \$143 million principal amount of its 4.0 Percent Convertible Notes. The 7.875 Percent Convertible Notes and 4.0 Percent Convertible Notes were repurchased at premiums equal to 130 percent and 16 percent, respectively, above their principal amount. These repurchases were accounted for as extinguishments of debt, and accordingly the company recognized a loss on debt extinguishment of \$31 million in the aggregate (\$23 million with respect to the 7.875 Percent Convertible Notes and \$8 million with respect to the 4.0 Percent Convertible Notes). The loss on extinguishment is recorded in the consolidated statement of operations within Interest expense, net.

On September 28, 2017, the company redeemed \$100 million of the \$275 million aggregate principal amount outstanding of the company's 6.75 percent notes due 2021 (the "6.75 Percent Notes") at a price of \$1,033.75 per \$1,000 of principal amount, plus accrued and unpaid interest. As a result, a loss on debt extinguishment of \$5 million was recorded in the company's consolidated statement of operations within Interest expense, net. The redemption was made under the company's July 2016 debt repurchase authorization (see Note 19).

On November 2, 2017, the company redeemed the remaining \$175 million aggregate principal amount outstanding of the company's 6.75 Percent Notes at a price of \$1,033.75 per \$1,000 of principal amount, plus accrued and unpaid interest. The redemption was made pursuant to a special authorization from the Board of Directors in connection with the sale of the Meritor WABCO JV.

On March 1, 2016, substantially all \$55 million principal amount outstanding of the company's 4.625 percent convertible notes due 2026 (the "4.625 Percent Convertible Notes") were repurchased at 100 percent of the face value of the notes. On April 15, 2016, the remaining 4.625 Percent Convertible Notes were redeemed at 100 percent of the face value. As of September 30, 2016 none of the 4.625 Percent Convertible Notes were outstanding. The repurchases were made under the company's equity and equity linked repurchase authorization (see Note 19). The repurchase program under this authorization was complete as of September 30, 2016.

In fiscal year 2015, the company repurchased \$110 million principal amount at maturity of the company's 7.875 Percent Convertible Notes, of which \$85 million were repurchased at a premium equal to approximately 64 percent of their principal amount in the third quarter of 2015, and \$25 million were purchased at a premium equal to approximately 58 percent of their principal amount in the fourth quarter of 2015. The 7.875 Percent Convertible Notes contain a conversion to equity feature which can be settled in cash upon conversion. Accordingly, the liability and

equity components are required to be separately accounted for upon recognition. Subsequently, upon derecognition of the convertible notes, the total cash consideration paid by the company is required to be allocated between the extinguishment of the liability component and the reacquisition of the equity component. Of the fiscal year 2015 total cash consideration of \$179 million paid, \$121 million and \$58 million were allocated between the liability and equity components, respectively. The repurchase of \$110 million principal amount at maturity of the company's 7.875 Percent Convertible Notes was accounted for as an extinguishment of debt, and accordingly, the company recognized a loss on debt extinguishment of \$24 million, which consisted of \$14 million of unamortized discount and deferred issuance costs and \$10 million of premium. The loss on debt extinguishment was included in Interest expense, net in the consolidated statement of operations. The repurchase was made under the company's 7.875 Percent Convertible Notes repurchase authorization (see Note 19).

In fiscal year 2015, the company repurchased \$19 million principal amount of the company's 4.0 Percent Convertible Notes. In the second quarter of fiscal year 2015, \$15 million of the notes were repurchased at a premium equal to approximately 6 percent

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

of their principal amount. In the third quarter of fiscal year 2015, \$4 million of the notes were repurchased at a premium equal to approximately 5 percent of their principal amount. The repurchase of \$19 million of 4.0 Percent Convertible Notes was accounted for as an extinguishment of debt, and accordingly the company recognized an insignificant loss on debt extinguishment, the majority of which was premium. The loss on debt extinguishment was included in Interest expense, net in the consolidated statement of operations. The repurchases were made under our equity and equity-linked repurchase authorization.

Current Classification of 6.75 Percent Notes

As of September 30, 2017, the company announced its intention to redeem all of the remaining \$175 million aggregate principal amount then outstanding of the company's 6.75 Percent Notes. On November 2, 2017, all of the \$175 million aggregate principal amount outstanding of the company's 6.75 Percent Notes was redeemed at a price of \$1,033.75 per \$1,000 of principal amount, plus accrued and unpaid interest. As a result, the 6.75 Percent Notes were classified as current as of September 30, 2017 and non-current as of September 30, 2016.

Current Classification of 7.875 Percent Convertible Notes

The 7.875 Percent Convertible Notes were classified as current as of September 30, 2017, as the holders of the company's 7.875 Percent Convertible Notes are entitled to convert all or a portion of their 7.875 Percent Convertible Notes at any time beginning October 1, 2017 and prior to the close of business on December 30, 2017 at a rate of 83.3333 shares of common stock per \$1,000 principal amount at maturity of the 7.875 Percent Convertible Notes (representing a conversion price of approximately \$12.00 per share). The 7.875 Percent Convertible Notes are convertible as the closing price of shares of the company's common stock for at least 20 trading days during the 30 consecutive trading-day period ending on September 29, 2017 was greater than 120 percent of the \$12.00 conversion price associated with the 7.875 Percent Convertible Notes.

The 7.875 Percent Convertible Notes surrendered for conversion, if any, would be settled in cash up to the principal amount at maturity of the 7.875 Percent Convertible Notes and cash, stock or a combination of cash and stock, at the company's election, for the remainder of the conversion value of the 7.875 Percent Convertible Notes in excess of the principal amount at maturity and cash in lieu of any fractional shares, subject to and in accordance with the provisions of the indenture that governs the 7.875 Percent Convertible Notes.

As a result of the 7.875 Percent Convertible Notes becoming currently convertible for cash up to the principal amount of \$23 million at the holder's option, \$2 million of permanent equity was reclassified as mezzanine equity.

The 7.875 Percent Convertible Notes were classified as noncurrent as of September 30, 2016.

Revolving Credit Facility

On March 31, 2017, the company amended and restated its revolving credit facility. Pursuant to the revolving credit agreement, as amended, the company has a \$525 million revolving credit facility that matures in March 2022. Additionally, \$4 million was capitalized as deferred issuance costs and will be amortized over the term of the agreement.

The availability under the revolving credit facility is subject to certain financial covenants based on (i) the ratio of the company's priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. The company is required to maintain a total priority-debt-to-EBITDA ratio, as defined in the agreement, of 2.25 to 1.00 or less as of the last day of each fiscal quarter throughout the term of the agreement.

The availability under the revolving credit facility is also subject to a collateral test, pursuant to which borrowings on the revolving credit facility cannot exceed 1.0x the collateral test value. The collateral test is performed on a quarterly basis. At September 30, 2017, the revolving credit facility was collateralized by approximately \$749 million of the

company's assets, primarily consisting of eligible domestic U.S. accounts receivable, inventory, plant, property and equipment, intellectual property and the company's investment in all or a portion of certain of its wholly-owned subsidiaries.

Borrowings under the revolving credit facility are subject to interest based on quoted LIBOR rates plus a margin and a commitment fee on undrawn amounts, both of which are based upon the company's current corporate credit rating. At September 30, 2017, the margin over LIBOR rate was 300 basis points, and the commitment fee was 45 basis points. Overnight revolving credit loans are at the prime rate plus a margin of 200 basis points.

Certain of the company's subsidiaries, as defined in the revolving credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the publicly held notes outstanding under the company's indentures (see Note 28).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

No borrowings were outstanding under the revolving credit facility at September 30, 2017 and September 30, 2016. The amended and extended revolving credit facility includes \$100 million of availability for the issuance of letters of credit. At September 30, 2017 and September 30, 2016, there were no letters of credit outstanding under the revolving credit facility.

Debt Securities

In December 2014, the company filed a shelf registration statement with the Securities and Exchange Commission, registering an unlimited amount of debt and/or equity securities that the company may offer in one or more offerings on terms to be determined at the time of sale. The December 2014 shelf registration statement superseded and replaced the shelf registration statement filed in February 2012, as amended.

3.25 Percent Convertible Notes

For a description of the 3.25 Percent Convertible Notes, see "Issuance of Debt Securities" above.

6.25 Percent Notes

On February 13, 2014, the company completed a public offering of debt securities consisting of the issuance of \$225 million principal amount of 10-year, 6.25 percent notes due 2024 (the "Initial 6.25 Percent Notes"). The offering and sale were made pursuant to the company's February 2012 shelf registration statement. The Initial 6.25 Percent Notes were issued under the company's indenture dated as of April 1, 1998, as supplemented. The Initial 6.25 Percent Notes were issued at 100 percent of their principal amount. The proceeds from the sale of the Initial 6.25 Percent Notes were \$225 million and, together with cash on hand, were primarily used to repurchase \$250 million principal amount of the company's previously outstanding 10.625 percent notes due 2018.

On June 11, 2015, the company completed a public offering of an additional \$225 million aggregate principal amount of 6.25 percent notes due 2024 (the "Additional 6.25 Percent Notes"), in an underwritten public offering pursuant to the company's December 2014 shelf registration statement. The proceeds from the sale of the Additional 6.25 Percent Notes were used to replenish available cash used to pay \$179 million, including premium and fees, to repurchase \$110 million principal amount at maturity of the company's 7.875 Percent Convertible Notes. The company used the remaining net proceeds to purchase an annuity to satisfy its obligations under the Canadian and German pension plans for its employees and for general corporate purposes. The Additional 6.25 Percent Notes constitute a further issuance of, and are fungible with, the \$225 million aggregate principal amount of Initial 6.25 Percent Notes that the company issued on February 13, 2014 and form a single series with the Initial 6.25 Percent Notes (collectively, the "6.25 Percent Notes"). The Additional 6.25 Percent Notes have terms identical to the Initial 6.25 Percent Notes, other than issue date and offering price, and have the same CUSIP number as the Initial 6.25 Percent Notes. Upon completion of the offering, the aggregate principal amount of outstanding notes of this series was \$450 million.

The 6.25 Percent Notes bear interest at a fixed rate of 6.25 percent per annum. The company pays interest on the 6.25 Percent Notes semi-annually, in arrears, on February 15 and August 15 of each year. The 6.25 Percent Notes constitute senior unsecured obligations of the company and rank equally in right of payment with existing and future senior unsecured indebtedness and effectively junior to existing and future secured indebtedness. The 6.25 Percent Notes are guaranteed on a senior unsecured basis by each of the company's subsidiaries from time to time guaranteeing its senior secured credit facility. The guarantees rank equally with existing and future senior unsecured indebtedness of the guarantors and will be effectively subordinated to all of the existing and future secured indebtedness of the guarantors, to the extent of the value of the assets securing such indebtedness.

Prior to February 15, 2019, the company may redeem, at its option, from time to time, the 6.25 Percent Notes, in whole or in part, at a redemption price equal to 100 percent of the principal amount of the 6.25 Percent Notes to be redeemed, plus an applicable make-whole premium (as defined in the indenture under which the 6.25 Percent Notes were issued) and any accrued and unpaid interest. On or after February 15, 2019, the company may redeem, at its option, from time to time, the 6.25 Percent Notes, in whole or in part, at the redemption prices (expressed as

percentages of the principal amount of the 6.25 Percent Notes to be redeemed) set forth below, plus accrued and unpaid interest, if any, if redeemed during the 12-month period beginning on February 15 of the years indicated below:

Year	Redemption Price
2019	103.125%
2020	102.083%
2021	101.042%
2022 and thereafter	100.000%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Prior to February 15, 2017, the company may redeem, at its option, from time to time, up to approximately \$79 million aggregate principal amount of the 6.25 Percent Notes with the net cash proceeds of one or more public sales of the company's common stock at a redemption price equal to 106.25 percent of the principal amount, plus accrued and unpaid interest, if any, provided that at least approximately \$146 million aggregate principal amount of the 6.25 Percent Notes remain outstanding after each such redemption and notice of any such redemption is mailed within 90 days of any such sale of common stock.

If a Change of Control (as defined in the indenture under which the 6.25 Percent Notes were issued) occurs, unless the company has exercised its right to redeem the 6.25 Percent Notes, each holder of 6.25 Percent Notes may require the company to repurchase some or all of such holder's 6.25 Percent Notes at a purchase price equal to 101 percent of the principal amount of the 6.25 Percent Notes to be repurchased, plus accrued and unpaid interest, if any.

6.75 Percent Notes

On May 31, 2013, the company completed an offering of debt securities consisting of the issuance of \$275 million principal amount of 8-year, 6.75 Percent Notes. The offering and sale were made pursuant to the company's shelf registration statement that was effective at the time of the offering. The 6.75 Percent Notes were issued under the company's indenture dated as of April 1, 1998, as supplemented. The 6.75 Percent Notes were issued at 100 percent of their principal amount. The proceeds from the sale of the 6.75 Percent Notes were \$275 million and were primarily used to complete a cash tender offer for \$167 million of the 8.125 percent notes due 2015.

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

Prior to June 15, 2016, the company may redeem, at its option, from time to time, the 6.75 Percent Notes, in whole or in part, at a redemption price equal to the 100 percent of the principal amount of the 6.75 Percent Notes to be redeemed plus an applicable make-whole premium (as defined in the indenture under which the 6.75 Percent Notes were issued) and any accrued and unpaid interest. On or after June 15, 2016, the company may redeem, at its option, from time to time, the 6.75 Percent Notes, in whole or in part, at the redemption prices (expressed as percentages of the principal amount of the 6.75 Percent Notes to be redeemed) set forth below, plus accrued and unpaid interest, if any, if redeemed during the 12-month period beginning on June 15 of the years indicated below:

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

Prior to June 15, 2016, the company also may redeem, at its option, from time to time, up to 35 percent of the aggregate principal amount of the 6.75 Percent Notes with the net cash proceeds of one or more public sales of the company's common stock at a redemption price equal to 106.75 percent of the principal amount, plus accrued and unpaid interest, if any, so long as at least 65 percent the aggregate principal amount of 6.75 Percent Notes originally issued remains outstanding after each such redemption and notice of any such redemption is mailed within 90 days of any such sale of common stock.

If a Change of Control (as defined in the indenture under which the 6.75 Percent Notes were issued) occurs, unless the company has exercised its right to redeem the 6.75 Percent Notes, each holder of 6.75 Percent Notes may require the

company to repurchase some or all of such holder's 6.75 Percent Notes at a purchase price equal to 101 percent of the principal amount of the 6.75 Percent Notes to be repurchased, plus accrued and unpaid interest, if any.
\$175 million of the 6.75 Percent Convertible Notes principal amount remains outstanding at September 30, 2017.
7.875 Percent Convertible Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

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

The 7.875 Percent Convertible Notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of the company's subsidiaries. The 7.875 Percent Convertible Notes are senior unsecured obligations and rank equally in right of payment with all of the company's existing and future senior unsecured indebtedness and are junior to any of the company's existing and future secured indebtedness.

The 7.875 Percent Convertible Notes will be convertible into cash up to the principal amount at maturity of the 7.875 Percent Convertible Note surrendered for conversion and, if applicable, shares of the company's common stock (subject to a conversion share cap as described below), based on an initial conversion rate, subject to adjustment, equivalent to 83.3333 shares per \$1,000 principal amount at maturity of 7.875 Percent Convertible Notes (which represents an initial conversion price of \$12.00 per share), only under the following circumstances:

prior to June 1, 2025, during any calendar quarter after the calendar quarter ending December 31, 2012, if the closing sale price of the company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120 percent of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter;

prior to June 1, 2025, during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount at maturity of 7.875 Percent Convertible Notes was equal to or less than 97 percent of the conversion value of the 7.875 Percent Convertible Notes on each trading day during such five consecutive trading day period;

prior to June 1, 2025, if the company has called the 7.875 Percent Convertible Notes for redemption;

prior to June 1, 2025, upon the occurrence of specified corporate transactions; or

at any time on or after June 1, 2025.

On or after December 1, 2020, the company may redeem the 7.875 Percent Convertible Notes at its option, in whole or in part, at a redemption price in cash equal to 100 percent of the principal amount at maturity of the 7.875 Percent Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Further, holders may require the company to purchase all or a portion of their 7.875 Percent Convertible Notes at a purchase price in cash equal to 100 percent of the principal amount at maturity of the 7.875 Percent Convertible Notes to be purchased, plus accrued and unpaid interest, on December 1, 2020 or upon certain fundamental changes. The maximum number of shares of common stock into which the 7.875 Percent Convertible Notes are convertible is approximately 2 million shares.

The company used the net proceeds of approximately \$220 million from the offering of the 7.875 Percent Convertible Notes (after discounts and issuance costs) and additional cash to acquire a portion of its outstanding 4.625 Percent Convertible Notes in transactions that settled concurrently with the closing of the 7.875 Percent Convertible Note offering. Approximately \$245 million of \$300 million principal amount of the 4.625 Percent Convertible Notes were repurchased for an aggregate purchase price of approximately \$236 million (including accrued interest).

Accounting guidance requires that cash-settled convertible debt, such as the 7.875 Percent Convertible Notes, be separated into debt and equity components at issuance and a value be assigned to each. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar bond without the conversion feature. The difference between the bond cash proceeds and this estimated fair value, representing the value assigned to the equity component, is recorded as a debt discount. The company measures the debt component at fair value by utilizing a discounted cash flow model. This model utilizes observable inputs such as contractual repayment terms, benchmark forward yield curves, yield curves and quoted market prices of its own nonconvertible debt. The yield curves are acquired from an independent source that is widely used in the financial industry and reviewed internally by personnel with appropriate expertise in valuation methodologies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Approximately \$23 million of the 7.875 Percent Convertible Notes principal amount remains outstanding at September 30, 2017.

4.0 Percent Convertible Notes

In February 2007, the company issued \$200 million principal amount of 4.0 Percent Convertible Notes. The 4.0 Percent Convertible Notes bear cash interest at a rate of 4.0 percent per annum from the date of issuance through February 15, 2019, payable semi-annually in arrears on February 15 and August 15 of each year. After February 15, 2019, the principal amount of the notes will be subject to accretion at a rate that provides holders with an aggregate annual yield to maturity of 4.0 percent.

