MERITOR INC
Form 10-Q
August 04, 2016
Index

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

FORM 10-Q

QUARTERLY REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended July 3, 2016
Commission File No. 1-15983

MERITOR, INC.

(Exact name of registrant as specified in its charter)

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

(248) 435-1000
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Registration S-T during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files).
Yes X No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No X
86,763,157 shares of Common Stock, $1.00 par value, of Meritor, Inc. were outstanding on August 2, 2016.

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MERITOR, INC.

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in millions, except per share amounts)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
Sales	$841	$909	$2,471	$2,652
Cost of sales	(714)	(785)	(2,119)	(2,298)
GROSS MARGIN	127	124	352	354
Selling, general and administrative	(59)	(65)	(175)	(187)
Restructuring costs	(6)	(9)	(9)	(15)
Other operating income (expense), net	—	1	(3)	2
OPERATING INCOME	62	51	165	154
Other income (expense), net	—	(1)	(1)	3
Equity in earnings of affiliates	9	10	26	28
Interest expense, net	(20)	(38)	(63)	(78)
INCOME BEFORE INCOME TAXES	51	22	127	107
Provision for income taxes	(8)	(6)	(22)	(19)
INCOME FROM CONTINUING OPERATIONS	43	16	105	88
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(1)	(2)	(4)	(1)
NET INCOME	42	14	101	87
Less: Net income attributable to noncontrolling interests	(1)	(1)	(2)	(2)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	$41	$13	$99	$85
NET INCOME ATTRIBUTABLE TO MERITOR, INC.				
Net income from continuing operations	$42	$15	$103	$86
Loss from discontinued operations	(1)	(2)	(4)	(1)
Net income	$41	$13	$99	$85
BASIC EARNINGS (LOSS) PER SHARE				
Continuing operations	$0.47	$0.15	$1.13	$0.88
Discontinued operations	(0.01)	(0.02)	(0.04)	(0.01)
Basic earnings per share	$0.46	$0.13	$1.09	$0.87
DILUTED EARNINGS (LOSS) PER SHARE				
Continuing operations	$0.46	$0.15	$1.10	$0.85
Discontinued operations	(0.01)	(0.02)	(0.04)	(0.01)
Diluted earnings per share	$0.45	$0.13	$1.06	$0.84
Basic average common shares outstanding	89.8	96.9	91.2	97.6
Diluted average common shares outstanding	92.0	100.3	93.1	101.0

See notes to condensed consolidated financial statements.

MERITOR, INC.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
Net income	$42	$14	$101	$87
Other comprehensive income (loss):				
Foreign currency translation adjustments:				
Attributable to Meritor, Inc.	(10)	13	(6)	(54)
Attributable to noncontrolling interest	—	—	—	(1)
Other reclassification adjustment	—	—	—	1
Pension and other postretirement benefit related adjustments	7	12	25	35
Unrealized gain (loss) on investments and foreign exchange contracts	3	(2)	5	(3)
Other comprehensive income (loss), net of tax	—	23	24	(22)
Total comprehensive income	42	37	125	65
Less: Comprehensive income attributable to noncontrolling interest	(1)	(1)	(2)	(1)
Comprehensive income attributable to Meritor, Inc.	$41	$36	$123	$64

See notes to condensed consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

	June 30, 2016 (Unaudited)	September 30, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$129	$ 193
Receivables, trade and other, net	422	461
Inventories	335	338
Other current assets	53	50
TOTAL CURRENT ASSETS	939	1,042
NET PROPERTY	428	419
GOODWILL	392	402
OTHER ASSETS	325	332
TOTAL ASSETS	$2,084	$ 2,195
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Short-term debt	$14	$ 15
Accounts and notes payable	503	574
Other current liabilities	267	279
TOTAL CURRENT LIABILITIES	784	868
LONG-TERM DEBT	980	1,036
RETIREMENT BENEFITS	601	632
OTHER LIABILITIES	315	305
TOTAL LIABILITIES	2,680	2,841
COMMITMENTS AND CONTINGENCIES (See Note 19)		
EQUITY (DEFICIT):		
Common stock (June 30, 2016 and September 30, 2015, 99.6 and 98.8 shares issued and 86.8 and 94.6 shares outstanding, respectively)	99	99
Additional paid-in capital	873	865
Accumulated deficit	(715)	(814)
Treasury stock, at cost (June 30, 2016 and September 30, 2015, 12.8 and 4.2 shares, respectively)	(136)	(55)
Accumulated other comprehensive loss	(742)	(766)
Total deficit attributable to Meritor, Inc.	(621)	(671)
Noncontrolling interests	25	25
TOTAL DEFICIT	(596)	(646)
TOTAL LIABILITIES AND DEFICIT	$2,084	$ 2,195

See notes to condensed consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)

	Nine Months Ended June 30,	
	2016	2015
	(Unaudited)	
OPERATING ACTIVITIES		
CASH PROVIDED BY OPERATING ACTIVITIES (See Note 9)	$144	$122
INVESTING ACTIVITIES		
Capital expenditures	(66)	(45)
Proceeds from sale of property	3	4
Net investing cash flows provided by discontinued operations	4	4
CASH USED FOR INVESTING ACTIVITIES	(59)	(37)
FINANCING ACTIVITIES		
Repayment of notes and term loan	(55)	(159)
Proceeds from debt issuance	—	225
Debt issuance costs	—	(4)
Repurchase of common stock	(81)	(30)
Other financing activities	(15)	(7)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(151)	25
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	2	(12)
CHANGE IN CASH AND CASH EQUIVALENTS	(64)	98
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	193	247
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$129	$345

See notes to condensed consolidated financial statements.