The 4.0 Percent Convertible Notes are convertible into shares of the company's common stock at an initial conversion rate, subject to adjustment, equivalent to 37.4111 shares of common stock per \$1,000 initial principal amount of notes, which represents an initial conversion price of approximately \$26.73 per share. If converted, the accreted principal amount will be settled in cash and the remainder of the company's conversion obligation, if any, in excess of such accreted principal amount will be settled in cash, shares of common stock, or a combination thereof, at the company's election. Holders may convert their 4.0 Percent Convertible Notes at any time on or after February 15, 2025. The maximum number of shares of common stock into which the 4.0 Percent Convertible notes are convertible is approximately 1 million shares.

Prior to February 15, 2025, holders may convert their notes only under the following circumstances:

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

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

upon the occurrence of specified corporate transactions; or

if the notes are called by the company for redemption.

On or after February 15, 2019, the company may redeem the 4.0 Percent Convertible Notes, in whole or in part, for cash at a redemption price equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest.

On each of February 15, 2019 and 2022, or upon certain fundamental changes, holders may require the company to purchase all or a portion of their 4.0 Percent Convertible Notes at a purchase price in cash equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest.

The 4.0 Percent Convertible Notes are fully and unconditionally guaranteed by certain subsidiaries of the company that currently guarantee the company's obligations under its senior secured credit facility and other publicly held notes (see Revolving Credit Facility above).

Accounting guidance requires that cash-settled convertible debt, such as the 4.0 Percent Convertible Notes, be separated into debt and equity components at issuance and a value be assigned to each. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar bond without the conversion feature. The difference between the bond cash proceeds and this estimated fair value, representing the value assigned to the equity component, is recorded as a debt discount. The company measures the debt component at fair value by utilizing a discounted cash flow model. This model utilizes observable inputs such as contractual repayment terms, benchmark forward yield curves, yield curves and quoted market prices of its own nonconvertible debt. The yield curves are acquired from an independent source that is widely used in the financial industry and reviewed internally by personnel with appropriate expertise in valuation methodologies.

Approximately \$24 million of the 4.0 Percent Convertible Notes principal amount remains outstanding at September 30, 2017.

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

	September 30, 2017	September 30, 2016
Principal amount of convertible notes	\$ 372	\$ 283
Unamortized discount on convertible notes	(51)	(23)
Net carrying value	\$ 321	\$ 260

96

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	Convertible Notes		
	4.0%	7.875%	3.25%
Total amortization period for debt discount (in years):	12	8	8
Remaining amortization period for debt discount (in years):	2	3	8
Effective interest rates on convertible notes:	7.7%	10.9%	5.6%

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

	Year Ended		
	September 30,		
	2017	2016	2015
Contractual interest coupon	\$ 17	\$ 18	\$ 26
Amortization of debt discount	8	8	8
Repurchase of convertible notes	31	—	24
Total	\$ 56	\$ 26	\$ 58

Debt Maturities

As of September 30, 2017, the company is contractually obligated to make payments as follows (in millions):

	Total	2018	2019	2020	2021	2022	Thereafter ⁽²⁾
Total debt ⁽¹⁾	\$ 1,098	\$ 4	\$ 2	\$ 90	\$ 2	\$ 177	\$ 823

(1) Total debt excludes unamortized discount on convertible notes of \$42 million, unamortized issuance costs of \$17 million, and original issuance discount of \$1 million.

Includes the company's 6.25 percent notes, which contains a call feature that allows for early redemption and (2) includes the company's 3.25 percent, 4.0 percent and 7.875 percent convertible notes, which contain a put and call feature that allows for earlier redemption beginning in 2025, 2019 and 2020, respectively.

Capital Leases

In March 2012, the company entered into a master lease agreement with Wells Fargo Equipment Finance, under which the company can enter into lease arrangements for equipment. Each lease term is for 60 months and the lease interest rate is equal to the 5-year Swap Rate published by the Federal Reserve Board plus 564 basis points. The company had \$3 million and \$7 million outstanding under this capital lease arrangement as of September 30, 2017 and 2016, respectively. In addition, the company had another \$10 million and \$9 million outstanding through other capital lease arrangements at September 30, 2017 and 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

As of September 30, 2017, the future minimum lease payments for noncancelable capital leases with initial terms in excess of one year were as follows:

	Total	2018	2019	2020	2021	2022	Thereafter
Capital lease obligation	\$ 15	\$ 5	\$ 3	\$ 2	\$ 2	\$ 2	\$ 1
Less amounts representing interest	(3)	(1)	(1)	(1)	—	—	—
Principal on capital lease	\$ 12	\$ 4	\$ 2	\$ 1	\$ 2	\$ 2	\$ 1

Letter of Credit Facilities

On February 21, 2014, the company entered into an arrangement to amend and restate the letter of credit facility with Citicorp USA, Inc., as administrative agent and issuing bank, and the other lenders party thereto. Under the terms of this amended credit agreement, the company has the right to obtain the issuance, renewal, extension and increase of letters of credit up to an aggregate availability of \$25 million through March 2019. This facility contains covenants and events of default generally similar to those existing in the company's public debt indentures. At September 30, 2017 and 2016, \$18 million and \$23 million of letters of credit were outstanding under this facility. In addition, the company had another \$5 million of letters of credit outstanding through other letter of credit facilities as of September 30, 2017 and 2016.

Export Financing Arrangements

The company entered into a number of export financing arrangements through its Brazilian subsidiary during fiscal year 2014. The export financing arrangements were issued under an incentive program of the Brazilian government to fund working capital for Brazilian companies in exportation programs. The arrangements bore interest at 5.5 percent and had maturity dates in 2017. These financing arrangements were paid off at maturity, as of March 31, 2017. There was \$9 million outstanding under these arrangements at September 30, 2016.

Other

One of the company's 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, the company's 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 unpaid amount exceeds \$35 million per bank. As of September 30, 2017 and 2016, the company had \$24 million and \$10 million, respectively, outstanding under this program at more than one bank.

Operating Leases

The company has various operating leasing arrangements. Future minimum lease payments under these operating leases are \$15 million in 2018, \$13 million in 2019, \$12 million in 2020, \$12 million in 2021, \$12 million in 2022 and \$23 million thereafter.

18. FINANCIAL INSTRUMENTS

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

Foreign Exchange Contracts

As a result of the company's substantial international operations, it is exposed to foreign currency risks that arise from normal business operations, including in connection with transactions that are denominated in foreign currencies. In addition, the company translates sales and financial results denominated in foreign currencies into U.S. dollars for purposes of its consolidated financial statements. As a result, appreciation of the U.S. dollar against these foreign

currencies generally will have a negative impact on reported revenues and operating income, while depreciation of the U.S. dollar against these foreign currencies will generally have a positive effect on reported revenues and operating income. For fiscal years 2015 and 2016, our reported financial results were adversely affected by appreciation of the U.S. dollar against foreign currencies. For fiscal year 2017, our reported financial results benefited from depreciation of the U.S. dollar against foreign currencies.

The company has a foreign currency cash flow hedging program to reduce the company's exposure to changes in exchange rates on foreign currency purchases and sales. The company uses foreign currency forward contracts to manage the company's exposures arising from foreign currency exchange risk. Gains and losses on the underlying foreign currency exposures are partially

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

offset with gains and losses on the foreign currency forward contracts. Under this foreign currency cash flow hedging program, the company has designated the foreign exchange contracts (the “contracts”) as cash flow hedges of underlying forecasted foreign currency purchases and sales. The effective portion of changes in the fair value of the contracts is recorded in accumulated other comprehensive loss (AOCL) in the consolidated balance sheet and is recognized in operating income when the underlying forecasted transaction impacts earnings. The terms of the foreign exchange contracts generally require the company to place cash on deposit as collateral if the fair value of these contracts represents a liability for the company and exceeds the collateral threshold. The fair values of the foreign exchange derivative instruments and any related collateral cash deposits are presented on a net basis as the derivative contracts are subject to master netting arrangements.

At September 30, 2017, 2016 and 2015, the notional amount of the company's foreign exchange contracts outstanding under its foreign currency cash flow hedging program were \$126 million, \$190 million, and \$137 million respectively. The company classifies the cash flows associated with the contracts in cash flows from operating activities in the consolidated statement of cash flows. This is consistent with the classification of the cash flows associated with the underlying hedged item.

From time to time the company hedges against foreign currency exposure related to translations to U.S. dollars of financial results denominated in foreign currencies. Changes in fair value associated with these contracts are recorded in other income, net, in the consolidated statement of operations. The company also uses option contracts to mitigate foreign currency exposure on expected future Indian Rupee-denominated purchases. Changes in fair value associated with these contracts are recorded in cost of sales in the consolidated statement of operations.

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

	Location of Gain (Loss)	2017	2016	2015
Derivatives designated as hedging instruments:				
Amount of gain (loss) recognized in AOCL (effective portion)	AOCL	\$ (1)	\$ (3)	\$ 3
Amount of gain (loss) reclassified from AOCL into income (effective portion)	Cost of Sales	1	(4)	6
Derivatives not designated as hedging instruments:				
Amount of gain (loss) recognized in income	Cost of Sales	1	(1)	2
Derivatives not designated as hedging instruments:				
Amount of gain (loss) recognized in income	Other Income (expense)	—	(1)	2

Fair Value

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

	September 30, 2017	September 30, 2016
	Carrying Value	Carrying Value
Cash and cash equivalents	\$ 88	\$ 160
	Fair Value	Fair Value
	\$ 88	\$ 160

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Short-term debt	288	329	14	14
Long-term debt	750	859	982	1,051
Foreign exchange forward contracts (other assets)	—	—	1	1
Foreign exchange forward contracts (other liabilities)	3	3	2	2
Short-term foreign currency option contracts (other assets)	2	2	—	—
Long-term foreign currency option contracts (other assets)	1	1	2	2

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

99

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	September 30, 2017			September 30, 2016		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Reported	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Reported
Derivative Asset						
Foreign exchange forward contract	—	—	—	1	—	1
Derivative Liabilities						
Foreign exchange forward contract	3	—	3	2	—	2

Fair Value

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

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

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

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

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

Fair value of financial instruments by the valuation hierarchy at September 30, 2017 is as follows (in millions):

	Level	Level	Level
	1	2	3
Cash and cash equivalents	\$ 88	\$ —	—
Short-term debt	—	325	4
Long-term debt	—	851	8
Foreign exchange forward contracts (asset)	—	—	—
Foreign exchange forward contracts (liability)	—	3	—
Short-term foreign currency option contracts (asset)	—	—	2
Long-term foreign currency option contracts (asset)	—	—	1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Fair value of financial instruments by the valuation hierarchy at September 30, 2016 is as follows (in millions):

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 160	\$ —	\$ —
Short-term debt	—	—	14
Long-term debt	—	1,040	11
Foreign exchange forward contracts (asset)	—	1	—
Foreign exchange forward contracts (liability)	—	2	—
Short-term foreign currency option contracts (asset)	—	—	—
Long-term foreign currency option contracts (asset)	—	—	2

The tables below provide a reconciliation of changes in fair value of the Level 3 financial assets and liabilities measured at fair value in the consolidated balance sheet for the twelve months ended September 30, 2017 and September 30, 2016, respectively. No transfers of assets between any of the Levels occurred during these periods.

Twelve months ended September 30, 2017 (in millions)	Short-term foreign currency option contracts (asset)	Long-term foreign currency option contracts (asset)	Total
Fair Value as of September 30, 2016	\$ —	\$ 2	\$ 2
Total unrealized gains (losses):			
Included in other income, net	—	—	—
Included in cost of sales	—	2	2
Total realized gains (losses):			
Included in other income, net	—	—	—
Included in cost of sales	—	—	—
Purchases, issuances, sales and settlements:			
Purchases	1	1	2
Settlements	(2)	(1)	(3)
Transfer in and / or out of Level 3 ⁽¹⁾	—	—	—
Reclass between short-term and long-term	3	(3)	—
Fair Value as of September 30, 2017	\$ 2	\$ 1	\$ 3

⁽¹⁾ Transfers as of the last day of the reporting period

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Twelve months ended September 30, 2016 (in millions)	Short-term foreign currency option contracts (asset)	Long-term foreign currency option contracts (asset)	Total
Fair Value as of September 30, 2015	\$ 1	\$ 1	\$ 2
Total unrealized gains (losses):			
Included in other income, net	(2)	—	(2)
Included in cost of sales	—	(1)	(1)
Total realized gains (losses):			
Included in other income, net	—	—	—
Included in cost of sales	—	—	—
Purchases, issuances, sales and settlements:			
Purchases	1	—	1
Settlements	—	2	2
Transfer in and / or out of Level 3 ⁽¹⁾	—	—	—
Reclass between short-term and long-term	—	—	—
Fair Value as of September 30, 2016	\$ —	\$ 2	\$ 2

⁽¹⁾ Transfers as of the last day of the reporting period

Cash and cash equivalents — All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. The carrying value approximates fair value because of the short maturity of these instruments. The company did not have any cash equivalents at September 30, 2017 or September 30, 2016.

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

Foreign exchange forward contracts — The company uses foreign exchange forward purchase and sale contracts with terms of 18 months 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. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of changes in the fair value of the contracts is recorded in Accumulated Other Comprehensive Loss in the statement of shareholders' equity and is recognized in operating income when the underlying forecasted transaction impacts earnings.

Foreign currency option contracts — The fair value of foreign exchange option contracts is based on third-party proprietary models, which incorporate inputs at varying unobservable weights of quoted spot rates, market volatility, forward rates, and time utilizing market instruments with similar quality and maturity characteristics.

The company uses option contracts to mitigate foreign exchange exposure on expected future Indian Rupee-denominated purchases. As of September 30, 2017 and September 30, 2016, the notional amount of the company's Indian rupee foreign exchange contracts outstanding was \$172 million and \$174 million, respectively. The company did not elect hedge accounting for these derivatives. Changes in fair value associated with these contracts are recorded in cost of sales in the consolidated statement of operations.

The company uses option contracts to mitigate the risk of volatility in the translation of euro earnings to U.S. dollars. As of September 30, 2017, the notional amount of the company's euro option contracts outstanding was \$58 million.

As of September 30, 2016, there were no euro foreign exchange option contracts outstanding. These option contracts did not qualify for a hedge accounting election. Changes in fair value associated with these contracts are recorded in the consolidated statement of operations in other income, net.

The company uses option contracts to mitigate the risk of volatility in the translation of Swedish krona to U.S. dollars. As of September 30, 2017, the notional amount of the company's Swedish krona option contracts outstanding was \$71 million. As of September 30, 2016, there were no Swedish krona foreign exchange option contracts outstanding. These option contracts did not

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

qualify for a hedge accounting election. Changes in fair value associated with these contracts are recorded in the consolidated statement of operations in other income, net.

19. SHAREHOLDERS' EQUITY

Common Stock

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

In the first quarter of fiscal year 2015, the company filed a shelf registration statement with the Securities and Exchange Commission, registering an unlimited amount of debt and/or equity securities that may be offered in one or more offerings on terms to be determined at the time of sale.

The company has reserved approximately 13 million shares of common stock in connection with its 2010 Long-Term Incentive Plan, as amended ("LTIP") for grants of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, restricted share units and stock awards to key employees and directors. At September 30, 2017, there were 4.8 million shares available for future grants under the LTIP.

Repurchase Authorizations

On July 21, 2016, the Board of Directors authorized the repurchase of up to \$100 million of the company's common stock and up to \$150 million aggregate principal amount of any of the company's debt securities (including convertible debt securities), in each case from time to time through open market purchases, privately negotiated transactions or otherwise, until September 30, 2019, subject to compliance with legal and regulatory requirements and our debt covenants. This repurchase authorization superseded and replaced the January 2015 repurchase authorization described below. There was an insignificant amount of common stock and \$100 million in debt security repurchases that were made under these authorizations during fiscal year 2017.

In June 2014, the company's Board of Directors authorized the repurchase of up to \$210 million of the company's equity and equity-linked securities (including convertible debt securities), subject to the achievement of its M2016 net debt reduction target and compliance with legal and regulatory requirements and its debt covenants. During fiscal year 2016, the company repurchased 8.7 million shares of common stock for \$81 million (including commission costs) and all \$55 million outstanding principal amount 4.625% convertible notes at 100 percent of the face value of the notes. In the aggregate, the company repurchased 12.8 million shares of common stock for \$136 million (including commission costs), \$19 million principal amount of its 4.0 percent convertible notes, and all of the \$55 million outstanding principal amount 4.625% convertible notes at 100 percent of the face value of the notes. (see Note 17). The repurchase program under the \$210 million authorization was complete as of September 30, 2016.

In January 2015, the Offering Committee of the company's Board of Directors authorized the repurchase of up to \$150 million aggregate principal amount of any of the company's debt securities (including convertible debt securities). No repurchases were made under this authorization prior to its replacement with the authorization described above on July 21, 2016.

In May 2015, the Offering Committee of the company's Board of Directors authorized the repurchase of up to \$175 million aggregate principal amount at maturity of the company's 7.875 Percent Convertible Notes, subject to

compliance with legal and regulatory requirements and its debt covenants. This repurchase authorization expired on September 30, 2015. During fiscal year 2015, the company repurchased \$110 million principal amount at maturity of the company's 7.875 Percent Convertible Notes for \$179 million (see Note 17) pursuant to this repurchase authorization.

Accumulated Other Comprehensive Loss (AOCL)

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

103

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss	Total
Balance at September 30, 2016	\$ (66)	\$ (740)	\$ (3)	\$(809)
Other comprehensive income (loss) before reclassification	25	200	(1)	224
Amounts reclassified from accumulated other comprehensive loss	—	40	—	40
Net current-period other comprehensive income (loss)	\$ 25	\$ 240	\$ (1)	\$264
Balance at September 30, 2017	\$ (41)	\$ (500)	\$ (4)	\$(545)

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Consolidated Statement of Operations
Employee Benefit Related Adjustment		
Amortization of prior service costs	\$ (5)	(a)
Amortization of actuarial losses	45	(a)
	40	Total before tax
	(12)	Tax (benefit) expense
	\$ 28	Net of tax
Total reclassifications for the period	\$ 28	Net of tax

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension and retiree medical expense (see Note 21 and 22 for additional details), which is recorded in cost of sales and selling, general and administrative expenses

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss	Total
Balance at September 30, 2015	\$ (54)	\$ (705)	\$ (7)	\$(766)
Other comprehensive income (loss) before reclassification	(12)	(70)	4	(78)
Amounts reclassified from accumulated other comprehensive loss	—	35	—	35
Net current-period other comprehensive income (loss)	\$ (12)	\$ (35)	\$ 4	\$(43)
Balance at September 30, 2016	\$ (66)	\$ (740)	\$ (3)	\$(809)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Consolidated Statement of Operations
Employee Benefit Related Adjustment		
Amortization of prior service costs	\$ (1)	(a)
Amortization of actuarial losses	36	(a)
	35	Total before tax
	—	Tax (benefit) expense
	\$ 35	Net of tax
Total reclassifications for the period	\$ 35	Net of tax

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension and retiree medical expense (see Note 21 and 22 for additional details).