MERITOR, INC.

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

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total Deficit Attributable to Meritor, Inc.	Noncontrolling Interests	Total
Beginning balance at September 30, 2015	$ 99	$ 865	$ (814)	$ (55)	$ (766)	$ (671)	$ 25	$ (646)
Comprehensive income	—	—	99	—	24	123	2	125
Equity based compensation expense	—	8	—	—	—	8	—	8
Repurchase of common stock	—	—	—	(81)	—	(81)	—	(81)
Noncontrolling interest dividend	—	—	—	—	—	—	(2)	(2)
Ending Balance at June 30, 2016	$ 99	$ 873	$ (715)	$ (136)	$ (742)	$ (621)	$ 25	$ (596)
Beginning balance at September 30, 2014	$ 97	$ 918	$ (878)	$ —	$ (749)	$ (612)	$ 27	$ (585)
Comprehensive income (loss)	—	—	85	—	(21)	64	1	65
Vesting of restricted stock	2	(2)	—	—	—	—	—	—
Repurchase of convertible notes	—	(48)	—	—	—	(48)	—	(48)
Equity based compensation expense	—	8	—	—	—	8	—	8
Repurchase of common stock	—	—	—	(30)	—	(30)	—	(30)
Noncontrolling interest dividends	—	—	—	—	—	—	(1)	(1)
Ending Balance at June 30, 2015	$ 99	$ 876	$ (793)	$ (30)	$ (770)	$ (618)	$ 27	$ (591)

See notes to condensed consolidated financial statements.

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

1. Basis of Presentation

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

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

In the opinion of the company, the unaudited condensed consolidated financial statements contain all adjustments, consisting solely of adjustments of a normal, recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These statements should be read in conjunction with the company's audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K, for the fiscal year ended September 30, 2015, as amended. The condensed consolidated balance sheet data as of September 30, 2015 was derived from audited financial statements but does not include all annual disclosures required by accounting principles generally accepted in the United States of America. The results of operations for the three and nine months ended June 30, 2016 are not necessarily indicative of the results for the full year.

The company's fiscal year ends on the Sunday nearest September 30. The third quarter of fiscal years 2016 and 2015 ended on July 3, 2016 and June 28, 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 and June 30 are used consistently throughout this report to represent the fiscal year end and third fiscal quarter end, respectively.

2. 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):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Basic average common shares outstanding	89.8	96.9	91.2	97.6
Impact of restricted shares, restricted share units and performance share units	2.2	1.8	1.9	2.0
Impact of stock options	—	0.1	—	0.1
Impact of convertible notes	—	1.5	—	1.3
Diluted average common shares outstanding	92.0	100.3	93.1	101.0

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 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 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 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 $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 will vest depends upon the company's performance relative to the established M2016 goals for the three-year performance period of October 1, 2013 to September 30, 2016, measured at the end of the performance period. The number of performance share units will depend on meeting the established M2016 goals at the following weights: 50% associated with achieving an Adjusted EBITDA margin target, 25% associated with achieving a net debt including retirement benefit liabilities target, and 25% associated with achieving an incremental booked revenue target. The number of performance share units that vest will be between 0% and 200% of the grant date amount of 1.8 million performance share units including incremental share units that were issued subsequent to the December 1, 2013 grant date. There were 1.9 million and 1.4 million shares related to these performance share units included in the diluted earnings per share calculation for the three and nine months ended June 30, 2016, respectively, as certain payout thresholds were achieved in the third quarter of fiscal year 2016 relative to the Adjusted EBITDA, net debt reduction and incremental booked revenue targets. There were 0.9 million and 0.8 million shares related to these performance share units included in the diluted earnings per share calculation for the three and nine months ended June 30, 2015, respectively, as certain payout thresholds were achieved in the third quarter of fiscal year 2015.

For the three months ended June 30, 2016, the dilutive impact of previously issued restricted shares, restricted share units, and performance share units was 2.2 million, compared to 1.8 million share units for the same period in the prior fiscal year. For the nine months ended June 30, 2016, the dilutive impact of previously issued restricted shares, restricted share units, and performance share units was 1.9 million, compared to 2.0 million share units for the same period in the prior fiscal year. For the three and nine months ended June 30, 2016, compensation cost related to restricted shares, restricted share units, performance share units and stock options was $2 million and $8 million, respectively, compared to $3 million and $8 million, respectively for the three and nine months ended June 30, 2015.

For each of the three- and nine-month period ended June 30, 2016, options to purchase 0.3 million shares of common stock, were excluded in the computation of diluted earnings per share because their exercise price exceeded the average market price for the periods and thus their inclusion would be anti-dilutive.

For the three and nine months ended June 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 conversion price for the notes. For the three and nine months ended June 30, 2015, 1.5 million and 1.3 million shares, respectively, were included in the computation of diluted earnings per share because the average stock price during this period exceeded the conversion price for the 7.875 percent convertible notes due 2026.

3. New Accounting Standards

Accounting standards to be implemented

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 (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 with 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 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 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 periods beginning after December 15, 2016, including interim periods within those fiscal periods. 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 periods beginning after December 15, 2016, including interim periods 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 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 periods beginning after December 15, 2016, including interim periods 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 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 periods beginning after December 15, 2016, including interim periods 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 periods beginning after December 15, 2018, including interim periods within those fiscal periods. 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 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 periods beginning after December 15, 2017, including interim periods 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 November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, as part of its Simplification Initiative, which updates Income Taxes (Topic 740) guidance to eliminate the requirement for an entity to separate deferred tax liabilities and tax assets between current and noncurrent amounts in a classified balance sheet. Deferred taxes will be presented as noncurrent under the new standard. The guidance is effective for fiscal periods beginning after December 15, 2016, including interim periods within those fiscal periods. Early adoption is permitted. The company plans to implement this guidance in the fourth quarter of fiscal year 2016. The impact as of June 30, 2016 would be a reclassification between current and non current deferred tax assets of $17 million.

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 periods beginning after December 15, 2016, including interim periods within those fiscal periods. The company is assessing the potential impact of this new guidance on its consolidated financial statements.

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 interim and fiscal periods ending after December 15, 2016. Early adoption is permitted. The company does not expect a material impact on its consolidated financial statements from adoption of this guidance.

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 is assessing the potential impact of this new guidance on its consolidated financial statements.

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 is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

Accounting standards implemented during fiscal year 2016

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which updates Business Combination (Topic 805) guidance to eliminate the requirement to restate prior period financial statements for measurement period adjustments. The guidance should be applied prospectively to measurement period adjustments that occur after the effective date. The guidance is effective for fiscal periods beginning after December 15, 2015, including interim periods within those fiscal periods. Early adoption is permitted. The company adopted this standard in the first quarter of the fiscal year 2016. This guidance did not have a material impact on the company's consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This guidance changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The guidance also requires new disclosure of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This guidance is to be applied prospectively and is effective for fiscal periods beginning on or after December 15, 2014, including interim periods within those fiscal periods. The company adopted this guidance in the first quarter of fiscal year 2016. The impact of this new guidance on the company's consolidated financial statements is dependent upon future business divestitures. Previous divestitures and amounts currently included in discontinued operations were not impacted.

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

4. Discontinued Operations

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Sales	$—	$—	$—	$1
Loss before income taxes	$(1)	$(2)	$(5)	$(1)
Benefit from income taxes	—	—	1	—
Loss from discontinued operations attributable to Meritor, Inc.	$(1)	$(2)	$(4)	$(1)

Loss from discontinued operations attributable to the company for the three and nine months ended June 30, 2016 and June 30, 2015 was primarily attributable to changes in estimates related to legal costs incurred in connection with previously divested businesses.

Total discontinued operations assets as of June 30, 2016 and September 30, 2015 were $1 million and $4 million, respectively, and total discontinued operations liabilities as of June 30, 2016 and September 30, 2015 were $6 million and $10 million, respectively.

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.

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

	Commercial Truck & Industrial	Aftermarket & Trailer	Total
Beginning balance at September 30, 2015	$ 239	$ 163	$402
Foreign currency translation	(8)	(2)	(10)
Balance at June 30, 2016	$ 231	$ 161	$392

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6. Restructuring Costs

Restructuring reserves, primarily related to unpaid employee termination benefits were $11 million at June 30, 2016 and $10 million at September 30, 2015, respectively. The changes in restructuring reserves for the nine months ended June 30, 2016 and 2015 are as follows (in millions):

	Employee Termination Benefits	Plant Shutdown & Other	Total
Beginning balance at September 30, 2015	$ 10	$ —	$ 10
Activity during the period:			
Charges to continuing operations	8	1	9
Cash payments – continuing operations	(8)	—	(8)
Total restructuring reserves at June 30, 2016	10	1	11
Less: non-current restructuring reserves	(2)	—	(2)
Restructuring reserves – current, at June 30, 2016	$ 8	$ 1	$ 9
Balance at September 30, 2014	$ 11	$ —	$ 11
Activity during the period:			
Charges to continuing operations	15	—	15
Cash payments – continuing operations	(10)	—	(10)
Other	(3)	—	(3)
Total restructuring reserves at June 30, 2015	13	—	13
Less: non-current restructuring reserves	(2)	—	(2)
Restructuring reserves – current, at June 30, 2015	$ 11	$ —	$ 11

2016 Restructuring Costs:

During the first nine months of fiscal year 2016, the company recorded restructuring costs of $9 million, $3 million of which was recorded in the first six months of fiscal year 2016 and was associated with labor reduction programs in both the Commercial Truck & Industrial and Aftermarket & Trailer segments. During the third quarter of fiscal year 2016, the company approved restructuring plans in the North American and European aftermarket businesses. The company expects to incur approximately $8 million of restructuring costs in the Aftermarket & Trailer segment primarily for severance. A restructuring charge of $5 million was recorded in third quarter of fiscal year 2016. Restructuring actions associated with these plans are expected to be completed in the first half of fiscal year 2017.

Prior Period Costs:

Consolidation of Certain Operations in 2015: During the first quarter of fiscal year 2015, the company recorded severance charges of $3 million associated with the elimination of approximately 50 hourly and 20 salaried positions in the Commercial Truck & Industrial segment in connection with the consolidation of certain gearing and machining operations in North America. Restructuring actions associated with this program were substantially complete as of September 30, 2015.

During the third quarter of fiscal year 2015, the company notified approximately 40 hourly and salaried employees in the Commercial Truck & Industrial segment that their positions were being eliminated due to the planned closure of a North America Manufacturing facility. The company recorded $2 million of severance charges during the third quarter of fiscal year 2015. Restructuring actions associated with this plan were completed by the end of fiscal year 2015.