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss	Total
Balance at September 30, 2014	\$ 41	\$ (789)	\$ (1)	\$(749)
Other comprehensive income (loss) before reclassification	(96)	(18)	(6)	(120)
Amounts reclassified from accumulated other comprehensive loss	1	102	—	103
Net current-period other comprehensive income (loss)	\$ (95)	\$ 84	\$ (6)	\$(17)
Balance at September 30, 2015	\$ (54)	\$ (705)	\$ (7)	\$(766)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Consolidated Statement of Operations
Employee Benefit Related Adjustment		
Amortization of prior service costs	\$ (1)	(a)
Amortization of actuarial losses	47	(a)
Recognized prior service costs due to settlement	56	(a)
	102	Total before tax
	—	Tax (benefit) expense
	\$ 102	Net of tax
Employee Benefit Related Adjustment		
Foreign currency translation	\$ 1	(b)
	1	Total before tax
	—	Tax (benefit) expense
	\$ 1	Net of tax
Total reclassifications for the period	\$ 103	Net of tax

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension and retiree medical expense (see Note 21 and 22 for additional details).

(b) These accumulated other comprehensive income components are included in the computation of loss from discontinued operations (see Note 3).

20. EQUITY BASED COMPENSATION

Stock Options

Under the company's incentive plans, stock options are typically granted at prices equal to the fair value on the grant date and have a maximum term of 10 years. Stock options generally vest over a three-year period from the grant date. There were 0.2 million stock options that were exercised in fiscal year 2017. No stock options were granted in fiscal year 2017. No stock options were granted or exercised during fiscal years 2016 and 2015.

The following is a rollforward of stock options for fiscal year 2017 (shares in thousands, exercise price and remaining contractual term represent weighted averages and aggregate intrinsic values in millions):

Shares	Exercise Price	Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding — beginning of year	233	\$ 8.22	

Exercised	(233)	8.22		
Cancelled or expired	—	—		
Outstanding — end of year	—	\$ —	0.0	—
Exercisable — end of year	—	\$ —	0.0	—

Stock-based compensation is measured at the grant date based on the fair value of the award and is generally recognized as expense ratably on a straight-line basis over the requisite service period, which is generally the vesting period of the respective

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

award. No compensation cost is ultimately recognized for awards for which employees do not render the requisite service and are forfeited.

Compensation expense is recognized for the non-vested portion of previously issued stock options. No compensation expense associated with the expensing of stock options was recognized in fiscal years 2017, 2016 and 2015. There were 0.2 million stock options that were exercised in fiscal year 2017. No options were exercised in fiscal years 2016 and 2015.

Restricted Stock and Restricted Share Units

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

The following is a rollforward of the company's non-vested restricted stock and restricted share units as of September 30, 2017, and the activity during fiscal year 2017 is summarized as follows (shares in thousands):

Non-vested Shares	Number of Shares	Weighted-Average Grant-Date Fair Value
Non-vested - beginning of year	1,232	\$ 11.00
Granted	598	13.29
Vested	(218)	9.30
Forfeited	(98)	11.73
Non-vested - end of year	1,514	12.10

In fiscal years 2017, 2016 and 2015, the company granted 0.6 million, 0.7 million, and 0.5 million shares of restricted stock and restricted share units, respectively. The grant date weighted average fair value of these restricted share units was \$13.29, \$9.72, and \$13.91 for shares of restricted stock and restricted share units granted in fiscal years 2017, 2016 and 2015, respectively. The number of non-vested restricted shares and restricted share units as of September 30, 2017 was 1.5 million. The per share weighted average fair value of these non-vested shares was \$12.10.

As of September 30, 2017, there was \$9 million of total unrecognized compensation costs related to non-vested restricted shares and restricted share units. These costs are expected to be recognized over a weighted average period of 1.03 years. Total compensation expense recognized for restricted stock and restricted share units was \$7 million, \$5 million and \$4 million in fiscal year 2017, 2016 and 2015, respectively.

Performance Share Units

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

In November 2016, the Board of Directors approved a grant of performance share units to all executives eligible to participate in the long-term incentive plan. Each performance share unit represents the right to receive one share of

common stock or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit was \$12.77, which was the company's share price on the grant date of December 1, 2016. The Board of Directors also approved a grant of 0.5 million restricted share units to these executives. The restricted share units vest at the earlier of three years from the date of grant or upon termination of employment with the company under certain circumstances. The fair value of each restricted share unit was \$12.77, which was the company's share price on the grant date of December 1, 2016.

The actual number of performance share units that will vest depends upon the company's performance relative to the established M2019 goals for the three-year performance period of October 1, 2016 to September 30, 2019, measured at the end of the performance period. The number of performance share units that vest will depend on meeting the established M2019 goals at the following weights: 50% associated with achieving an Adjusted diluted earnings per share from continuing operations target, 25%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

associated with achieving targets for revenue growth above market and 25% associated with achieving a Net debt to Adjusted EBITDA target. The number of performance share units that vest will be between 0% and 200% of the grant date amount of 0.6 million performance share units.

In November 2015, the Board of Directors approved a grant of performance share units to all executives eligible to participate in the LTIP. Each performance share unit represents the right to receive one share of common stock or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit was \$10.51, which was the company's share price on the grant date of December 1, 2015. The Board of Directors also approved a grant of 0.5 million restricted share units to these executives. The restricted share units vest at the earlier of three years from the date of grant or upon termination of employment with the company under certain circumstances. The fair value of each restricted share unit was \$10.51, which was the company's share price on the grant date of December 1, 2015.

The actual number of performance share units that will vest depends upon the company's performance relative to the established performance metrics for the three-year performance period of October 1, 2015 to September 30, 2018, measured at the end of the performance period. The number of performance share units will depend on Adjusted EBITDA margin and Adjusted diluted earnings per share from continuing operations at the following weights: 50% associated with achieving an Adjusted EBITDA margin target and 50% associated with achieving an Adjusted diluted earnings per share from continuing operations target. The number of performance share units that vest will be between 0% and 200% of the grant date amount of 0.7 million performance share units.

In November 2014, the Board of Directors approved a grant of performance share units to all executives eligible to participate in the LTIP. Each performance share unit represents the right to receive one share of common stock or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit was \$13.74, which was the company's share price on the grant date of December 1, 2014. The Board of Directors also approved a grant of 0.4 million restricted share units to these executives. The restricted share units vest at the earlier of three years from the date of grant or upon termination of employment with the company under certain circumstances. The fair value of each restricted share unit was \$13.74, which was the company's share price on the grant date of December 1, 2014.

The actual number of performance share units that will vest depends upon the company's performance relative to the established performance metrics for the three-year performance period of October 1, 2014 to September 30, 2017, measured at the end of the performance period. The number of performance share units will depend on Adjusted EBITDA margin and Adjusted diluted earnings per share from continuing operations at the following weights: 75% associated with achieving an Adjusted EBITDA margin target and 25% associated with achieving an Adjusted diluted earnings per share from continuing operations target. The number of performance share units that vest will be between 0% and 200% of the grant date amount of 0.6 million shares.

In November 2013, the Board of Directors approved a grant of performance share units to all executives eligible to participate in the long-term incentive plan. Each performance share unit represented the right to receive one share of common stock or its cash equivalent upon achievement of certain performance and time vesting criteria. The fair value of each performance share unit was \$7.97, which was the company's share price on the grant date of December 1, 2013.

The actual number of performance share units that vested on December 1, 2016 depended upon the company's performance relative to the established M2016 goals for the three-year performance period of October 1, 2013 to September 30, 2016, which was measured after the end of the performance period. The company's performance resulted in the vesting of the performance share units at 112% of the grant date amounts.

The following is a rollforward of the company's non-vested performance share units as of September 30, 2017, and the activity during fiscal year 2017 is summarized as follows (shares in thousands):

Non-vested Shares	Number of Shares	Weighted-Average Grant-Date Fair Value
Non-vested - beginning of year	2,660	\$ 9.88
Granted	730	12.30
Vested	(1,409)	8.29
Forfeited	(168)	11.51
Non-vested - end of year	1,813	11.93

108

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

There were 0.7 million performance share units granted during fiscal 2017 and 1.8 million of non-vested performance shares as of September 30, 2017. The per share weighted average fair value of the performance share units was \$11.93 as of September 30, 2017.

For the years ended September 30, 2017, 2016 and 2015, compensation cost recognized related to the performance share units was \$14 million, \$6 million and \$8 million, respectively. As of September 30, 2017, there were \$10 million of total unrecognized compensation costs related to non-vested performance share unit equity compensation arrangements. These costs are expected to be recognized over a weighted average period of 0.99 years.

21. RETIREMENT MEDICAL PLANS

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

In fiscal years 2002 and 2004, the company approved amendments to certain retiree medical plans, including health benefits for retirees (and their surviving spouses) who were formerly United Auto Workers (“UAW”) members at ten former Rockwell International (“Rockwell”) plants. Certain of these plan amendments were challenged in lawsuits that were filed in the United States District Court for the Eastern District of Michigan (“District Court”) alleging the changes breached the terms of various collective bargaining agreements (“CBAs”) entered into by Rockwell and the UAW for facilities that have either been closed or sold and alleging a companion claim under the Employee Retirement Income Security Act of 1974 (“ERISA”). The two class action lawsuits that were filed in 2004 (Cole v. ArvinMeritor, et al. and Faust v. ArvinMeritor, et al.) by the UAW and retirees and surviving spouses claimed that the health benefits were vested for life through the negotiated CBAs. These actions were subsequently consolidated.

On December 22, 2005, the District Court issued a preliminary injunction enjoining the company from implementing changes to retiree health benefits and ordered the company to reinstate and resume paying the full cost of health benefits for the UAW retirees at the levels existing prior to the changes made in 2002 and 2004. In 2006, the District Court granted a motion by the UAW for summary judgment and granted the UAW’s request to make the terms of the preliminary injunction permanent (the “injunction”). The company accounted for the injunction as a rescission of the 2002 and 2004 plan amendments and began recording the impact of the injunction in March 2006. In addition, the injunction ordered the defendants to reimburse the plaintiffs for out-of-pocket expenses incurred since the date of the earlier benefit modifications. In 2007, the company appealed the District Court’s order to the U.S. Court of Appeals for the Sixth Circuit (“Sixth Circuit”). The Sixth Circuit ruled to affirm the District Court’s ruling, and the company moved for an en banc rehearing. This motion was held in abeyance while the parties attempted to settle the case. In July 2016, the company moved for re-hearing based on a January 2015 U.S. Supreme Court decision on the subject matter and a subsequent Sixth Circuit ruling in a separate case on the same subject matter. The court granted the re-hearing, and in April 2017, the Sixth Circuit reversed the District Court’s decision, finding that the retiree medical benefits were not vested for life through the CBAs.

The plaintiffs’ appeal to the Sixth Circuit for a rehearing en banc was denied in June 2017. The plaintiffs subsequently filed a motion to stay the Sixth Circuit’s mandate pending appeal to the U.S. Supreme Court. The Sixth Circuit denied that motion on July 10, 2017 and issued the mandate the same day. Through the Sixth Circuit’s mandate, the case was remanded to the District Court to carry out further proceedings as necessary to comply with the mandate. On July 19, 2017 the company filed a motion with the District Court to dissolve the injunction and enter the judgment in favor of the Defendants. On September 6, 2017, pursuant to the mandate from the Sixth Circuit, the District Court dissolved its 2006 injunction which previously barred the modification of the benefits provided by the Company to the class of United Auto Workers employee retirees. The plaintiffs filed a petition for a writ of certiorari with the Supreme Court of the United States on September 15, 2017. We cannot predict whether or not the Supreme Court will grant the

plaintiffs' petition for certiorari.

On September 8, 2017, the Company determined to modify the benefits provided to certain former union employee retirees. Under these modifications, which may be amended at the Company's discretion at any time, the Company expects to provide (i) each retiree over the age of 65 with a defined contribution of \$4,000 annually and (ii) each retiree under the age of 65 with a level of benefits generally equivalent to those currently provided to the Company's active employees, in each case and as currently contemplated, for a period of seven years. These benefit modifications generated a \$315 million prior service credit in September 2017, which will be amortized over the retirees' average life expectancy, which is currently estimated to be 10 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The mortality assumptions for participants in the company's U.S. plans incorporates future mortality improvements from tables published by the Society of Actuaries ("SOA"). In October 2014, the SOA issued new mortality and mortality improvement tables that raised the life expectancies. The company reviewed the new SOA mortality and mortality improvement tables and utilized an actuary to conduct a study based on the company's plan participants. The company determined that the best representation of the plans' mortality is to utilize the new SOA mortality and mortality improvement tables as the reference table for credibility-weighted mortality rates, blended with company-specific mortality based on the study conducted by the actuary. The company incorporated the updated tables into the 2015 year-end measurement of the plans' benefit obligations. As a result of this change in actuarial assumption, the company's U.S. OPEB obligations decreased by \$18 million in the fourth quarter of fiscal year 2015. The company considers improvement scales released annually by the SOA. These did not have an impact in fiscal years 2017 and 2016.

On September 26, 2014, Meritor amended its retiree medical and retiree life insurance plan in the United States to cease retiree medical coverage for salaried and non-union hourly employees under the age of 65 and eliminate retiree life insurance coverage with face amounts ranging from \$3,750 to \$15,000. The amendment triggered a curtailment in the fourth quarter of fiscal year 2014 which immediately reduced the retiree medical liability by \$16 million (i.e., a curtailment gain) and reduced retiree medical expense by \$15 million. The reduction in expense was primarily attributable to the required immediate recognition of negative prior service costs which were previously being amortized into net periodic expense over the active participants remaining average service life. The \$16 million reduction to the retiree medical liability established a new negative prior service cost base, which, subsequent to the curtailment, is being amortized over an average expected lifetime of inactive participants of approximately 10 years.

The company's retiree medical obligations were measured as of September 30, 2017, 2016, and 2015. The following are the assumptions used in the measurement of the APBO and retiree medical expense:

	2017	2016	2015
Discount rate	3.32 %	3.45 %	4.20 %
Health care cost trend rate	6.52 %	7.10 %	7.00 %
Ultimate health care trend rate	4.65 %	4.75 %	5.00 %
Year ultimate rate is reached	2024	2024	2022

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

The discount rate is used to calculate the present value of the APBO. This rate is determined based on high-quality fixed income investments that match the duration of expected retiree medical benefits. The company has used the corporate AA/Aa bond rate for this assumption. The health care cost trend rate represents the company's expected annual rates of change in the cost of health care benefits. The company's projection for fiscal year 2018 health care cost trend rate is 6.52 percent.

The APBO as of the September 30, 2017 and 2016 measurement dates are summarized as follows (in millions):

	2017	2016
Retirees	\$ 104	\$ 444
Employees eligible to retire	—	1

Total \$104 \$445

110

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following reconciles the change in APBO and the amounts included in the consolidated balance sheet for years ended September 30, 2017 and 2016, respectively (in millions):

	2017	2016
APBO — beginning of year	\$445	\$436
Interest cost	14	18
Actuarial loss (gain)	(8)	27
Plan amendment	(315)	—
Benefit payments ⁽¹⁾	(32)	(36)
APBO — end of year	104	445
Other ⁽²⁾	—	2
Retiree medical liability	\$104	\$447

⁽¹⁾ Net of subsidies and rebates available under Employer Group Waiver Plan (EGWP).

A \$2 million reserve for retiree medical liabilities was recorded at September 30, 2016 as the company's best

⁽²⁾ estimate for retroactive benefits related to the previously mentioned injunction. No reserve was required at September 30, 2017 following the dissolution of the injunction.

Actuarial losses/(gains) relate to changes in the discount rate and other actuarial assumptions. In accordance with FASB ASC Topic 715, "Compensation – Retirement Benefits", a portion of the actuarial losses is not subject to amortization. The actuarial losses that are subject to amortization are generally amortized over the average lifetime of inactive participants of approximately 10 years.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit at least actuarially equivalent to the benefit established by the law. The company provides retiree medical benefits under certain plans that exceed the value of the benefits that are provided by the Medicare Part D plan. Therefore, management concluded that these plans are at least actuarially equivalent to the Medicare Part D plan and the company is eligible for the federal subsidy. In September 2011, in connection with the Health Care and Education Reconciliation Act of 2010, the company converted its current prescription drug program for certain retirees to a group-based, company-sponsored Medicare Part D program, or Employer Group Waiver Plan (EGWP). In September 2012, the company converted certain additional groups of retirees to EGWP and as a result, reduced its APBO by an additional amount of approximately \$25 million. In 2013, the company began using the Part D subsidies delivered through EGWP to reduce its net retiree medical costs. As a result of this change in assumption, the company reduced its APBO by approximately \$35 million. These reductions to APBO are being amortized over an average expected lifetime of inactive participants of approximately 10 years.

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

	September 30, 2017	2016
Current — included in compensation and benefits	\$18	\$33
Long-term — included in retirement benefits	86	414
Retiree medical liability	\$104	\$447

The following table summarizes the amounts included in Accumulated Other Comprehensive Loss net of tax related to retiree medical liabilities as of September 30, 2017 and 2016 and changes recognized in Other Comprehensive

Income (Loss) net of tax for the years ended September 30, 2017 and 2016.