South America Labor Reduction II: During the third quarter of fiscal year 2015, a restructuring plan to further reduce headcount in South America was approved by the local union. This restructuring plan was in response to the then-current economic environment in South America, which was weakening in 2015. With this restructuring plan, the company eliminated approximately 230 hourly and 20 salaried positions and incurred $6 million in employee separation costs in the Commercial Truck & Industrial segment. Restructuring actions associated with this plan were complete by the end of fiscal year 2015.

Closure of a Corporate Engineering Facility in 2015: 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 $1 million associated with this plan for the six months ended March 31, 2015. Restructuring actions associated with this program were substantially complete as of September 30, 2015.

European Labor Reduction in 2015: 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 the second quarter of fiscal year 2015. Restructuring actions associated with this program were substantially complete as of June 30, 2015.

7. Income Taxes

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

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

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-percent-owned subsidiaries in France, the United Kingdom 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. Continued improvement in the company’s operating results could lead to reversal of some or all of these valuation allowances in the future. However, the company continues to maintain the valuation allowances in these 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. In addition, the company performs the same analysis in jurisdictions not in a valuation allowance to determine if a valuation allowance is required.

The company has experienced profitability in the U.S. in recent years. Given the historical volatility in the U.S. Class 8 truck market, the company believes that sustaining profitability for a reasonable period of time is necessary before determining that a valuation allowance should be reversed. To the extent positive trends and forecasts of future profitability continue, including the company’s 2017 annual operating plan, management’s conclusion regarding the need for a valuation allowance could change, leading to a reversal of all or a portion of the valuation allowance. A reversal of the company’s valuation allowance could result in a significant benefit to earnings. The company anticipates the potential range of a full reversal to be approximately $500 million to $600 million.

For the three months ended June 30, 2016, the company had approximately $19 million of net pre-tax income compared to $6 million of net pre-tax income in the same period in fiscal year 2015 in tax jurisdictions in which tax expense (benefit) is not recorded.

For the nine months ended June 30, 2016, the company had approximately $47 million of net pre-tax income compared to $42 million of net pre-tax income in the same period in fiscal year 2015 in tax jurisdictions in which tax expense is not recorded. Income arising from these jurisdictions resulted in an adjustment to the valuation allowance, rather than an adjustment to income tax expense.

8. Accounts Receivable Factoring and Securitization

Off-balance sheet arrangements

Swedish Factoring Facility: The company has an arrangement to sell trade receivables due from AB Volvo through one of its Swedish subsidiaries. On June 15, 2016, Meritor extended its Swedish factoring facility with Nordea Bank until October 31, 2016. All other terms of the agreement remain unchanged. Under this arrangement, the company can sell up to, at any point in time, €155 million ($172 million) of eligible trade receivables. The company is working to extend this arrangement before its current maturity date. The receivables under this program are sold at face value and are excluded from the condensed consolidated balance sheet. The company had utilized €113 million ($125 million) and €108 million ($121 million) of this accounts receivable factoring facility as of June 30, 2016 and September 30, 2015, respectively.

The above facility is backed by a 364-day liquidity commitment from Nordea Bank which extends through December 2016. The commitment is subject to standard terms and conditions for this type of arrangement.

U.S. Factoring Facility: On February 19, 2016, the company entered into a new Receivables Purchase Agreement with Nordea Bank, replacing a similar agreement that was set to expire February 28, 2016. Under this arrangement, which now terminates on February 19, 2019, the company can sell up to, at any point in time, €80 million ($89 million) of eligible trade receivables from AB Volvo and its U.S. subsidiaries through one of the company's U.S. subsidiaries. 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 condensed consolidated balance sheet. The company had utilized €47 million ($53 million) and €74 million ($83 million) of this accounts receivable factoring facility as of June 30, 2016 and September 30, 2015, respectively.

United Kingdom Factoring Facility: The company has an arrangement to sell trade receivables from AB Volvo and its European subsidiaries through one of its United Kingdom subsidiaries. Under this arrangement, which expires in February 2018, the company can sell up to, at any point in time, €25 million ($28 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the condensed consolidated balance sheet. The company had utilized €8 million ($8 million) and €8 million ($8 million) of this accounts receivable factoring facility as of June 30, 2016 and September 30, 2015, 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, which expires in June 2017, the company can sell up to, at any point in time, €30 million ($33 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the condensed consolidated balance sheet. The company had utilized €20 million ($22 million) and €22 million ($24 million) of this accounts receivable factoring facility as of June 30, 2016 and September 30, 2015, 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 condensed consolidated balance sheet. The amount of factored receivables excluded from accounts receivable under these arrangements was $14 million and $18 million at June 30, 2016 and September 30, 2015, respectively.

Total costs associated with all of the off-balance sheet arrangements described above were $2 million and $1 million in the three months ended June 30, 2016 and 2015, respectively, and $6 million and $4 million in the nine months ended June 30, 2016 and 2015, respectively, and are included in selling, general and administrative expenses in the condensed consolidated statements of operations.

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On-balance sheet arrangements

The company has a $100 million U.S. accounts receivables securitization facility. On December 4, 2015, the company entered into an amendment which extends the facility expiration date to December 4, 2018. 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 condensed consolidated balance sheet. At June 30, 2016 and September 30, 2015, 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, amounts exceeding the amounts shown as outstanding at fiscal quarter ends.

9. Operating Cash Flow

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

	Nine Months Ended June 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income	$101	$87
Less: Loss from discontinued operations, net of tax	(4)	(1)
Income from continuing operations	105	88
Adjustments to income from continuing operations to arrive at cash provided by operating activities:		
Depreciation and amortization	48	49
Restructuring costs	9	15
Loss on debt extinguishment	—	20
Gain on sale of property	(2)	(3)
Equity in earnings of affiliates	(26)	(28)
Pension and retiree medical expense	15	20
Other adjustments to income from continuing operations	7	8
Dividends received from equity method investments	29	26
Pension and retiree medical contributions	(32)	(36)
Restructuring payments	(8)	(10)
Changes in off-balance sheet accounts receivable factoring	(30)	94
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations	31	(111)

Operating cash flows provided by continuing operations	146	132
Operating cash flows used for discontinued operations	(2)	(10)
CASH PROVIDED BY OPERATING ACTIVITIES	$144	$122

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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):

	June 30, 2016	September 30, 2015
Finished goods	$ 132	$ 133
Work in process	30	28
Raw materials, parts and supplies	173	177
Total	$ 335	$ 338

11. Other Current Assets

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

	June 30, 2016	September 30, 2015
Current deferred income tax assets	$ 19	$ 20
Asbestos-related recoveries (see Note 19)	13	13
Prepaid and other	21	17
Other current assets	$ 53	$ 50

12. Net Property

Net property is summarized as follows (in millions):

	June 30, 2016	September 30, 2015
Property at cost:		
Land and land improvements	$ 30	$ 31
Buildings	218	214
Machinery and equipment	842	864
Company-owned tooling	116	116
Construction in progress	63	62
Total	1,269	1,287
Less: accumulated depreciation	(841)	(868)
Net property	$ 428	$ 419

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13. Other Assets

Other assets are summarized as follows (in millions):

	June 30, 2016	September 30, 2015
Investments in non-consolidated joint ventures	$ 98	$ 96
Asbestos-related recoveries (see Note 19)	35	42
Unamortized revolver debt issuance costs	8	10
Capitalized software costs, net	27	28
Non-current deferred income tax assets, net	26	28
Assets for uncertain tax positions	3	3
Prepaid pension costs	112	110
Other	16	15
Other assets	$ 325	$ 332

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

The company holds a variable interest in a joint venture accounted for under the equity method of accounting. The joint venture manufactures components for commercial vehicle applications primarily on behalf of the company. The variable interest relates to a supply arrangement between the company and the joint venture whereby the company supplies certain components to the joint venture on a cost-plus basis. The company is not the primary beneficiary of the joint venture, as the joint venture partner has shared or absolute control over key manufacturing operations, labor relationships, financing activities and certain other functions of the joint venture. Therefore, the company does not consolidate the joint venture. At June 30, 2016 and September 30, 2015, the company’s investment in the joint venture was $43 million and $42 million, respectively.

14. Other Current Liabilities

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

	June 30, 2016	September 30, 2015
Compensation and benefits	$ 110	$ 122
Income taxes	10	9
Taxes other than income taxes	22	23
Accrued interest	15	14
Product warranties	18	22
Environmental reserves (see Note 19)	8	9
Restructuring (see Note 6)	9	7
Asbestos-related liabilities (see Note 19)	17	17
Indemnity obligations (see Note 19)	2	2
Other	56	54
Other current liabilities	$ 267	$ 279

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 relationships 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.

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

	Nine Months Ended June 30,	
	2016	2015
Total product warranties – beginning of period	$48	$51
Accruals for product warranties	11	11
Payments	(13)	(13)
Change in estimates and other	(1)	1
Total product warranties – end of period	45	50
Less: Non-current product warranties	(27)	(27)
Product warranties – current	$18	$23

15. Other Liabilities

Other liabilities are summarized as follows (in millions):

	June 30, 2016	September 30, 2015
Asbestos-related liabilities (see Note 19)	$ 121	$ 109
Restructuring (see Note 6)	2	3
Non-current deferred income tax liabilities	101	99
Liabilities for uncertain tax positions	14	15
Product warranties (see Note 14)	27	26
Environmental (see Note 19)	6	8
Indemnity obligations (see Note 19)	12	13
Other	32	32
Other liabilities	$ 315	$ 305

16. Long-Term Debt

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

	June 30, 2016	September 30, 2015
4.625 percent convertible notes due 2026 (1)	$ —	$ 55
4.0 percent convertible notes due 2027(2)(4)	142	142
7.875 percent convertible notes due 2026(2)(5)	129	127
6.75 percent notes due 2021(3)(6)	271	270
6.25 percent notes due 2024(3)(7)	442	442
Capital lease obligation	17	17
Export financing arrangements and other	9	18
Unamortized discount on convertible notes	(16)	(20)
Subtotal	994	1,051
Less: current maturities	(14)	(15)
Long-term debt	$ 980	$ 1,036

(1) The 4.625 percent convertible notes contained a put and call feature, which allowed for earlier redemption beginning in 2016. As of June 30, 2016, all of these notes were redeemed.

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

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

(4) The 4.0 percent convertible notes due 2027 are presented net of $1 million unamortized issuance costs as of June 30, 2016 and September 30, 2015.
(5) The 7.875 percent convertible notes due 2026 are presented net of $2 million and $3 million unamortized issuance costs as of June 30, 2016 and September 30, 2015, respectively, and $9 million and $10 million original issuance discount as of June 30, 2016 and September 30, 2015.
(6) The 6.75 percent notes due 2021 are presented net of $4 million and $5 million unamortized issuance costs as of June 30, 2016 and September 30, 2015.
(7) The 6.25 percent notes due 2024 are presented net of $8 million unamortized issuance costs as of June 30, 2016 and September 30, 2015.