111

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Net Actuarial Loss	Prior Service Cost (Benefit)	Total
Balance at September 30, 2016	\$ 107	\$ (11)	\$96
Net actuarial gain for the year	(8)	—	(8)
Recognized prior service costs due to plan amendment	—	(315)	(315)
Amortization for the year	(15)	5	(10)
Deferred tax impact	8	118	126
Balance at September 30, 2017	\$ 92	\$ (203)	\$ (111)
Balance at September 30, 2015	\$ 101	\$ (12)	\$89
Net actuarial loss for the year	27	—	27
Amortization for the year	(13)	1	(12)
Deferred tax impact	(8)	—	(8)
Balance at September 30, 2016	\$ 107	\$ (11)	\$96

The net actuarial loss and prior service benefit that are estimated to be amortized from accumulated other comprehensive loss into net periodic retiree medical income in fiscal year 2018 are \$(17) million and \$35 million, respectively.

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

	2017	2016	2015
Service cost	\$—	\$—	\$—
Interest cost	14	18	19
Amortization of:			
Prior service benefit	(5)	(1)	(1)
Actuarial losses	15	13	22
Retiree medical expense	\$24	\$30	\$40

A one-percentage point change in the assumed health care cost trend rate for all years to, and including, the ultimate rate would have the following effects (in millions):

	2017	2016
Effect on total service and interest cost		
1% Increase	\$ —	\$ 1
1% Decrease	—	(1)
Effect on APBO		
1% Increase	5	40
1% Decrease	(4)	(35)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	Gross Benefit Payments ⁽¹⁾	Gross Receipts
Fiscal 2018	\$ 20	\$ 1
Fiscal 2019	15	—
Fiscal 2020	14	—
Fiscal 2021	14	—
Fiscal 2022	13	—
Fiscal 2023 – 2027 ³¹		1

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

22. RETIREMENT PENSION PLANS

The company sponsors defined benefit pension plans that cover certain of its U.S. and non-U.S. employees. Pension benefits for salaried employees are based on years of credited service and compensation. Pension benefits for hourly employees are based on years of service and specified benefit amounts. The company's funding policy provides that annual contributions to the pension trusts will be at least equal to the minimum amounts required by ERISA in the U.S. and the actuarial recommendations or statutory requirements in other countries.

The mortality assumptions for participants in the company's U.S. plans incorporates future mortality improvements from tables published by the SOA. In October 2014, the SOA issued new mortality and mortality improvement tables that raised the life expectancies. The company reviewed the new SOA mortality and mortality improvement tables and utilized an actuary to conduct a study based on the company's plan participants. The company determined that the best representation of the plans' mortality is to utilize the new SOA mortality and mortality improvement tables as the reference table for credibility-weighted mortality rates, blended with company specific mortality based on the study conducted by the actuary. The company incorporated the updated tables into the 2015 year-end measurement of the plans' benefit obligations. As a result of this change in actuarial assumption, the company's U.S. pension obligations increased by \$24 million in the fourth quarter of fiscal year 2015. The company considers improvement scales released annually by the SOA. These did not have an impact in fiscal years 2017 and 2016.

On August 1, 2010, Meritor amended its defined benefit pension plan in the United Kingdom to cease the accrual of future benefits for all of its active plan participants. Subsequent to the freeze date, the company began making contributions to its defined contribution savings plan on behalf of the affected employees. The amount of the savings plan contribution is based on a percentage of the employees' pay. These changes did not affect then-current retirees. The company began recording the impact of the plan freeze in the fourth quarter of fiscal year 2010. Subsequent to the plan freeze, accumulated actuarial losses are being amortized into net periodic pension expense over the average life expectancy of inactive plan participants of approximately 26 years rather than over their remaining average service life.

In April 2007, the company announced a freeze of its defined benefit pension plan for salaried and non-represented employees in the United States, effective January 1, 2008. The change affected approximately 3,800 employees including certain employees who continued to accrue benefits for an additional transition period, ending June 30,

2011. After these freeze dates, the company started making additional contributions to its defined contribution savings plan on behalf of the affected employees. The amount of the savings plan contribution is based on a percentage of the employees' pay, with the contribution percentage increasing as a function of employees' age. These changes do not affect plan participants who had retired prior to the freeze dates or represented employees. Accumulated actuarial losses are being amortized into net periodic pension expense over the average life expectancy of inactive plan participants of approximately 18 years.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Effective October 2014, the company amended the U.S. Retirement Plan to include an additional distribution option in the form of a Lump Sum Benefit from the Plan. The majority of Plan members are eligible for this distribution option following termination or when making their retirement payment election. The Lump Sum Benefit equals the present value of a member's vested accrued benefit paid in one lump sum payment.

During fiscal year 2015, the company settled the remaining liabilities associated with its Canadian pension plans through lump-sum payments made from plan assets to plan participants and by purchasing annuity contracts from an insurance company. The company recognized a primarily non-cash pre-tax settlement loss of \$16 million associated with the annuity purchases and lump-sum payments. The company settled a net pension obligation of \$16 million using \$20 million of pension plan assets, such that the assets and liabilities were derecognized from the balance sheet during the quarter ended September 30, 2015.

Additionally, in fiscal year 2015, the company settled the remaining liabilities associated with its German pension plans by purchasing annuity contracts from an insurance company. The company recognized a primarily non-cash pre-tax settlement loss of \$43 million associated with the annuity purchases. The company settled a net pension obligation of \$91 million, which was derecognized from the balance sheet during the quarter ended September 30, 2015.

The company's pension obligations are generally measured as of September 30, 2017, 2016 and 2015, while the pension obligations associated with the fourth quarter fiscal year 2015 settled Canadian and German pension plans were measured as of August 31, 2015. The U.S. plans include qualified and non-qualified pension plans. The company's only significant remaining non-U.S. plan is located in the United Kingdom.

The following are the significant assumptions used in the measurement of the projected benefit obligation (PBO) and net periodic pension expense:

	U.S. Plans		
	2017	2016	2015
Discount rate	3.70%	3.75% 3.50%	3.55% 4.25%
Assumed return on plan assets (beginning of the year)	7.75%	7.75%	8.00%
	Non-U.S. Plans ⁽²⁾		
	2017 2016	2015	
Discount rate ⁽¹⁾	2.80% 2.80%	1.00%	3.80% 3.80%
Assumed return on plan assets (beginning of the year) ⁽¹⁾	6.00% 6.00%	2.25%	7.25% 7.25%
Rate of compensation increase ⁽³⁾	N/A N/A	2.00%	

The discount rate for the company's U.K. pension plan was 2.80 percent, 2.50 percent and 3.80 percent for 2017, ⁽¹⁾ 2016 and 2015, respectively. The assumed return on plan assets for this plan was 6.00 percent, 6.00 percent and 7.25 percent for 2017, 2016 and 2015, respectively.

⁽²⁾ In fiscal year 2015, our German and Canadian pension plans were settled. In 2017 and 2016, assumptions presented are for the U.K. pension plan, which is the only significant non-U.S. plan remaining.

⁽³⁾ Rate of compensation increase for 2017 and 2016 is not applicable as the U.K. pension plan is frozen.

The discount rate is used to calculate the present value of the PBO at the balance sheet date and net periodic pension expense for the subsequent fiscal year. The rate used reflects a rate of return on high-quality fixed income investments that match the duration of expected benefit payments. Generally, the company uses a portfolio of long-term corporate AA/Aa bonds that match the duration of the expected benefit payments, except for the company's U.K. pension plan which uses an annualized yield curve, to establish the discount rate for this assumption.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The assumed return on plan assets is used to determine net periodic pension expense. The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations. An incremental amount for active plan asset management and diversification, where appropriate, is included in the rate of return assumption. The return assumption is reviewed annually.

The rate of compensation increase represents the long-term assumption for expected increases to salaries for pay-related plans. The accompanying disclosures include pension obligations associated with businesses classified as discontinued operations.

The following table reconciles the change in the PBO, the change in plan assets and amounts included in the consolidated balance sheet for the years ended September 30, 2017 and 2016, respectively (in millions):

	2017			2016		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
PBO — beginning of year	\$1,112	\$616	\$1,728	\$1,042	\$614	\$1,656
Service cost	—	—	—	—	1	1
Interest cost	38	15	53	45	20	65
Actuarial gain	(32)	(21)	(53)	105	115	220
Prior service cost	1	—	1	—	—	—
Benefit payments	(83)	(30)	(113)	(80)	(35)	(115)
Foreign currency rate changes	—	19	19	—	(99)	(99)
PBO — end of year	\$1,036	\$599	\$1,635	\$1,112	\$616	\$1,728
Change in plan assets						
Fair value of assets — beginning of year	\$834	\$734	\$1,568	\$830	\$717	\$1,547
Actual return on plan assets	65	1	66	79	169	248
Employer contributions	5	1	6	5	1	6
Benefit payments	(83)	(30)	(113)	(80)	(35)	(115)
Foreign currency rate changes	—	24	24	—	(118)	(118)
Fair value of assets — end of year	\$821	\$730	\$1,551	\$834	\$734	\$1,568
Funded status	\$(215)	\$131	\$(84)	\$(278)	\$118	\$(160)

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

	2017			2016		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Non-current assets	\$—	\$135	\$135	\$—	\$123	\$123
Current liabilities	(5)	—	(5)	(6)	—	(6)
Retirement benefits-non-current	(210)	(4)	(214)	(272)	(5)	(277)
Net amount recognized	\$(215)	\$131	\$(84)	\$(278)	\$118	\$(160)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following tables summarize the amounts included in Accumulated Other Comprehensive Loss net of tax related to pension liabilities as of September 30, 2017 and 2016 and changes recognized in Other Comprehensive Income (Loss) net of tax for the year ended September 30, 2017.

	Net Actuarial Loss		
	U.S.	Non-U.S.	Total
Balance at September 30, 2016	\$454	\$ 190	\$644
Net prior service cost for the year	1	—	1
Net actuarial gain for the year	(36)	11	(25)
Amortization for the year	(22)	(8)	(30)
Deferred tax impact	21	—	21
Balance at September 30, 2017	\$418	\$ 193	\$611
Balance at September 30, 2015	\$410	\$ 206	\$616
Net actuarial loss for the year	87	(11)	76
Amortization for the year	(18)	(5)	(23)
Deferred tax impact	(25)	—	(25)
Balance at September 30, 2016	\$454	\$ 190	\$644

The company estimates that \$28 million of net actuarial losses will be amortized from accumulated other comprehensive loss into net periodic pension expense during fiscal year 2018. The non-current portion of the pension liability is included in Retirement Benefits in the consolidated balance sheet as follows (in millions):

	September 30, 2017		2016
Pension liability	\$214	\$277	
Retiree medical liability — long term (see Note 21)	86	414	
Other	14	12	
Total retirement benefits	\$314	\$703	

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

Additional information is as follows (in millions):

	2017			2016		
	ABO	Assets	Total	ABO	Assets	Total
PBO	\$1,041	\$ 594	\$1,635	\$1,116	\$ 612	\$1,728
ABO	1,041	594	1,635	1,116	612	1,728
Plan Assets	821	730	1,551	834	734	1,568

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	2017	2016	2015
Service cost	\$—	\$1	\$2
Interest cost	53	65	70
Assumed rate of return on plan assets	(96)	(99)	(111)
Amortization of —			
Actuarial losses	30	23	26
Settlement loss	—	—	59
Net periodic pension expense (income)	\$(13)	\$(10)	\$46

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

Investment Policy and Strategy

The company's primary investment objective for its pension plan assets is to generate a total investment return sufficient to meet present and future benefit payments while minimizing the company's cash contributions over the life of the plans. In order to accomplish this objective, the company maintains target allocations to identify and manage exposures. The target asset allocation ranges for the U.S. plan are 20–50 percent equity investments, 30–60 percent fixed income investments and 10–25 percent alternative investments. Alternative investments include private equities, real estate, hedge funds, diversified growth funds, and partnership interests. The target asset allocation ranges for the non-U.S. plans are 15–35 percent equity investments, 30–60 percent fixed income investments, 0–10 percent real estate and 10–30 percent alternative investments.

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

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

Concentration of Risk

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

Fair Value of Investments

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

Level 1 inputs use quoted prices in active markets for identical assets that the Plan has the ability to access.

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

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

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

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

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

Equity Securities: The overall equity category includes common and preferred stocks issued by U.S. and international companies as well as equity funds that invest in these instruments. All investments generally allow near-term (within 90 days of the measurement date) liquidity and are held in issues that are actively traded to facilitate transactions at minimum cost. The aggregate equity portfolio is diversified to avoid exposure to any investment strategy, single economic sector, industry group, or individual security.

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

Due to the long-term nature of real estate investments, liquidity is provided on a quarterly basis.

Futures Contracts: The plan enters into futures contracts in the normal course of its investing activities to manage market risk and to achieve overall investment portfolio objectives. The credit risk associated with these contracts is minimal as they are traded on organized exchanges and settled daily. The fair value of futures contracts is determined by direct quoted market prices. Cash margin for these futures contracts is included in Cash and Cash Equivalents in the leveling table.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The fair value of plan assets at September 30, 2017 by asset category is as follows (in millions):

U.S. Plans Asset Category	2017			Total
	Level 1	Level 2	Level 3	
Equity investments				
U.S. – Large cap	\$54	\$—	\$—	\$54
U.S. – Small cap	26	—	—	26
Private equity	—	—	19	19
International equity	37	—	—	37
Equity investments measured at net asset value ⁽¹⁾	—	—	—	195
Total equity investments	\$117	\$—	\$ 19	\$331
Fixed income investments				
U.S. fixed income	\$5	\$213	\$—	\$218
Emerging fixed income	—	22	—	22
Partnerships fixed income	14	—	—	14
Fixed income investments measured at net asset value ⁽¹⁾	—	—	—	37
Total fixed income	\$19	\$235	\$—	\$291
Alternatives – Partnerships	—	—	77	77
Alternatives – Partnerships measured at net asset value ⁽¹⁾	—	—	—	88
Cash and cash equivalents	—	34	—	34
Total assets at fair value	\$136	\$269	\$ 96	\$821
 Non-U.S. Plans	 2017			
Asset Category	Level 1	Level 2	Level 3	Total
Equity investments				
International equity	\$168	\$—	\$—	\$168
Total equity investments	\$168	\$—	\$—	\$168
Fixed income investments				
Other fixed income investments	\$5	\$149	\$—	\$154
Fixed income investments measured at net asset value ⁽¹⁾	—	—	—	226
Total fixed income	\$5	\$149	\$—	\$380
Commingled funds	—	5	—	5
Alternative investments measured at net asset value ⁽¹⁾	—	—	—	136
Real estate measured at net asset value ⁽¹⁾	—	—	—	40
Cash and cash equivalents	—	1	—	1
Total assets at fair value	\$173	\$155	\$—	\$730

In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The fair value of plan assets at September 30, 2016 by asset category is as follows (in millions):

U.S. Plans Asset Category	2016			Total
	Level 1	Level 2	Level 3	
Equity investments				
U.S. – Large cap	\$71	\$—	\$—	\$71
U.S. – Small cap	22	—	—	22
Private equity	—	—	11	11
International equity	41	—	—	41
Equity investments measured at net asset value ⁽¹⁾	—	—	—	152
Total equity investments	\$134	\$—	\$ 11	\$297
Fixed income investments				
U.S. fixed income	\$10	\$265	\$—	\$275
Emerging fixed income	—	20	—	20
Partnerships fixed income	—	—	1	1
Fixed income investments measured at net asset value ⁽¹⁾	—	—	—	45
Total fixed income	\$10	\$285	\$ 1	\$341
Alternatives – Partnerships	—	—	77	77
Alternatives – Partnerships measured at net asset value ⁽¹⁾	—	—	—	84
Cash and cash equivalents	—	35	—	35
Total assets at fair value	\$144	\$320	\$ 89	\$834
Non-U.S. Plans Asset Category	2016			Total
	Level 1	Level 2	Level 3	
Equity investments				
International equity	\$61	\$—	\$—	\$61
Equity investments measured at net asset value ⁽¹⁾	—	—	—	82
Total equity investments	\$61	\$—	\$—	\$143
Fixed income investments				
Other fixed income investments	\$—	\$222	\$—	\$222
Fixed income investments measured at net asset value ⁽¹⁾	—	—	—	198
Total fixed income	\$—	\$222	\$—	\$420
Commingled funds	—	6	—	6
Alternative investments measured at net asset value ⁽¹⁾	—	—	—	114
Real estate measured at net asset value ⁽¹⁾	—	—	—	37
Cash and cash equivalents	—	14	—	14
Total assets at fair value	\$61	\$242	\$—	\$734

In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Unfunded Commitment

As of September 30, 2017, the U.S. plan had \$13 million of unfunded investment commitments related to plan assets. The majority of this amount is attributed to partnership investments that the plan will invest in gradually over the course of several years. Non-U.S. plans currently do not have any unfunded commitments.

The following table summarizes the changes in Level 3 pension plan assets measured at fair value on a recurring basis for the year ended September 30, 2017 (in millions):

U.S. Plans	2017				Net	Fair Value
Asset Category	Fair Value at October 1, 2016	Return on Plan Assets: Attributable to Assets Held at September 30, 2017	Purchases	Settlements	Transfers Into (Out of) Level 3	at September 30, 2017
Private equity Partnerships –	\$11	\$ 4	\$ 4	\$ —		\$ 19
Fixed income Alternatives –	1	—	—	(1)		—
Partnerships	77	4	1	(5)		77
Total Level 3 fair value	\$89	\$ 8	\$ 5	\$ (6)	\$	—\$ 96

The following table summarizes the changes in Level 3 pension plan assets measured at fair value on a recurring basis for the year ended September 30, 2016 (in millions):

U.S. Plans	2016				Net	Fair Value
Asset Category	Fair Value at October 1, 2015	Return on Plan Assets: Attributable to Assets Held at September 30, 2016	Purchases	Settlements	Transfers Into (Out of) Level 3	at September 30, 2016
Private equity Partnerships –	\$15	\$ (4)	\$ —	\$ —	\$	—\$ 11
Fixed income Alternatives –	1	—	—	—	—	1
Partnerships	84	(5)	—	(2)	—	77
Total Level 3 fair value	\$100	\$ (9)	\$ —	—\$ (2)	\$	—\$ 89

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	U.S.	Non U.S.	Total
Expected employer contributions:			
Fiscal 2018	\$ 5	\$ 1	\$ 6
Expected benefit payments:			
Fiscal 2018	72	18	90
Fiscal 2019	73	18	91
Fiscal 2020	72	19	91
Fiscal 2021	71	19	90
Fiscal 2022	70	20	90
Fiscal 2023-2027	331	110	441

The company also sponsors certain defined contribution savings plans for eligible employees. Expense related to these plans, including company matching contributions, was \$18 million, \$16 million and \$15 million for fiscal years 2017, 2016 and 2015, respectively.