Revolving Credit Facility

On June 2, 2016, the company entered into a third amendment of its senior secured revolving credit facility. The amendment increased the 2019 revolving loan commitment to $466 million, permits the company to execute certain internal restructuring plans, including the release of certain guarantors when required by such plans, and reset covenant basket amounts. Pricing and maturity dates remain unchanged. Subsequent to the amendment, a certain lender converted its $20 million 2017 revolving loan commitment to a 2019 revolving loan commitment and is now subject to the terms of a 2019 lender. Pursuant to the revolving credit agreement, the company now has a $506 million revolving credit facility, $20 million of which matures in April 2017 for banks not electing to extend their commitments under the revolving credit facility, and $486 million of which matures in February 2019.

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 June 30, 2016, the revolving credit facility was collateralized by approximately $623 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 June 30, 2016, the margin over LIBOR rate was 325 basis points, and the commitment fee was 50 basis points. Overnight revolving credit loans are at the prime rate plus a margin of 225 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 22).

No borrowings were outstanding under the revolving credit facility at June 30, 2016 and September 30, 2015. The amended and extended revolving credit facility includes $100 million of availability for the issuance of letters of credit. At June 30, 2016 and September 30, 2015, 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.

Issuance of Debt Securities - 2024 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 2024 Notes"). The offering and sale were made pursuant to the company's February 2012 shelf registration statement. The Initial 2024 Notes were issued under the company's indenture dated as of April 1, 1998, as supplemented. The Initial 2024 Notes were issued at 100 percent of their principal amount. The proceeds

from the sale of the Initial 2024 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 2024 Notes"), in an underwritten public offering pursuant to the company's December 2014 shelf registration statement. The proceeds from the sale of the Additional 2024 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 due 2026. The company used the remaining net proceeds, along with cash on hand, to purchase annuities to satisfy its obligations under the company's Canadian and German pension plans. The Additional 2024 Notes constitute a further issuance of, and are fungible with, the $225 million aggregate principal amount of Initial 2024 Notes that the company issued on February 13, 2014 and form a single series with the Initial 2024 Notes (collectively, the "2024 Notes"). The Additional 2024 Notes have terms identical to the Initial 2024 Notes, other than issue date and offering price, and have the same CUSIP number as the Initial 2024 Notes. Upon completion of the offering, the aggregate principal amount of outstanding notes of this series was $450 million.
The 2024 Notes bear interest at a fixed rate of 6.25 percent per annum. The company pays interest on the 2024 Notes semi-annually, in arrears, on February 15 and August 15 of each year. The 2024 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 2024 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 2024 Notes, in whole or in part, at a redemption price equal to 100 percent of the principal amount of the 2024 Notes to be redeemed, plus an applicable premium (as defined in the indenture under which the 2024 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 2024 Notes, in whole or in part, at the redemption prices (expressed as percentages of the principal amount of the 2024 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%

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 2024 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 2024 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 2024 Notes were issued) occurs, unless the company has exercised its right to redeem the 2024 Notes, each holder of 2024 Notes may require the company to repurchase some or all of such holder's 2024 Notes at a purchase price equal to 101 percent of the principal amount of the 2024 Notes to be repurchased, plus accrued and unpaid interest, if any.

Repurchase of Debt Securities
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 net 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 net loss on debt extinguishment is included in Interest expense, net in the consolidated statement of operations. The repurchases were made under the company's 2026 convertible notes repurchase authorization.
As of June 30, 2015, the company had repurchased $19 million principal amount of the company's 4.0 percent convertible notes due 2027. 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. In the second quarter of fiscal year 2015, $15 million of the notes were repurchased at a premium equal to approximately 6 percent of their principal amount. The repurchases of the $19 million principal amount of the company's 4.0 percent convertible notes due 2027 was accounted for as an extinguishment of debt, and accordingly, the company recognized a net loss on debt extinguishment of $1 million. The net loss on debt extinguishment is included in interest expense, net in the consolidated statement of operations. The repurchase was made under the company's equity and equity-linked repurchase authorizations (see Note 20).
On March 1, 2016, substantially all of the $55 million of principal amount 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 repurchased. As of June 30, 2016 none of the 4.625 percent convertible notes remain outstanding. The repurchases were made under the company's equity and equity linked repurchase authorizations (see Note 20). The repurchase program under these authorizations was substantially complete as of June 30, 2016.

Capital Leases
On March 20, 2012, the company entered into an arrangement to finance equipment acquisitions for various U.S. locations. Under this arrangement, the company can request financing from GE Capital Commercial, Inc. (GE Capital) for progress payments for equipment under construction, not to exceed $10 million at any time. The financing rate is equal to the 30-day LIBOR plus 475 basis points per annum. Under this arrangement, the company can also enter into lease arrangements with GE Capital for completed equipment. The lease term is 60 months and the lease interest rate is equal to the 5-year Swap Rate published by the Federal Reserve Board plus 564 basis points. The company had $7 million and $10 million outstanding under this capital lease arrangement as of June 30, 2016 and September 30, 2015, respectively. In addition, the company had another $10 million and $7 million outstanding through other capital lease arrangements at June 30, 2016 and September 30, 2015, respectively.

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 had the right to obtain the issuance, renewal, extension and increase of letters of credit up to an aggregate availability of $30 million through December 19, 2015. From December 20, 2015 through March 19, 2019, the aggregate availability is $25 million. This facility contains covenants and events of default generally similar to those existing in the company’s public debt indentures. There were $22 million and $24 million of letters of credit outstanding under this facility at June 30, 2016 and September 30, 2015, respectively. The company had another $5 million and $6 million of letters of credit outstanding through other letter of credit facilities at June 30, 2016 and September 30, 2015, respectively.