23. INCOME TAXES

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

	2017	2016	2015
U.S. income	\$252	\$71	\$24
Foreign income	129	84	43
Total	\$381	\$155	\$67

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

	2017	2016	2015
Current tax benefit (expense):			
U.S.	\$(1)	\$(1)	\$(4)
Foreign	(11)	11	(20)
State and local	(2)	(1)	(1)
Total current tax benefit (expense)	(14)	9	(25)
Deferred tax benefit (expense):			
U.S.	(28)	394	3
Foreign	(9)	(22)	21
State and local	(1)	43	—
Total deferred tax benefit	(38)	415	24
Income tax benefit (expense)	\$(52)	\$424	\$(1)

The deferred tax expense or benefit represents tax effects of current year deductions or items of income that will be recognized in future periods for tax purposes. The deferred income tax expense in the U.S. in fiscal year 2017 was primarily attributable to the tax effect of the gain on sale of equity investment, partially offset by the additional reversal of a valuation allowance. In fiscal year 2016, the U.S. and state and local deferred tax benefit was primarily

attributable to the valuation allowance reversal in the U.S. In fiscal year 2015, the foreign deferred tax benefit was primarily attributable to valuation allowance reversals in Germany, Italy, Mexico and Sweden in addition to the tax benefit received from the Canadian and German pension settlement charges.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	September 30,	
	2017	2016
Accrued compensation and benefits	\$32	\$21
Accrued product warranties	14	13
Inventory costs	9	8
Receivables	18	15
Accrued retiree healthcare benefits	39	169
Retirement pension plans	92	119
Property	10	7
Loss and credit carryforwards	349	455
Other	71	67
Sub-total	634	874
Less: Valuation allowances	(307)	(379)
Deferred income taxes - asset	\$327	\$495
Taxes on undistributed income	\$(7)	\$(7)
Intangible assets	(87)	(82)
Debt basis difference	(16)	(5)
Deferred income taxes - liability	\$(110)	\$(94)
Net deferred income tax assets	\$217	\$401

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

	September 30,	
	2017	2016
Other assets (see Note 13)	\$229	\$413
Other liabilities (see Note 16)	(12)	(12)
Net non-current deferred income taxes — assets	\$217	\$401

In prior years, the company established valuation allowances against its U.S. net deferred tax assets and the net deferred tax assets of its 100%-owned subsidiaries in France, Germany, Italy, Sweden, the U.K. and certain other countries. In evaluating its ability to recover these net deferred tax assets, the company utilizes a consistent approach which considers its historical operating results, including an assessment of the degree to which any gains or losses are driven by items that are unusual in nature and tax planning strategies. In addition, the company reviews changes in near-term market conditions and other factors that impact future operating results.

During the fourth quarter of fiscal year 2017, the Company amended the benefits provided to certain former union employee retirees. This amendment resulted in a decrease to the deferred tax asset.

During the fourth quarter of fiscal year 2016, as a result of sustained profitability in the U.S. evidenced by a strong earnings history, future forecasted earnings, and additional positive evidence, the company determined it was more

likely than not it would be able to realize deferred tax assets in the U.S. Accordingly, the company reversed a portion of the valuation allowance in the U.S., resulting in a non-cash income tax benefit of \$438 million. In the fourth quarter of fiscal year 2017, an additional \$52 million of the valuation allowance in the U.S. was released due to increased profitability. In fiscal year 2015, the company reversed valuation allowances in Germany, Italy, Mexico, and Sweden, resulting in a non-cash income tax benefit of \$16 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

During the fourth quarter of fiscal year 2016, due to a three-year cumulative loss and future economic uncertainty, the company concluded that a valuation allowance was required in Brazil. This resulted in a non-cash charge to income tax expense of \$9 million. As of September 30, 2017, the company continues to maintain the valuation allowances in Brazil, France, the U.K. and certain other jurisdictions, as the company believes the negative evidence that it will be able to recover these net deferred tax assets continues to outweigh the positive evidence. If, in the future, the company generates taxable income on a sustained basis, its conclusion regarding the need for valuation allowances in these jurisdictions could change.

The expiration periods for deferred tax assets related to net operating losses and tax credit carryforwards as of September 30, 2017 are included below (in millions). Also included are the associated valuation allowances on these deferred tax assets (in millions).

	Fiscal Year Expiration Periods				Total
	2018-2020	2021-2032	2033-2037	Indefinite	
Net Operating Losses and Tax Credit Carryforwards	\$8	\$ 95	\$ 14	\$ 232	\$349
Valuation Allowances on these Deferred Tax Assets	\$7	\$ 19	\$ 9	\$ 215	\$250

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

For fiscal years 2017 and 2016, no provision has been made for U.S., state or additional foreign income taxes related to approximately \$599 million and \$687 million of undistributed earnings of foreign subsidiaries that have been or are intended to be permanently reinvested. Quantification of the deferred tax liability, if any, associated with permanently reinvested earnings is not practicable.

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

	2017	2016	2015
Expense for income taxes at statutory tax rate of 35%	\$(133)	\$(54)	\$(23)
State and local income taxes	(14)	(7)	(1)
Foreign income taxed at rates other than 35%	9	5	7
Joint venture equity income	7	3	3
Tax effect of nonfunctional currency transaction	(2)	(30)	—
Correlated tax relief	7	51	—
U.S. tax impact on distributions from subsidiaries and joint ventures	(8)	14	(11)
Nondeductible expenses	(10)	(12)	(9)
Tax credits	14	61	—
Valuation allowances	56	418	49
Tax rate change	—	(14)	—
Impact of capital loss	15	—	—
Other	7	(11)	(16)
Income tax benefit (expense)	\$(52)	\$424	\$(1)

In fiscal year 2016, the company determined it is now more favorable to claim a U.S. foreign tax credit rather than deduct foreign taxes paid, and as a result, a \$11 million and \$61 million income tax benefit was recorded in fiscal year 2017 and 2016,

125

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

respectively. Additionally, the company has recorded a U.S. tax benefit related to U.S. research and development tax credits of \$3 million in fiscal year 2017.

The total amount of gross unrecognized tax benefits the company recorded in accordance with FASB ASC Topic 740 as of September 30, 2017 was \$269 million, of which \$226 million represents the amount that, if recognized, would favorably affect the effective income tax rate in future periods.

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

	2017	2016	2015
Balance at beginning of the period	\$243	\$207	\$209
Additions to tax positions recorded during the current year	—	39	15
Additions to tax positions recorded during the prior year	26	—	—
Reductions to tax position recorded in prior years	—	—	(2)
Reductions to tax positions due to lapse of statutory limits	(2)	(3)	(11)
Translation, other	2	—	(4)
Balance at end of the period	\$269	\$243	\$207

The company's continuing practice is to recognize interest and penalties on uncertain tax positions in the provision for income taxes in the consolidated statement of operations. At September 30, 2017 and September 30, 2016, the company recorded assets of \$9 million and \$4 million, respectively of interest on uncertain tax positions in the consolidated balance sheet. In addition, penalties of \$1 million and \$2 million were recorded as of September 30, 2017 and September 30, 2016, respectively. The income tax benefit related to interest was \$5 million and \$8 million for the year ended September 30, 2017 and September 30, 2016, respectively. The income tax benefit amount related to interest was immaterial for the year ended September 30, 2015. The income tax benefit related to penalties was immaterial for years ended September 30, 2017, 2016 and 2015.

The company files tax returns in multiple jurisdictions and is subject to examination by taxing authorities throughout the world. The company's Canadian federal income tax returns for fiscal years 2013 and 2014 are currently under audit. The company's German subsidiary is currently under audit for fiscal years 2008 through 2013. The company's Indian subsidiary is currently under audit for fiscal year 2015. In addition, the company is under audit in the U.S. for federal, fiscal years 2010 and 2011, along with various state tax jurisdictions for various years. It is reasonably possible that audit settlements, the conclusion of current examinations or the expiration of the statute of limitations in several jurisdictions could change the company's unrecognized tax benefits during the next twelve months. It is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefit in the next twelve months.

In addition to the audits listed above, the company has open tax years primarily from 2001-2016 with various significant taxing jurisdictions, including the U.S., Brazil, Canada, China, France, Mexico and the U.K. These open years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as they relate to the amount, timing or inclusion of revenue and expenses or the sustainability of income tax credits for a given audit cycle. The company has recorded a tax benefit only for those positions that meet the more-likely-than-not standard.

24. 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

126

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 September 30, 2017 to be approximately \$4 million, of which \$2 million is recorded as a liability. Included in reasonably possible amounts are estimates for certain remediation actions that may be required if current actions are deemed inadequate by the regulators. Environmental remediation costs recorded with respect to the Superfund were not substantial in fiscal years 2017, 2016 and 2015.

In addition to the Superfund sites, various other lawsuits, claims and proceedings have been asserted against the company, alleging violations of federal, state and local environmental protection requirements, or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. For these matters, management has estimated the total reasonably possible costs the company could incur at September 30, 2017 to be approximately \$19 million, of which \$7 million is probable and recorded as a liability. During each of the fiscal years 2017, 2016 and 2015, the company recorded environmental remediation costs of \$3 million with respect to these matters, resulting from revised estimates to remediate these sites.

Included in the company's environmental liabilities are costs for on-going operation, maintenance and monitoring at environmental sites in which remediation has been put into place. This liability is discounted using discount rates in the range of 1.0 to 3.0 percent and is approximately \$6 million at September 30, 2017. The undiscounted estimate of these costs is approximately \$7 million.

The following are the components of the Superfund and non-Superfund environmental reserves (in millions):

	Superfund Sites	Non-Superfund Sites	Total
Balance at September 30, 2016	\$ 2	\$ 11	\$ 13
Payments and other	—	(7)	(7)
Accruals	—	3	3
Balance at September 30, 2017	\$ 2	\$ 7	\$ 9

There were \$3 million, \$3 million, and \$2 million of environmental remediation costs recognized in other operating expense in the consolidated statement of operations in fiscal years 2017, 2016 and 2015, respectively.

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

The actual amount of costs or damages for which the company may be held responsible could materially exceed the foregoing estimates because of uncertainties, including the financial condition of other potentially responsible parties, the success of the remediation, discovery of new contamination and other factors that make it difficult to predict actual costs accurately. However, based on management's assessment, after consulting with outside advisors that specialize in environmental matters, and subject to the difficulties inherent in estimating these future costs, the company believes that its expenditures for environmental capital investment and remediation necessary to comply with present

regulations governing environmental protection and other expenditures for the resolution of environmental claims will not have a material effect on the company's business, financial condition or results of operations. In addition, in future periods, new laws and regulations, changes in remediation plans, advances in technology and additional information about the ultimate clean-up remedies could significantly change the company's estimates. Management cannot assess the possible effect of compliance with future requirements.

In April 2016, the company was served with several complaints filed against the company and other defendants in the United States District Court for the Northern District of Mississippi. The complaints were amended in July 2016. These complaints allege damages, including diminution of property value, concealment/fraud and emotional distress resulting from alleged environmental pollution in and around a neighborhood in Grenada, Mississippi. Rockwell owned and operated a facility near the neighborhood from 1965 to 1985. The company filed answers to the complaints in July 2016. In May 2017, the company was served with a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

complaint filed against the company and other defendants by the Mississippi Attorney General in the Chancery Court of Grenada County, Mississippi. The complaint alleges that operations at the above-referenced Grenada facility caused contamination of off-site groundwater and surface waters. Subsequently, the company removed this action to the United States District Court for the Northern District of Mississippi; plaintiffs have moved to have the case remanded to Chancery Court. The company intends to defend itself vigorously against these claims. The company believes at this time that liabilities associated with this case, while possible, are not probable and estimable, and therefore has not recorded any accrual for them as of September 30, 2017 and 2016. Further, a reasonably possible range of loss cannot be estimated at this time.

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 2,800 and 5,800 pending asbestos-related claims at September 30, 2017 and 2016, respectively. Although Maremont has been named in these cases, in the cases where actual injury has been alleged, very few claimants have established that a Maremont product caused their injuries. Plaintiffs' lawyers often sue dozens or even hundreds of defendants in individual lawsuits, seeking damages against all named defendants irrespective of the disease or injury and irrespective of any causal connection with a particular product. For these reasons, the total number of claims filed is not necessarily the most meaningful factor in determining Maremont's asbestos related liability.

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

	September 30, 2017 2016	
Pending and future claims	\$ 68	\$ 70
Billed but unpaid claims	2	2
Asbestos-related liabilities	\$ 70	\$ 72
Asbestos-related insurance recoveries	\$ 25	\$ 32

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 11, 13, 15 and 16).

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

As of September 30, 2017, Bates White provided a reasonable and probable estimate that consisted of a range of equally likely possibilities of Maremont's obligation for asbestos personal injury claims over the next ten years of \$68 million to \$82 million. After consultation with Bates White, Maremont recognized a liability for pending and future claims over the next ten years of \$68 million and \$70 million as of September 30, 2017 and 2016, respectively. 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. Maremont recognized \$5 million and \$2 million of expense in fiscal years 2017 and 2016, respectively, associated with its annual valuation of asbestos-related liabilities and receivables. Maremont has recognized incremental insurance receivables associated with recoveries expected for asbestos-related liabilities as the estimate of asbestos-related liabilities for pending and future claims changes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

• Pending and future claims were estimated for a ten-year period ending in fiscal year 2027;

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

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

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

Recoveries: Maremont has historically had insurance that reimburses a substantial portion of the costs incurred defending against asbestos-related claims. The expected insurance receivable related to future asbestos-related liabilities was \$25 million and \$32 million as of September 30, 2017 and 2016, respectively. The receivable is for coverage provided by one insurance carrier based on a coverage-in-place agreement. Maremont currently expects to exhaust the remaining limits provided by this coverage sometime in the next ten years. The difference between the estimated liability and insurance receivable is primarily related to exhaustion of settled insurance coverage within the forecasted period and proceeds from settled insurance policies.

Maremont maintained insurance coverage with other insurance carriers that management believed also provided coverage for indemnity and defense costs. During fiscal year 2013, Maremont re-initiated lawsuits against these carriers, seeking a declaration of its rights to coverage for asbestos claims and to facilitate an orderly and timely collection of insurance proceeds. During the first quarter of fiscal year 2016, the dispute related to these insurance policies was settled. As part of this settlement, on December 12, 2015, Maremont received \$17 million in cash, of which \$5 million was recognized as reduction in asbestos expense and \$12 million was recorded as a liability to the insurance carrier as it is required to be returned to the carrier if additional asbestos liability is not incurred. During the fourth quarter of fiscal year 2016, Maremont recognized an additional \$9 million of the cash settlement proceeds as a reduction in asbestos expense. During the first quarter of fiscal year 2017, the company recognized the remaining \$3 million of the cash settlement proceeds as a reduction in asbestos expense. The settlement also provides additional recovery for Maremont if certain future defense and indemnity spending thresholds are met.

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

Rockwell International ("Rockwell") — ArvinMeritor, Inc. ("AM"), a subsidiary of Meritor, along with many other companies, has also been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos

used in certain components of Rockwell products many years ago. Liability for these claims was transferred at the time of the spin-off of the automotive business from Rockwell in 1997. Rockwell had approximately 1,600 and 3,200 pending active asbestos claims in lawsuits that name AM, together with many other companies, as defendants at September 30, 2017 and 2016, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	September 30, 2017 2016	
Pending and future claims	\$ 63	\$ 60
Billed but unpaid claims	2	1
Asbestos-related liabilities	\$ 65	\$ 61
Asbestos-related insurance recoveries	\$ 38	\$ 27

Pending and Future Claims: The company engaged Bates White to assist with determining whether it would be possible to estimate the cost of resolving pending and future Rockwell legacy asbestos-related claims that have been, and could reasonably be expected to be, filed against the company. As of September 30, 2017, Bates White provided a reasonable and probable estimate that consisted of a range of equally likely possibilities of Rockwell's obligation for asbestos personal injury claims over the next ten years of \$63 million to \$74 million. After consultation with Bates White, management recognized a liability for pending and future claims over the next ten years of \$63 million as of September 30, 2017 compared to \$60 million as of September 30, 2016. The ultimate cost of resolving pending and future claims is estimated based on the history of claims and expenses for plaintiffs represented by law firms in jurisdictions with an established history with Rockwell. The increase in the estimated liability is primarily due to higher settlement values, compared to the prior year. AM recognized \$1 million of income in fiscal year 2017 and a \$2 million charge in the fourth quarter of fiscal year 2016, associated with its annual valuation of asbestos-related liabilities and receivables.

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

- Pending and future claims were estimated for a ten-year period ending in fiscal year 2027;

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

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

- The ultimate indemnity cost of resolving nonmalignant claims with plaintiff's law firms in jurisdictions without an established history with Rockwell cannot be reasonably estimated.

Recoveries: Rockwell has insurance coverage that management believes covers indemnity and defense costs, over and above self-insurance retentions, for a significant portion of these claims. In 2004, the company initiated litigation against certain of these carriers to enforce the insurance policies. During the fourth quarter of fiscal year 2016, the company executed settlement agreements with two of these carriers, thereby resolving the litigation against those particular carriers. Pursuant to the terms of one of those settlement agreements, in the fourth quarter of fiscal year 2016 the company received \$32 million in cash from an insurer, of which \$10 million was recognized as a reduction in asbestos expense, and \$22 million was recorded as a liability to the insurance carrier as it is required to be returned to the carrier if additional asbestos liability is not ultimately incurred. During fiscal year 2017, Rockwell recognized an additional \$10 million of the cash settlement proceeds as a reduction in asbestos expense. Pursuant to the terms of a

second settlement agreement, in the fourth quarter of fiscal year 2016 the company recorded a \$12 million receivable to reflect expected reimbursement of future defense and indemnity payments under a coverage-in-place arrangement with that insurer. In addition to the coverage provided from the settlement agreements executed during the fourth quarter of fiscal year 2016, the company maintains a receivable of \$7 million related to a previously executed coverage-in-place arrangement with other insurers. The insurance receivables for Rockwell's asbestos-related liabilities totaled \$38 million and \$27 million as of September 30, 2017 and 2016, respectively. Included in these amounts are insurance receivables of \$17 million and \$9 million as of September 30, 2017 and 2016, respectively, which are associated with policies in dispute and have been fully reserved for.