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 are issued under an incentive program of the Brazilian government to fund working capital for Brazilian companies in exportation programs. The arrangements bear interest at 5.5 percent and have maturity dates in 2016 and 2017. There was $9 million and $18 million outstanding under these arrangements at June 30, 2016 and September 30, 2015, respectively.

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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 defaulted amount exceeds $35 million per bank. As of June 30, 2016 and September 30, 2015, the company had $9 million and $13 million, respectively, outstanding under this program at more than one bank.

17. Financial Instruments

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

	June 30, 2016		September 30, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 129	$ 129	$ 193	$ 193
Short-term debt	14	14	15	15
Long-term debt	980	947	1,036	1,123
Foreign exchange forward contracts (asset)	—	—	1	1
Foreign exchange forward contracts (liability)	1	1	3	3
Short-term foreign currency option contracts (asset)	—	—	1	1
Long-term foreign currency option contracts (asset)	—	—	1	1

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

	June 30, 2016			September 30, 2015		
	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)	—	1	—	1
Derivative Liabilities						
Foreign exchange forward contract	2	(1)	1	3	—	3

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.

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Fair value of financial instruments by the valuation hierarchy at June 30, 2016 is as follows (in millions):

	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 129	$ —	$ —
Short-term debt	—	—	14
Long-term debt	—	935	12
Foreign exchange forward contracts (liability)	—	1	—

Fair value of financial instruments by the valuation hierarchy at September 30, 2015 is as follows (in millions):

	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 193	$ —	$ —
Short-term debt	—	—	15
Long-term debt	—	1,102	21
Foreign exchange forward contracts (asset)	—	1	—
Foreign exchange forward contracts (liability)	—	3	—
Short-term foreign currency option contracts (asset)	—	—	1
Long-term foreign currency option contracts (asset)	—	—	1

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 condensed consolidated balance sheet for the three and nine months ended June 30, 2016 and 2015, respectively. No transfers of assets between any of the Levels occurred during these periods.

Three months ended June 30, 2016 (in millions)	Short-term foreign currency option contracts (asset)	Long-term foreign currency option contracts (asset)	Total
Fair Value as of March 31, 2016	$ —	$ —	$ —
Total unrealized gains (losses):			
Included in other income	—	—	—
Transfer in and / or out of Level 3 [1]	—	—	—
Fair Value as of June 30, 2016	$ —	$ —	$ —

Three months ended June 30, 2015 (in millions)	Short-term foreign currency option contracts (asset)	Long-term foreign currency option contracts (asset)	Total
Fair Value as of March 31, 2015	$ 2	$ 2	$ 4
Total unrealized gains (losses):			

Included in cost of sales	(1)	—	(1)
Total realized gains (losses):			
Included in other income	(1)	—	(1)
Transfer in and / or out of Level 3 [1]	—	—	—
Reclass between short-term and long-term	—	(1)	(1)
Fair Value as of June 30, 2015	$ —	$ 1	$ 1

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Nine months ended June 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	(2)	—	$ (2)
Included in cost of sales	—	(1)	(1)
Purchases, issuances, sales and settlements:			
Purchases	1	—	$ 1
Transfer in and / or out of Level 3 (1)	—	—	—
Fair Value as of June 30, 2016	$ —	$ —	$ —

Nine months ended June 30, 2015 (in millions)	Short-term foreign currency option contracts (asset)	Long-term foreign currency option contracts (asset)	Total
Fair Value as of September 30, 2014	$ 2	$ 1	$ 3
Total unrealized gains (losses):			
Included in cost of sales	(1)	—	(1)
Total realized gains (losses):			
Included in other income	2	—	2
Included in cost of sales	3	—	3
Purchases, issuances, sales and settlements:			
Purchases	5	—	5
Settlements	(10)	(1)	(11)
Transfer in and / or out of Level 3 (1)	—	—	—
Reclass between short-term and long-term	(1)	1	—
Fair Value as of June 30, 2015	$ —	$ 1	$ 1

(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 June 30, 2016 or September 30, 2015.

Short- and long-term debt — Fair values are based on transaction prices at public exchange for publicly traded debt. For debt instruments that are not publicly traded, fair values are based on interest rates that would be currently available to the company for issuance of similar types of debt instruments with similar terms and remaining maturities.

Foreign exchange forward contracts — The company uses foreign exchange forward purchase and sale contracts with terms of one year or less to hedge its exposure to changes in foreign currency exchange rates. The fair value of foreign exchange forward contracts is based on a model which incorporates observable inputs including quoted spot rates, forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of changes in the fair value of the contracts is recorded in Accumulated Other Comprehensive Loss in the statement of shareowners' equity and is recognized in operating income when the underlying forecasted transaction impacts earnings.

Foreign currency option contracts — The company uses option contracts to mitigate foreign currency exposure on expected future Indian rupee denominated purchases. The contracts were entered into during the third quarter of fiscal year 2014 with effective dates from the start of fiscal year 2015 through the end of fiscal year 2017. In the second quarter of fiscal year 2015, the company monetized its 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. The fair value of the foreign currency option contracts is based on a third-party proprietary model, which incorporates 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 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. In the first nine months of fiscal year 2016, net unrealized losses totaled $1 million, substantially all of which occurred during the first quarter of fiscal year 2016.