Also, during the third quarter of fiscal year 2016, the company reached a settlement, relating to certain proofs of claim filed by the company under certain insurance policies, with an insolvent insurer for \$5.5 million (the "allowed claim"). On June 17, 2016, the company entered into an assignment of claim (the "Assignment") with Macquarie Bank to assign the allowed claim the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

company had against the insolvent insurer. The Assignment was approved by the liquidator, which resulted in the company receiving \$3 million in the third quarter of fiscal year 2016.

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 Rockwell could change significantly from its past experience, due, for example, to changes in the mix of claims filed against Rockwell in terms of plaintiffs' law firm, jurisdiction and disease; legislative or regulatory developments; Rockwell's approach to defending claims; or payments to plaintiffs from other defendants. Estimated recoveries are influenced by coverage issues among insurers and the continuing solvency of various insurance companies. If the assumptions with respect to the estimation period, the nature of pending claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of liability for Rockwell asbestos-related claims, and the effect on the company, could differ materially from current estimates and, therefore, could have a material impact on the company's financial condition and results of operations.

Indemnifications

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.

In December 2005, the company guaranteed a third party's obligation to reimburse another party for payment of health and prescription drug benefits to a group of retired employees. The retirees were former employees of a wholly-owned subsidiary of the company prior to it being acquired by the company. The wholly-owned subsidiary, which was part of the company's light vehicle aftermarket business, was sold by the company in fiscal year 2006. Prior to May 2009, except as set forth hereinafter, the third party met its obligations to reimburse the other party. In May 2009, the third party filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code requiring the company to recognize its obligations under the guarantee. The company recorded a \$28 million liability in fiscal year 2009 for this matter. At September 30, 2017 and September 30, 2016, the remaining estimated liability for this matter was approximately \$10 million and \$11 million, respectively.

On January 3, 2011, the company completed the sale of its Body Systems business. The sale agreement contains certain customary representations, warranties and covenants of the seller and the purchaser. The agreement also includes provisions governing post-closing indemnities between the seller and the purchaser for losses arising from specified events. At September 30, 2014, the company had an accrual of \$6 million for such indemnities, of which \$2 million was for a contingency-related income tax matter, which was included in other liabilities in the accompanying consolidated balance sheet. In the second quarter of fiscal year 2015, the company settled all remaining matters related to the Body Systems business and recorded a net gain, after tax in discontinued operations of \$6 million.

In connection with the sale of its interest in MSSC in October 2009, the company provided certain indemnifications to the buyer for its share of potential obligations related to pension funding shortfall, environmental and other contingencies, and valuation of certain accounts receivable and inventories. The company's estimated exposure under these indemnities at September 30, 2017 and September 30, 2016 was approximately \$1 million, and is included in other liabilities in the consolidated balance sheet.

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

Other

The company identified certain sales transactions for which value-added tax may have been required to be remitted to certain tax jurisdictions for tax years 2010 through 2017. At both September 30, 2017 and September 30, 2016, the company's estimate of the probable liability was \$12 million and \$10 million, respectively.

On June 24, 2014, the company filed a complaint in the Circuit Court for Oakland County, Michigan against a supplier alleging that certain bearings supplied by the supplier for TL Trailer Axles were faulty, and as a result, the company suffered product liability damages and expenses with respect to vehicle recalls. On May 13, 2016, the company entered into a settlement agreement with the supplier pursuant to which the company received approximately \$6 million and was recognized as a reduction of selling, general and administrative expenses in the consolidated statement of operations in the third quarter of fiscal year 2016. The settlement

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

does not relieve the company of its current liability for past or future claims related to TL Axles. The company has the right to seek future indemnification from the supplier with respect to any currently unasserted claims.

On July 5, 2017, the company's subsidiary, Meritor Heavy Vehicle Systems, LLC, fully and finally resolved all claims with respect to its various legal proceedings with Sistemas Automotrices de Mexico, S.A. de C.V. ("Sisamex"), its Mexican joint venture with Quimmco, S.A. de C.V. ("Quimmco"), that were originally filed in 2014 in the District Court for the Northern District of Illinois regarding Sisamex's rights to manufacture certain products and the components thereof for sale in Mexico. The parties entered into a confidential settlement agreement and release pursuant to which the parties agreed to dismiss, with prejudice, all of the legal proceedings between them, and Meritor agreed to pay Quimmco a settlement of \$10 million, which the company paid in the fourth quarter of fiscal year 2017.

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

25. 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 two reportable segments at September 30, 2017, as follows:

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

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

Segment adjusted 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 expense, asset impairment charges and other special items as determined by management. Segment adjusted EBITDA excludes unallocated legacy and corporate income (expense), net. The company uses Segment adjusted EBITDA as the primary basis for the CODM to evaluate the performance of each of its reportable segments.

The accounting policies of the segments are the same as those applied in the consolidated financial statements, except for the use of Segment adjusted 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 segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Segment information is summarized as follows (in millions):

	Commercial Truck & Industrial	Aftermarket & Trailer	Elims	Total
Fiscal year 2017 Sales:				
External Sales	\$ 2,533	\$ 814	\$—	\$3,347
Intersegment Sales	82	39	(121)	—
Total Sales	\$ 2,615	\$ 853	\$(121)	\$3,347
Fiscal year 2016 Sales:				
External Sales	\$ 2,369	\$ 830	\$—	\$3,199
Intersegment Sales	76	30	(106)	—
Total Sales	\$ 2,445	\$ 860	\$(106)	\$3,199
Fiscal year 2015 Sales:				
External Sales	\$ 2,649	\$ 856	\$—	\$3,505
Intersegment Sales	90	28	(118)	—
Total Sales	\$ 2,739	\$ 884	\$(118)	\$3,505

Segment adjusted EBITDA:	2017	2016	2015
Commercial Truck & Industrial	\$244	\$208	\$216
Aftermarket & Trailer	106	115	123
Segment adjusted EBITDA	350	323	339
Unallocated legacy and corporate income (expense), net ⁽¹⁾	(3)	4	(5)
Interest expense, net	(119)	(84)	(105)
Gain on sale of equity investment	243	—	—
Benefit (provision) for income taxes	(52)	424	(1)
Depreciation and amortization	(75)	(67)	(65)
Loss on sale of receivables	(5)	(5)	(5)
Restructuring costs	(6)	(16)	(16)
Pension settlement losses	—	—	(59)
Asset impairment charges	(4)	—	(2)
Goodwill impairment charges	—	—	(15)
Noncontrolling interests	(4)	(2)	(1)
Income from continuing operations attributable to Meritor, Inc.	\$325	\$577	\$65

Unallocated legacy and corporate income (expense), net represents items that are not directly related to the company's business segments. These items primarily include asbestos-related charges and settlements, pension and (1) retiree medical costs associated with sold businesses, and other legacy costs for environmental and product liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Depreciation and Amortization:	2017	2016	2015
Commercial Truck & Industrial	\$66	\$59	\$ 59
Aftermarket & Trailer	9	8	6
Total depreciation and amortization	\$75	\$67	\$ 65
Capital Expenditures:	2017	2016	2015
Commercial Truck & Industrial	\$85	\$83	\$ 71
Aftermarket & Trailer	10	10	8
Total capital expenditures	\$95	\$93	\$ 79
Segment Assets:	2017	2016	
Commercial Truck & Industrial	\$1,707	\$1,433	
Aftermarket & Trailer	467	436	
Total segment assets	2,174	1,869	
Corporate ⁽¹⁾	869	845	
Less: Accounts receivable sold under off-balance sheet factoring programs ⁽²⁾	(261)	(220)	
Total assets	\$2,782	\$2,494	

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

At September 30, 2017 and September 30, 2016, segments assets include \$261 million and \$220 million,

(2) respectively, of accounts receivable sold under off-balance sheet accounts receivable factoring programs (see Note 8). These sold receivables are included in segment assets as the CODM reviews segment assets inclusive of these balances.

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

Sales by Geographic Area:

	2017	2016	2015
U.S.	\$1,761	\$1,617	\$1,733
Canada	69	67	70
Mexico	234	390	491
Total North America	2,064	2,074	2,294
Sweden	273	250	325
Italy	210	201	204
United Kingdom	149	136	76
Other Europe	83	86	90
Total Europe	715	673	695
Brazil	168	130	198
China	127	84	90
India	184	152	140
Other Asia-Pacific	89	86	88
Total sales	\$3,347	\$3,199	\$3,505

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Assets by Geographic Area:

	2017	2016
U.S.	\$1,489	\$1,359
Canada	29	33
Mexico	204	202
Total North America	1,722	1,594
Sweden	123	104
Italy	70	65
United Kingdom	241	212
Other Europe	184	164
Total Europe	618	545
Brazil	164	146
China	127	97
India	84	58
Other Asia-Pacific	67	54
Total	\$2,782	\$2,494

Sales to AB Volvo represented approximately 22 percent, 23 percent and 24 percent of the company's sales in each of fiscal years 2017, 2016 and 2015, respectively. Sales to Daimler AG represented approximately 17 percent, 18 percent and 20 percent of the company's sales in fiscal years 2017, 2016 and 2015, respectively. Sales to PACCAR represented approximately 10 percent, 9 percent and 6 percent of the company's sales in each of fiscal years 2017, 2016 and 2015, respectively. Sales to Navistar represented approximately 9 percent, 9 percent, and 11 percent of the company's sales in each of fiscal years 2017, 2016 and 2015, respectively. No other customer comprised 10 percent or more of the company's total sales in any of the three fiscal years ended September 30, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

26. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following is a condensed summary of the company's unaudited quarterly results of continuing operations for fiscal years 2017 and 2016. Per share amounts are based on the weighted average shares outstanding for that quarter. Earnings per share for the year may not equal the sum of the four fiscal quarters' earnings per share due to changes in basic and diluted shares outstanding.

	2017 Fiscal Quarters (Unaudited)				
	First	Second	Third	Fourth	2017
	(In millions, except share related data)				
Sales	\$699	\$806	\$920	\$922	\$3,347
Cost of sales	(610)	(685)	(778)	(790)	(2,863)
Gross margin	89	121	142	132	484
Provision for income taxes	(6)	(13)	(11)	(22)	(52)
Net income	16	23	51	238	328
Net income from continuing operations attributable to Meritor, Inc.	15	22	49	239	325
Net income attributable to Meritor, Inc.	15	22	48	239	324
Basic earnings per share from continuing operations	\$0.17	\$0.25	\$0.55	\$2.70	\$3.69
Diluted earnings per share from continuing operations	\$0.17	\$0.24	\$0.52	\$2.63	\$3.60

The company recognized restructuring costs in its continuing operations during fiscal year 2017 as follows: an insignificant amount in the first quarter, \$4 million in the second quarter, an insignificant amount in the third quarter and \$2 million in the fourth quarter (see Note 6). During the third quarter of fiscal year 2017, the company resolved all claims with Sisamex and entered into a confidential settlement agreement in which the company paid \$10 million to Quimmco (see Note 24). During the fourth quarter of fiscal year 2017, the company entered into an agreement to sell its interest in Meritor WABCO Vehicle Control Systems to a subsidiary of its joint venture partner, WABCO Holdings Inc. The total purchase price for the sale was \$250 million, and the company also received a \$8 million partnership distribution immediately prior to the transaction closing on October 1, 2017. The company recognized a \$243 million pre-tax (\$154 million, after-tax) gain associated with this sale. During the fourth quarter of fiscal year 2017, the company recognized a \$52 million income tax benefit related to the partial reversal of the U.S. valuation allowance and a \$15 million income tax benefit related to capital losses associated with the sale of an equity investment. Also in the fourth quarter of fiscal year 2017, the company recognized a \$36 million loss on debt extinguishment (\$22 million, after-tax).

	2016 Fiscal Quarters (Unaudited)				
	First	Second	Third	Fourth	2016
	(In millions, except share related data)				
Sales	\$809	\$821	\$841	\$728	\$3,199
Cost of sales	(705)	(700)	(714)	(644)	(2,763)
Gross margin	104	121	127	84	436
Benefit (provision) for income taxes	(7)	(7)	(8)	446	424
Net income	27	32	42	474	575
Net income from continuing operations attributable to Meritor, Inc.	28	33	42	474	577
Net income attributable to Meritor, Inc.	26	32	41	474	573

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Basic earnings per share from continuing operations	\$0.30	\$0.36	\$0.47	\$5.47	\$6.40
Diluted earnings per share from continuing operations	\$0.30	\$0.36	\$0.46	\$5.34	\$6.27

The company recognized restructuring costs in its continuing operations during fiscal year 2016 as follows: \$1 million in the first quarter, \$2 million in the second quarter, \$6 million in the third quarter and \$7 million in the fourth quarter (see Note 6).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

During the fourth quarter of fiscal year 2016, the company recognized a \$438 million tax benefit from the partial reversal of the U.S. valuation allowance and a \$25 million income tax benefit related to other correlated tax relief, which were partially offset by a \$9 million non-cash charge to income tax expense in Brazil related to the establishment of a valuation allowance (see Note 23). Also in the fourth quarter of fiscal year 2016, the company recognized \$31 million as reduction in asbestos expense due to settlement agreements (see Note 24).

27. OPERATING CASH FLOWS AND OTHER SUPPLEMENTAL FINANCIAL INFORMATION

	Year Ended September 30,		
	2017	2016	2015
	(in millions)		
OPERATING ACTIVITIES			
Net income	\$328	\$575	\$65
Less: Loss from discontinued operations, net of tax	(1)	(4)	(1)
Income from continuing operations	329	579	66
Adjustments to income from continuing operations to arrive at cash provided by operating activities:			
Depreciation and amortization	75	67	65
Deferred income tax expense (benefit)	38	(415)	(24)
Restructuring costs	6	16	16
Loss on debt extinguishment	36	—	25
Goodwill and asset impairment	4	—	17
Equity in earnings of other affiliates	(48)	(36)	(39)
Stock compensation expense	19	9	10
Provision for doubtful accounts	1	2	2
Pension and retiree medical expense	11	20	82
Gain on sale of equity method investment	(243)	—	—
Gain on sale of property	—	(2)	(3)
Dividends received from other equity method investments	44	37	32
Pension and retiree medical contributions	(38)	(42)	(141)
Restructuring payments	(15)	(11)	(16)
Changes in off-balance sheet receivable securitization and factoring programs	26	(31)	39
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations:			
Receivables	(160)	89	54
Inventories	(43)	28	4
Accounts payable	133	(89)	(70)
Other current assets and liabilities	16	(18)	(52)
Other assets and liabilities	(12)	6	40
Operating cash flows provided by continuing operations	179	209	107
Operating cash flows used for discontinued operations	(3)	(5)	(10)
CASH PROVIDED BY OPERATING ACTIVITIES	\$176	\$204	\$97

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	September 30, 2017 2016 2015 (In millions)		
Balance sheet data:			
Allowance for doubtful accounts	\$ 5	\$ 6	\$ 9
Statement of operations data:			
Maintenance and repairs expense	46	45	52
Research, development and engineering expense	69	68	69
Depreciation expense	67	61	60
Rental expense	14	15	11
Interest income	3	3	9
Interest expense	(12)	(87)	(114)
Statement of cash flows data:			
Interest payments	75	71	64
Income tax payments, net of refunds	22	24	14
Non-cash investing activities - capital asset additions from capital leases	—	—	9

28. SUPPLEMENTAL PARENT AND GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Article 3-10 of Regulation S-X (S-X Rule 3-10) requires that separate financial information for issuers and guarantors of registered securities be filed in certain circumstances. Certain of the company's 100% owned subsidiaries, as defined in the credit agreement (the "Guarantors") irrevocably and unconditionally guarantee amounts outstanding under the senior secured revolving credit facility on a joint and several basis. 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).

Schedule I of Article 5-04 of Regulation S-X (S-X Rule 5-04) requires that condensed financial information of the registrant ("Parent") be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. As of September 30, 2017, net assets of certain subsidiaries in China and India and certain unconsolidated subsidiaries that are restricted by law from transfer by cash dividends, loans or advances to Meritor, Inc did not exceed 25 percent of the consolidated net assets of Meritor, Inc. As of September 30, 2017 the amount of the net assets restricted from transfer by law was \$50 million.

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

MERITOR, INC.

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

	Fiscal Year Ended September 30, 2017				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	\$—	\$ 1,762	\$ 1,585	\$—	\$ 3,347
Subsidiaries	—	123	149	(272)	—
Total sales	—	1,885	1,734	(272)	3,347
Cost of sales	(62)	(1,583)	(1,490)	272	(2,863)
GROSS MARGIN	(62)	302	244	—	484
Selling, general and administrative	(82)	(100)	(82)	—	(264)
Restructuring costs	2	(2)	(6)	—	(6)
Other operating expense, net	(3)	(1)	(3)	—	(7)
OPERATING INCOME (LOSS)	(145)	199	153	—	207
Other income (expense), net	39	(11)	(26)	—	2
Gain on sale of equity investment	—	243	—	—	243
Equity in earnings of affiliates	—	42	6	—	48
Interest income (expense), net	(168)	35	14	—	(119)
INCOME (LOSS) BEFORE INCOME TAXES	(274)	508	147	—	381
Benefit (provision) for income taxes	96	(126)	(22)	—	(52)
Equity income from continuing operations of subsidiaries	503	114	—	(617)	—
INCOME FROM CONTINUING OPERATIONS	325	496	125	(617)	329
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(1)	(1)	(1)	2	(1)
NET INCOME	324	495	124	(615)	328
Less: Net income attributable to noncontrolling interests	—	—	(4)	—	(4)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$324	\$ 495	\$ 120	\$(615)	\$ 324

MERITOR, INC.

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

	Fiscal Year Ended September 30, 2017				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income	\$ 324	\$ 495	\$ 124	\$(615)	\$ 328
Other comprehensive income	264	21	23	(44)	264
Total comprehensive income	588	516	147	(659)	592
Less: Comprehensive income attributable to noncontrolling interests	—	—	(4)	—	(4)
Comprehensive income attributable to Meritor, Inc.	\$ 588	\$ 516	\$ 143	\$(659)	\$ 588

140

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(In millions)

	Fiscal Year Ended September 30, 2016 ⁽¹⁾				Consolidated
	Parent	Guarantors	Non-Guarantors	Elims	
Sales					
External	\$—	\$ 1,616	\$ 1,583	\$—	\$ 3,199
Subsidiaries	—	112	61	(173)	—
Total sales	—	1,728	1,644	(173)	3,199
Cost of sales	(57)	(1,439)	(1,440)	173	(2,763)
GROSS MARGIN	(57)	289	204	—	436
Selling, general and administrative	(64)	(79)	(70)	—	(213)
Restructuring costs	(7)	(4)	(5)	—	(16)
Other operating expense, net	(3)	—	—	—	(3)
OPERATING INCOME (LOSS)	(131)	206	129	—	204
Other income (expense), net	34	(35)	—	—	(1)
Equity in earnings of affiliates	—	32	4	—	36
Interest income (expense), net	(117)	26	7	—	(84)
INCOME (LOSS) BEFORE INCOME TAXES	(214)	229	140	—	155
Benefit (provision) for income taxes	526	(102)	—	—	424
Equity income from continuing operations of subsidiaries	265	120	—	(385)	—
INCOME FROM CONTINUING OPERATIONS	577	247	140	(385)	579
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(4)	(4)	(2)	6	(4)
NET INCOME	573	243	138	(379)	575
Less: Net income attributable to noncontrolling interests	—	—	(2)	—	(2)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$573	\$ 243	\$ 136	\$(379)	\$ 573

(1) Amounts have been recast. See Long-term Debt (Note 17).

MERITOR, INC.

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

	Fiscal Year Ended September 30, 2016 ⁽¹⁾			
	Parent	Guarantors	Non-Guarantors	Elims Consolidated
Net income	\$ 573	\$ 243	\$ 138	\$(379) \$ 575
Other comprehensive income (loss)	(43)	11	(44)	33 (43)
Total comprehensive income	530	254	94	(346) 532
Less: Comprehensive income attributable to noncontrolling interests	—	—	(2)	— (2)
Comprehensive income attributable to Meritor, Inc.	\$ 530	\$ 254	\$ 92	\$(346) \$ 530

(1) Amounts have been recast. See Long-term Debt (Note 17).

MERITOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(In millions)

	Fiscal Year Ended September 30, 2015 ⁽¹⁾				
	Parent	Guarantors	Non- Guarantors	Elims	Consolidated
Sales					
External	\$—	\$ 1,734	\$ 1,771	\$—	\$ 3,505
Subsidiaries	—	129	71	(200)	—
Total sales	—	1,863	1,842	(200)	3,505
Cost of sales	(52)	(1,576)	(1,615)	200	(3,043)
GROSS MARGIN	(52)	287	227	—	462
Selling, general and administrative	(53)	(111)	(79)	—	(243)
Restructuring costs	(2)	(5)	(9)	—	(16)
Pension settlement losses	—	—	(59)	—	(59)
Goodwill impairment	—	(15)	—	—	(15)
Other operating income (expense), net	(2)	(2)	3	—	(1)
OPERATING INCOME (LOSS)	(109)	154	83	—	128
Other income (expense), net	36	18	(49)	—	5
Equity in earnings of affiliates	—	36	3	—	39
Interest income (expense), net	(138)	25	8	—	(105)
INCOME (LOSS) BEFORE INCOME TAXES	(211)	233	45	—	67
Benefit (provision) for income taxes	(2)	2	(1)	—	(1)
Equity income from continuing operations of subsidiaries	278	35	—	(313)	—
INCOME FROM CONTINUING OPERATIONS	65	270	44	(313)	66
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(1)	(1)	(1)	2	(1)
NET INCOME	64	269	43	(311)	65
Less: Net income attributable to noncontrolling interests	—	—	(1)	—	(1)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	\$64	\$ 269	\$ 42	\$(311)	\$ 64

(1) Amounts have been recast. See Long-term Debt (Note 17).

MERITOR, INC.

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

	Fiscal Year Ended September 30, 2015 ⁽¹⁾			
	Parent	Guarantors	Non-Guarantors	Elims Consolidated
Net income	\$64	\$ 269	\$ 43	\$(311) \$ 65
Other comprehensive income	(17)	(77)	(18)	93 (19)
Total comprehensive income	47	192	25	(218) 46
Less: Comprehensive income attributable to noncontrolling interests	—	—	1	— 1
Comprehensive income attributable to Meritor, Inc.	\$47	\$ 192	\$ 26	\$(218) \$ 47

(1) Amounts have been recast. See Long-term Debt (Note 17).

MERITOR, INC.

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

	September 30, 2017				Consolidated
	Parent	Guarantors	Non-Guarantors	Elims	
CURRENT ASSETS					
Cash and cash equivalents ⁽¹⁾	\$ 10	\$ 3	\$ 75	\$—	\$ 88
Receivables, trade and other, net ⁽¹⁾	—	296	493	—	789
Inventories ⁽¹⁾	—	184	194	—	378
Other current assets	5	6	32	—	43
TOTAL CURRENT ASSETS	15	489	794	—	1,298
NET PROPERTY ⁽¹⁾	21	227	226	—	474
GOODWILL ⁽¹⁾	—	237	177	—	414
OTHER ASSETS ⁽¹⁾	271	106	219	—	596
INVESTMENTS IN SUBSIDIARIES	3,222	787	—	(4,009)	—
TOTAL ASSETS	\$3,529	\$ 1,846	\$ 1,416	\$(4,009)	\$ 2,782
CURRENT LIABILITIES					
Short-term debt	\$195	\$ 2	\$ 91	\$—	\$ 288
Accounts and notes payable ⁽¹⁾	55	246	321	—	622
Other current liabilities	69	69	134	—	272
TOTAL CURRENT LIABILITIES	319	317	546	—	1,182
LONG-TERM DEBT	743	—	7	—	750
RETIREMENT BENEFITS	291	—	23	—	314
INTERCOMPANY PAYABLE (RECEIVABLE)	1,866	(2,160)	294	—	—
OTHER LIABILITIES	40	93	106	—	239
MEZZANINE EQUITY	2	—	—	—	2
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	268	3,596	413	(4,009)	268
NONCONTROLLING INTERESTS ⁽¹⁾	—	—	27	—	27
TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY (DEFICIT)	\$3,529	\$ 1,846	\$ 1,416	\$(4,009)	\$ 2,782

(1) As of September 30, 2017, Assets and Liabilities held for sale were: (i) \$1 million Cash and cash equivalents; (ii) \$13 million Receivables, trade and other, net; (iii) \$2 million Inventories; (iv) \$3 million Net property; (v) \$1 million Goodwill; (vi) \$1 million Other assets; (vii) \$12 million Accounts and notes payable; and (viii) \$2 million Noncontrolling interests. These assets and liabilities held for sale are included in the Non-Guarantors column, other than \$1 million of Net property that is included in the Guarantor column.

MERITOR, INC.

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

	September 30, 2016 ⁽¹⁾				Consolidated
	Parent	Guarantors	Non-Guarantors	Elims	
CURRENT ASSETS					
Cash and cash equivalents ⁽²⁾	\$90	\$ 2	\$ 68	\$—	\$ 160
Receivables, trade and other, net ⁽²⁾	1	39	356	—	396
Inventories ⁽²⁾	—	143	173	—	316
Other current assets	5	4	24	—	33
TOTAL CURRENT ASSETS	96	188	621	—	905
NET PROPERTY ⁽²⁾	22	198	219	—	439
GOODWILL ⁽²⁾	—	219	171	—	390
OTHER ASSETS	447	108	205	—	760
INVESTMENTS IN SUBSIDIARIES	2,575	679	—	(3,254)	—
TOTAL ASSETS	\$3,140	\$ 1,392	\$ 1,216	\$(3,254)	\$ 2,494
CURRENT LIABILITIES					
Short-term debt	\$1	\$ 4	\$ 9	\$—	\$ 14
Accounts and notes payable ⁽²⁾	42	172	261	—	475
Other current liabilities	90	59	119	—	268
TOTAL CURRENT LIABILITIES	133	235	389	—	757
LONG-TERM DEBT	971	3	8	—	982
RETIREMENT BENEFITS	680	—	23	—	703
INTERCOMPANY PAYABLE (RECEIVABLE)	1,534	(1,902)	368	—	—
OTHER LIABILITIES	34	97	107	—	238
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	(212)	2,959	296	(3,254)	(211)
NONCONTROLLING INTERESTS ⁽²⁾	—	—	25	—	25
TOTAL LIABILITIES AND EQUITY(DEFICIT)	\$3,140	\$ 1,392	\$ 1,216	\$(3,254)	\$ 2,494

(1) Amounts have been recast. See Long-term Debt (Note 17).

(2) As of September 30, 2016, Assets and Liabilities held for sale were: (i) \$1 million Cash and cash equivalents; (ii) \$8 million Receivables, trade and other, net; (iii) \$1 million Inventories; (iv) \$6 million Net property; (v) \$5 million Accounts and notes payable; and (vi) \$3 million Noncontrolling interests. These assets and liabilities held for sale are included in the Non-Guarantors column, other than \$1 million of Net property that is included in the Guarantor column.

MERITOR, INC.

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

	Fiscal Year Ended September 30, 2017			
	Parent	Guarantors	Non-Guarantors	Elims Consolidated
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	\$33	\$ 85	\$ 58	\$ — 176
INVESTING ACTIVITIES				
Capital expenditures	(9)	(51)	(35)	— (95)
Cash paid for the acquisition of Fabco	—	(32)	(2)	— (34)
Net investing cash flows provided by discontinued operations	—	2	—	— 2
CASH USED FOR INVESTING ACTIVITIES	(9)	(81)	(37)	— (127)
FINANCING ACTIVITIES				
Borrowings and securitization	—	—	89	— 89
Proceeds from debt issuances	325	—	—	— 325
Redemption of notes	(103)	—	—	— (103)
Repayment of notes and term loan	(408)	—	—	— (408)
Other financing activities	(1)	(3)	(9)	— (13)
Debt issuance costs	(12)	—	—	— (12)
Intercompany advances	95	—	(95)	— —
CASH USED FOR FINANCING ACTIVITIES	(104)	(3)	(15)	— (122)
EFFECT OF CHANGES IN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	1	— 1
CHANGE IN CASH AND CASH EQUIVALENTS	(80)	1	7	— (72)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	90	2	68	— 160
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$10	\$ 3	\$ 75	\$ — 88

147

MERITOR, INC.

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

	Fiscal Year Ended September 30, 2016 ⁽¹⁾			
	Parent	Guarantors	Non-Guarantors	Elims Consolidated
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 196	\$ 39	\$ (31)	\$ — 204
INVESTING ACTIVITIES				
Capital expenditures	(19)	(43)	(31)	(93)
Other investing activities	—	4	(1)	3
Net investing cash flows provided by discontinued operations	—	1	3	4
CASH USED FOR INVESTING ACTIVITIES	(19)	(38)	(29)	(86)
FINANCING ACTIVITIES				
Repayment of notes and term loan	(55)	—	—	(55)
Other financing cash flows	(1)	(4)	(11)	(16)
Repurchase of common stock	(81)	—	—	(81)
Intercompany advances	(23)	—	23	—
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(160)	(4)	12	(152)
EFFECT OF CHANGES IN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	1	1
CHANGE IN CASH AND CASH EQUIVALENTS	17	(3)	(47)	(33)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	73	5	115	193
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 90	\$ 2	\$ 68	\$ — 160

(1) Amounts have been recast. See Long-term Debt (Note 17).

MERITOR, INC.

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

	Fiscal Year Ended September 30, 2015 ⁽¹⁾			
	Parent	Guarantors	Non-Guarantors	Elims Consolidated
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 57	\$ 62	\$ (22)	\$ — 97
INVESTING ACTIVITIES				
Capital expenditures	(4)	(41)	(34)	— (79)
Cash paid for acquisition of Morganton	—	(16)	—	— (16)
Other investing activities	—	—	4	— 4
Net investing cash flows provided by discontinued operations	—	1	3	— 4
CASH USED FOR INVESTING ACTIVITIES	(4)	(56)	(27)	— (87)
FINANCING ACTIVITIES				
Proceeds from debt issuance	225	—	—	— 225
Repayment of notes and term loan	(199)	—	—	— (199)
Debt issuance costs	(4)	—	—	— (4)
Other financing cash flows	—	(5)	(4)	— (9)
Repurchase of common stock	(55)	—	—	— (55)
CASH USED FOR FINANCING ACTIVITIES	(33)	(5)	(4)	— (42)
EFFECT OF CHANGES IN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	(22)	— (22)
CHANGE IN CASH AND CASH EQUIVALENTS	2	1	(57)	— (54)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	71	4	172	— 247
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 73	\$ 5	\$ 115	\$ — 193

(1) Amounts have been recast. See Long-term Debt (Note 17).

Basis of Presentation

Certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the SEC. As of September 30, 2017 and 2016, parent-company-only obligations included \$303 million and \$708 million, respectively, of pension and retiree medical benefits (see Notes 21 and 22). All debt is debt of the parent company other than \$100 million and \$24 million at September 30, 2017 and 2016, respectively, (see Note 17) and is primarily related to capital lease obligations and lines of credit. Cash dividends paid to the parent by subsidiaries and investments accounted for by the equity method were \$1 million, \$25 million, \$37 million for 2017, 2016, and 2015, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

As required by Rules 13a-15(e) and 15d - 15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), management, with the participation of the chief executive officer (CEO) and chief financial officer (CFO), evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2017. Based upon that evaluation, our CEO and CFO have concluded that 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 (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Management Report on Internal Control over Financial Reporting

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

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

Our management, with the participation of the CEO and CFO, assessed the effectiveness of the Company’s internal control over financial reporting as of September 30, 2017. This evaluation was based on the criteria for effective internal control over financial reporting established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on management’s assessment and the criteria set forth by COSO, we assessed that the internal control over financial reporting was effective as of September 30, 2017.

The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of the consolidated balance sheets of Meritor as of September 30, 2017 and the related consolidated statements of operations, comprehensive income, cash flows and equity (deficit) for the year ended September 30, 2017, has issued an attestation report on Meritor’s internal control over financial reporting, which is included herein.

Remediation of Prior Material Weakness

We completed our remediation plan designed to address the income tax material weaknesses that were identified during our fiscal year 2016. As part of our assessment of internal control over financial reporting, management tested

and evaluated all controls to assess whether they were designed and operating effectively as of September 30, 2017. Based on this assessment, management concluded that the material weaknesses were remediated.

Changes in Internal Control Over Financial Reporting

Except as discussed above, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during our most recently completed fiscal quarter, and there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Meritor, Inc. and subsidiaries (the "Company") as of October 1, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 1, 2017, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated financial statements as of and for the year ended October 1, 2017, of the Company and our report dated November 16, 2017, expressed an unqualified opinion on those financial statements.

/s/DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP

Detroit, Michigan
November 16, 2017

151

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 regarding directors is incorporated by reference from the information under the caption Election of Directors – Information as to Nominees for Director and Continuing Directors in Meritor’s definitive Proxy Statement for its 2018 Annual Meeting (the “2018 Proxy Statement”), which is expected to be filed within 120 days after Meritor’s fiscal year end. The information required by Item 10 regarding executive officers is set forth in Item 4A of Part I of this Form 10-K. The other information required by Item 10, including regarding the audit committee, audit committee financial expert disclosure and our code of ethics, is incorporated by reference from the information under the captions Code of Ethics, Board of Directors and Committees and Director Qualifications and Nominating Procedures in the 2018 Proxy Statement. Disclosure of delinquent Section 16 filers pursuant to Item 405 of Regulation S-K will be contained in the 2018 Proxy Statement.

Item 11. Executive Compensation.

See the information under the captions Director Compensation in Fiscal Year 2017 and Executive Compensation in the 2018 Proxy Statement.

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

Security Ownership of Certain Beneficial Owners and Management

See the information under the captions Voting Securities and Ownership by Management of Equity Securities in the 2018 Proxy Statement.

Securities Authorized for Issuance under Equity Compensation Plans

The number of stock options outstanding under our equity compensation plans, the weighted average exercise price of outstanding options, and the number of securities remaining available for issuance, as of September 30, 2017, were as follows:

Plan Category	(column a) Number of securities to be issued upon exercise of outstanding options,	(column b) Weighted average exercise price of outstanding options, warrants	(column c) Number of securities remaining available for future issuance under equity
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	warrants and rights ¹	and rights	compensation plans (excluding securities reflected in column a)
Equity compensation plans approved by security holders	—	\$	—4,818,591
Equity compensation plans not approved by security holders	—	—	—
Total	—	\$	—4,818,591

¹ In addition to stock options, shares of common stock, restricted shares of common stock, restricted share units and performance share units, all of which do not have an exercise price, have been awarded under the Company's equity compensation plans and were outstanding at September 30, 2017. The number of weighted average shares in column (a) and the weighted average exercise price reported in column (b) does not take these awards into account. All of the equity compensation plans under which grants are outstanding as shown above were approved by Meritor shareholders.

The following number of shares remained available for issuance under our equity compensation plans at September 30, 2017. Grants may be in the form of any of the listed type of awards.

Plan	Number of shares	Type of award
2010 Long-Term Incentive Plan*	4,818,591	Stock options, stock appreciation rights, stock awards and other stock-based awards

The 2010 Long-Term Incentive Plan was approved by the Company's shareholders on January 28, 2010. At that time, the 2007 Long-Term Incentive Plan and the 2004 Directors Stock Plan were terminated. No further awards will be made under those plans, and no stock awards will be made under the Incentive Compensation Plan. On January 20, *2011, January 23, 2014 and January 26, 2017, the Company's shareholders approved amendments to the 2010 Long-Term Incentive Plan to increase the maximum number of shares that may be granted under the plan. Earlier equity compensation plans were terminated on January 26, 2007, in connection with the approval of the 2007 Long-Term Incentive Plan by the Company's shareholders.

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

See the information under the captions Board of Directors and Committees and Certain Relationships and Related Transactions in the 2018 Proxy Statement.

Item 14. Principal Accountant Fees and Services.

See the information under the caption Independent Accountants' Fees in the 2018 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

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

Consolidated Statement of Operations, years ended September 30, 2017, 2016 and 2015.

Consolidated Statement of Comprehensive Income, years ended September 30, 2017, 2016 and 2015.

Consolidated Balance Sheet, September 30, 2017 and 2016.

Consolidated Statement of Cash Flows, years ended September 30, 2017, 2016 and 2015.

Consolidated Statement of Shareholders' Equity (Deficit), years ended September 30, 2017, 2016 and 2015.

Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm.

(2) Financial Statement Schedule for the years ended September 30, 2017, 2016 and 2015.

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

153

(3) Exhibits

- 3-a Amended and Restated Articles of Incorporation of Meritor, filed as Exhibit 3-a to Meritor's Annual Report on Form 10-K for the fiscal year ended September 27, 2015, is incorporated herein by reference.
- 3-b Amended and Restated By-laws of Meritor effective November 30, 2016, filed as Exhibit 3-b to Meritor's Annual Report on Form 10-K for the fiscal year ended October 2, 2016, is incorporated herein by reference.
- 4-a Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank), as trustee, filed as Exhibit 4 to Meritor's Registration Statement on Form S-3 (Registration No. 333- 49777), is incorporated herein by reference.
- 4-a-1 First Supplemental Indenture, dated as of July 7, 2000, to the Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank), as trustee, filed as Exhibit 4-b-1 to Meritor's Annual Report on Form 10-K (File No. 001-15983) for the fiscal year ended September 30, 2000, is incorporated herein by reference.
- 4-a-2 Third Supplemental Indenture, dated as of June 23, 2006, to the Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank), as trustee (including Subsidiary Guaranty dated as of June 23, 2006), filed as Exhibit 4.2 to Meritor's Current Report on Form 8-K (File No. 001-15983) filed on June 27, 2006, is incorporated herein by reference.
- 4-a-3 Sixth Supplemental Indenture, dated as of May 31, 2013, to the Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank), as trustee, filed as Exhibit 4 to Meritor's Current Report on Form 8-K filed on May 31, 2013, is incorporated herein by reference.
- 4-a-4 Seventh Supplemental Indenture, dated as of February 13, 2014, to the Indenture, dated as of April 1, 1998, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company as successor to The Chase Manhattan Bank), as trustee, filed as Exhibit 4.1 to Meritor's Current Report on Form 8-K filed on February 13, 2014, is incorporated herein by reference.
- 4-b Indenture, dated as of February 8, 2007, between Meritor and The Bank of New York Mellon Trust Company, N.A. (as successor to The Bank of New York Trust Company, N.A.), as trustee (including the note and form of subsidiary guaranty), filed as Exhibit 4-a to Meritor's Quarterly Report on Form 10-Q (File No. 001-15983) for the fiscal quarter ended April 1, 2007, is incorporated herein by reference.

- 4-c Indenture, dated as of December 4, 2012, between Meritor and The Bank of New York Mellon Trust Company, N.A., as trustee (including form of the note and form of subsidiary guaranty), filed as Exhibit 4.1 to Meritor's Current Report on Form 8-K (File No. 001-15983) filed on December 4, 2012, is incorporated herein by reference.
- 4-d Indenture, dated as of September 22, 2017, between Meritor and U.S. Bank National Association, as trustee (including form of the note and form of subsidiary guaranty), filed as Exhibit 4-a to Meritor's Current Report on Form 8-K filed on September 25, 2017, is incorporated herein by reference.
- 10-a-1 Third Amendment and Restatement Agreement relating to Third Amended and Restated Credit Agreement, dated as of March 31, 2017, among Meritor, ArvinMeritor Finance Ireland ("AFI"), the financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, filed as Exhibit 10-a to Meritor's Current Report on Form 8-K filed on April 4, 2017, is incorporated herein by reference.
- 10-a-2 Third Amended and Restated Pledge and Security Agreement, dated as of March 31, 2017, by and among Meritor, the subsidiaries named therein and JPMorgan Chase Bank, N.A., as Administrative Agent, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2017, is incorporated herein by reference.
- 10-a-3** Amendment No. 1 to Third Amended and Restated Credit Agreement, dated as of August 30, 2017, among Meritor, AFI, the financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.
- *10-b 2004 Directors Stock Plan, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q (File No. 001-15983) for the fiscal quarter ended March 28, 2004, is incorporated herein by reference.
- *10-b-1 Form of Restricted Share Unit Agreement under the 2004 Directors Stock Plan, filed as Exhibit 10-c-3 to Meritor's Annual Report on Form 10-K (File No. 001-15983) for the fiscal year ended October 3, 2004, is incorporated herein by reference.
- *10-b-2 Form of Restricted Stock Agreement under the 2004 Directors Stock Plan, filed as Exhibit 10-c-4 to Meritor's Annual Report on Form 10-K (File No. 001-15983) for the fiscal year ended October 2, 2005, is incorporated herein by reference.
- *10-c** 2010 Long-Term Incentive Plan, as amended and restated as of January 26, 2017.
- *10-c-1 Form of Restricted Stock Unit Agreement for Employees under 2010 Long-Term Incentive Plan, filed as Exhibit 10.2 to Meritor's Quarterly Report on Form 10-Q (File No. 001-15983) for the fiscal quarter ended January 3, 2010, is incorporated herein by reference.
- *10-c-2 Form of Restricted Stock Unit Agreement for Directors under 2010 Long-Term Incentive Plan, filed as Exhibit 10.3 to Meritor's Quarterly Report on Form 10-Q (File No. 001-15983) for the fiscal quarter ended January 3, 2010, is incorporated herein by reference.
- *10-c-3 Form of Restricted Stock Agreement for Directors under 2010 Long-term Incentive Plan, filed as Exhibit 10.4 to Meritor's Quarterly Report on Form 10-Q (File No. 001-15983) for the fiscal quarter ended January 3, 2010, is incorporated herein by reference.
- *10-c-4

Form of Performance Share Agreement under 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-b-3 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 29, 2013 (the "2013 Form 10-K"), is incorporated herein by reference.

*10-c-5 Form of Restricted Stock Unit Agreement for Employees for grants on or after December 1, 2013 under 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-e-9 to the 2013 Form 10-K, is incorporated herein by reference.

- *10-c-6 Form of Restricted Stock Unit Agreement for Directors for grants on or after January 23, 2014 under 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-e-10 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2014, is incorporated herein by reference.
- *10-c-7 Form of Restricted Stock Agreement for Directors for grants on or after on or after January 23, 2014 under 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-e-11 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2014, is incorporated herein by reference.
- *10-c-8 Form of Performance Share Unit Agreement for Employees for grants on or after December 1, 2015 under 2010 Long Term Incentive Plan, as amended, filed as Exhibit 10-f-9 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 27, 2015, is incorporated herein by reference.
- *10-c-9 Form of Restricted Share Unit Agreement for Employees for grants on or after December 1, 2015 under 2010 Long Term Incentive Plan, as amended, filed as Exhibit 10-f-10 to Meritor's Annual Report on Form 10-K for the fiscal year ended September 27, 2015, is incorporated herein by reference.
- *10-d Incentive Compensation Plan, as amended and restated, effective January 22, 2015, filed as Appendix A to Meritor's Definitive Proxy Statement for the 2015 Annual Meeting of Shareholders of Meritor, is incorporated herein by reference.
- *10-e Deferred Compensation Plan, filed as Exhibit 10-e-1 to Meritor's Annual Report on Form 10-K (File No. 001-15983) for the fiscal year ended September 30, 1998, is incorporated herein by reference.
- *10-f Form of Deferred Share Agreement, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q (File No. 001-15983) for the fiscal quarter ended January 2, 2005, is incorporated herein by reference.
- *10-g Non-Employee Director Retainer Deferral Policy, effective November 3, 2016, filed as Exhibit 10-j to Meritor's Annual Report on Form 10-K for the fiscal year ended October 2, 2016, is incorporated herein by reference.
- *10-g-1 Form of Restricted Share Unit Agreement for Director Deferral Elections pursuant to the Non-Employee Director Retainer Deferral Policy under the 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-j-1 to Meritor's Annual Report on Form 10-K for the fiscal year ended October 2, 2016, is incorporated herein by reference.
- *10-g-2 Form of Restricted Stock Agreement for Director Deferral Elections pursuant to the Non-Employee Director Retainer Deferral Policy under the 2010 Long-Term Incentive Plan, as amended, filed as Exhibit 10-j-2 to Meritor's Annual Report on Form 10-K for the fiscal year ended October 2, 2016, is incorporated herein by reference.
- 10-h Receivables Purchase Agreement dated as of February 19, 2016, by and among Meritor Heavy Vehicle Braking Systems (USA), LLC and Meritor Heavy Vehicle Systems, LLC, as sellers, and Nordea Bank AB, as purchaser, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2016, is incorporated herein by reference.
- 10-i Receivables Purchase Agreement dated as of March 22, 2017, by and among Meritor HVS AB, as seller, and Viking Asset Purchaser No 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-c to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2017, is incorporated herein by reference.

10-j Receivable Purchase Agreement dated February 2, 2012 between Meritor Heavy Vehicle Braking Systems (UK) Limited, as seller, and Viking Asset Purchaser No. 7 IC, as purchaser, and Citicorp Trustee Company Limited, as programme trustee, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q (File No. 001-15983) for the fiscal quarter ended April 1, 2012, is incorporated herein by reference.

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

156

- 10-k Receivables Purchase Agreement dated June 18, 2012 between Meritor Heavy Vehicle Systems Cameri S.P.A., as seller, and Nordea Bank AB (pbl), as purchaser, filed as Exhibit 10-d to the Quarterly Report on Form 10-Q (File No. 001-15983) for the fiscal quarter ended July 1, 2012, is incorporated herein by reference.
- 10-k-1 Extension Letter dated June 8, 2017, from Meritor Heavy Vehicle Systems Cameri S.P.A. to Nordea Bank AB (pbl), filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2017, is incorporated herein by reference.
- 10-1 Receivables Purchase Agreement dated June 18, 2012 among ArvinMeritor Receivables Corporation, as seller, Meritor, Inc., as initial servicer, the various Conduit Purchasers, Related Committed Purchasers, LC Participants and Purchaser Agents from time to time party thereto, and PNC Bank, National Association, as issuers of Letters of Credit and as Administrator, filed as Exhibit 10-b to the Quarterly Report on Form 10-Q (File No. 001-15983) for the fiscal quarter ended July 1, 2012, is incorporated herein by reference.
- 10-1-1 First Amendment to Receivables Purchase Agreement dated as of December 14, 2012 among ArvinMeritor Receivables Corporation, as seller, Meritor, Inc., as initial servicer, PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, and Market Street Funding, LLC, as a Conduit Purchaser, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 2012, is incorporated herein by reference.
- 10-1-2 Second Amendment to Receivables Purchase Agreement dated June 21, 2013 among ArvinMeritor Receivables Corporation, as seller, Meritor, Inc., as initial servicer, PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, and Market Street Funding LLC, as a Conduit Purchaser, filed as Exhibit 10 to Meritor's Current Report on Form 8-K filed on June 21, 2013, is incorporated herein by reference.
- 10-1-3 Third Amendment to Receivables Purchase Agreement dated as of October 11, 2013 among ArvinMeritor Receivables Corporation, as seller, Meritor, Inc., as servicer, PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank, as Administrator and as Assignee, and Market Street Funding LLC, as Conduit Purchaser and as Assignor, filed as Exhibit 10-m-16 to the 2013 Form 10-K, is incorporated herein by reference.
- 10-1-4 Fourth Amendment to the Receivables Purchase Agreement dated as of October 15, 2014, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10 to Meritor's Current Report on Form 8-K filed on October 20, 2014, is incorporated herein by reference.
- 10-1-5 Fifth Amendment to the Receivables Purchase Agreement dated as of December 4, 2015, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10-a to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended January 3, 2016, is incorporated herein by reference.
- 10-1-6 Sixth Amendment to the Receivables Purchase Agreement dated as of December 5, 2016, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10-c to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended

January 1, 2017, is incorporated herein by reference.

10-1-7 Seventh Amendment to the Receivables Purchase Agreement dated as of June 22, 2017, by and among ArvinMeritor Receivables Corporation, as Seller, Meritor, Inc., as Initial Servicer, and PNC Bank, National Association, as a Related Committed Purchaser, as an LC Participant, as a Purchaser Agent, as LC Bank and as Administrator, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2017, is incorporated herein by reference.

157

- 10-m Fourth Amended and Restated Purchase and Sale Agreement dated June 18, 2012 among Meritor Heavy Vehicle Braking Systems (U.S.A.), LLC, and Meritor Heavy Vehicle Systems, LLC, as originators, Meritor, Inc., as initial servicer, and ArvinMeritor Receivables Corporation, as buyer, filed as Exhibit 10-a to the Quarterly Report on Form 10-Q (File No. 001-15983) for the fiscal quarter ended July 1, 2012, is incorporated herein by reference.
- 10-m-1 Letter Agreement relating to Fourth Amended and Restated Receivables Purchase Agreement dated as of December 14, 2012 among Meritor Heavy Vehicle Braking Systems (U.S.A.), LLC, Meritor Heavy Vehicle Systems, LLC, ArvinMeritor Receivables Corporation, Meritor, Inc. and PNC Bank, National Association, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 2012, is incorporated herein by reference.
- 10-n Purchase and Sale Agreement dated as of August 3, 2010 among Meritor France (as Seller), Meritor, Inc. (as Seller Guarantor) and 81 Acquisition LLC (as Buyer), filed as Exhibit 10 to Meritor's Current Report on Form 8-K (File No. 001-15983) filed on August 5, 2010, is incorporated herein by reference.
- 10-n-1 First Amendment dated as of December 6, 2010 to Purchase and Sale Agreement dated as of August 3, 2010 among Meritor France (as Seller), Meritor, Inc. (as Seller Guarantor) and 81 Acquisition LLC (as Buyer), filed as Exhibit 10 to Meritor's Current Report on Form 8-K (File No. 001-15983) filed December 8, 2010, is incorporated herein by reference.
- 10-n-2 Second Amendment dated as of January 3, 2011 to Purchase and Sale Agreement dated as of August 3, 2010 among Meritor France (as Seller), Meritor, Inc. (as Seller Guarantor) and Inteva Products Holding Coöperatieve U.A., as assignee of 81 Acquisition LLC (as Buyer), as amended, filed as Exhibit 10 to Meritor's Current Report on Form 8-K (File No. 001-15983) filed on January 3, 2011, is incorporated herein by reference.
- 10-o Purchase and Sale Agreement dated August 4, 2009 among Meritor, Iochpe-Maxion, S.A. and the other parties listed therein, filed as Exhibit 10 to Meritor's Quarterly Report on Form 10-Q (File No. 001-15983) for the fiscal quarter ended June 28, 2009, is incorporated herein by reference.
- 10-p Purchase and Option Agreement dated September 15, 2017 among Meritor, WABCO Holdings Inc. and the other parties listed therein, filed as filed as Exhibit 10-a to Meritor's Current Report on Form 8-K filed on September 18, 2017, is incorporated herein by reference.
- *10-q Employment Agreement between Meritor, Inc. and Kevin Nowlan dated May 1, 2013, filed as Exhibit 10-f to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013, is incorporated herein by reference.
- *10-r Amended and Restated Employment Letter between Meritor, Inc. and Jeffrey A. Craig dated April 29, 2015, filed as Exhibit 10-a-2 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2015, is incorporated herein by reference.
- *10-s Form of Performance Share Agreement for grant from Meritor, Inc. to Jeffrey Craig on December 1, 2013, filed as Exhibit 10-zz to the 2013 Form 10-K, is incorporated herein by reference.
- *10-t Compensation Letter dated as of April 29, 2015 between Meritor, Inc. and Jeffrey A. Craig, filed as Exhibit 10-a-1 to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2015, is incorporated herein by reference.

*10-u Form of Employment Agreement, filed as Exhibit 10-b to Meritor's Quarterly Report on Form 10-Q for the fiscal quarter ended January 3, 2016, is incorporated herein by reference.

*10-v Schedule identifying agreements substantially identical to the Form of Employment Agreement constituting Exhibit 10-u hereto, filed as Exhibit 10-bb to Meritor's Annual Report on Form 10-K for the fiscal year ended October 2, 2016, is incorporated herein by reference.

12** Computation of ratio of earnings to fixed charges.

158

- 21** List of Subsidiaries of Meritor, Inc.
- 23-a** Consent of April Miller Boise, Esq., Senior Vice President, General Counsel and Corporate Secretary.
- 23-b** Consent of Deloitte & Touche LLP, independent registered public accounting firm.
- 23-c** Consent of Bates White LLC.
- 24** Power of Attorney authorizing certain persons to sign this Annual Report on Form 10-K on behalf of certain directors and officers of Meritor.
- 31-a** Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act.
- 31-b** Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act.
- 32-a** Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350.
- 32-b** Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350.

101.INS XBRL INSTANCE DOCUMENT

101.SCH XBRL TAXONOMY EXTENSION SCHEMA

101.PRE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

101.LAB XBRL TAXONOMY EXTENSION LABEL LINKBASE

101.CAL XBRL TAXONOMY EXTENSION CALCULATION LINKBASE

101.DEF XBRL TAXONOMY EXTENSION DEFINITION LINKBASE

*Management contract or compensatory plan or arrangement.

** Filed herewith.

SIGNATURES

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

MERITOR, INC.

By: /s/ April Miller Boise
April Miller Boise
Senior Vice President,
General Counsel and
Corporate Secretary

Date: November 16, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 16th day of November, 2017 by the following persons on behalf of the registrant and in the capacities indicated.

William R. Newlin * Chairman of the Board of Directors

Ivor J. Evans, Jan A. Bertsch,
Rhonda L. Brooks, Lloyd G. Trotter, Directors
William J. Lyons, Thomas L.
Pajonas*

Jay A. Craig* Chief Executive Officer and President (Principal Executive Officer) and
Director

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

Paul D. Bialy* Vice President, Controller and Principal Accounting Officer

* By: /s/ April Miller Boise
April Miller Boise
Attorney-in-fact **

** By authority of powers of attorney filed herewith.