From time to time, the company will hedge against its foreign currency exposure related to translations to U.S. dollars of financial results denominated in foreign currencies. In the first quarter of fiscal year 2015, the company entered into a series of foreign currency option contracts with a total notional amount of $48 million to reduce volatility in the translation of Brazilian real earnings to U.S. dollars. These foreign currency option contracts did not qualify for a hedge accounting election 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, the company 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, the company monetized these outstanding foreign currency option contracts. As of June 30, 2016 and September 30, 2015, there were no Brazilian real foreign currency option contracts outstanding.

Also, in the fourth quarter of fiscal year 2015, the company entered into a series of foreign currency contracts with total notional amounts of $30 million and $27 million to mitigate the risk of volatility in the translation of Swedish krona and euro earnings to U.S. dollars, respectively. During the first quarter of fiscal year 2016, the company entered into additional foreign currency contracts with total notional amounts of $19 million and $21 million to mitigate the risk of volatility in the translation of the Swedish krona and euro earnings to U.S. dollars, respectively. These foreign currency option contracts do not qualify for a hedge accounting election but are expected to mitigate foreign currency translation exposure of Swedish krona and euro earnings to U.S. dollars during fiscal year 2016. For the three and nine months ended June 30, 2016, net unrealized losses totaled $2 million. The fair value of the foreign currency option contracts is based on a third-party proprietary model, which incorporates inputs at varying unobservable weights of quoted spot rates, market volatility, forward rates, and time utilizing market instruments with similar quality and maturity characteristics. Changes in fair value associated with these contracts are recorded in the consolidated statement of operations in other income, net.

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18. Retirement Benefit Liabilities

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

	June 30, 2016	September 30, 2015
Retiree medical liability	$ 424	$ 438
Pension liability	202	219
Other	14	14
Subtotal	640	671
Less: current portion (included in compensation and benefits, Note 14)	(39)	(39)
Retirement benefits	$ 601	$ 632

The components of net periodic pension and retiree medical expense included in Selling, general and administrative expenses for the three months ended June 30 are as follows (in millions):

	2016		2015	
	Pension	Retiree Medical	Pension	Retiree Medical
Service cost	$—	$ —	$1	$ —
Interest cost	16	4	17	5
Assumed return on plan assets	(24)	—	(28)	—
Amortization of prior service costs	—	—	—	(1)
Recognized actuarial loss	6	3	6	6
Total expense (income)	$(2)	$ 7	$(4)	$ 10

The components of net periodic pension and retiree medical expense included in Selling, general and administrative expenses for the nine months ended June 30 are as follows (in millions):

	2016		2015	
	Pension	Retiree Medical	Pension	Retiree Medical
Service cost	$—	$ —	$1	$ —
Interest cost	49	13	53	15
Assumed return on plan assets	(74)	—	(84)	—
Amortization of prior service costs	—	—	—	(1)
Recognized actuarial loss	18	9	20	16
Total expense (income)	$(7)	$ 22	$(10)	$ 30

19. Contingencies

Environmental

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

The company has been designated as a potentially responsible party at nine Superfund sites, excluding sites as to which the company's records disclose no involvement or as to which the company's liability has been finally determined. Management estimates the total reasonably possible costs the company could incur for the remediation of Superfund sites at June 30, 2016 to be approximately $17 million, of which $2 million is probable and recorded as a liability. Included in reasonably possible amounts are estimates for certain remediation actions that may be required if current actions are deemed inadequate by the regulators.

In addition to the Superfund sites, various other lawsuits, claims and proceedings have been asserted against the company, alleging violations of federal, state and local environmental protection requirements, or seeking remediation of alleged environmental impairments, principally at previously disposed-of properties. For these matters, management has estimated the total reasonably possible costs the company could incur at June 30, 2016 to be approximately $31 million, of which $12 million is probable and recorded as a liability.

Included in the company's environmental liabilities are costs for on-going operation, maintenance and monitoring at environmental sites in which remediation has been put into place. This liability is discounted using discount rates in the range of 0.5 to 2.5 percent and is approximately $8 million at June 30, 2016. The undiscounted estimate of these costs is approximately $8 million.

The following are the components of the Superfund and non-Superfund environmental reserves (in millions):

	Superfund Sites	Non-Superfund Sites	Total
Beginning balance at September 30, 2015	$ 2	$ 14	$ 16
Payments and other	—	(2)	(2)
Accruals	—	—	—
Balance at June 30, 2016	$ 2	$ 12	$ 14

Environmental reserves are included in Other Current Liabilities (see Note 14) and Other Liabilities (see Note 15) in the condensed 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.

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Asbestos

Maremont Corporation (“Maremont”), a subsidiary of Meritor, manufactured friction products containing asbestos from 1953 through 1977, when it sold its friction product business. Arvin Industries, Inc., a predecessor of the company, acquired Maremont in 1986. Maremont and many other companies are defendants in suits brought by individuals claiming personal injuries as a result of exposure to asbestos-containing products.

Maremont had approximately 5,800 and 5,600 pending asbestos-related claims at June 30, 2016 and September 30, 2015, 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):

	June 30, 2016	September 30, 2015
Pending and future claims	$ 71	$ 71
Billed but unpaid claims	2	3
Asbestos-related liabilities	$ 73	$ 74
Asbestos-related insurance recoveries	$ 34	$ 41

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, 14 and 15).

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

As of September 30, 2015, 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 $71 million to $100 million. Management recognized a liability of $71 million as of each of June 30, 2016 and September 30, 2015 for pending and future claims over the next ten years. 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. Historically, 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. However, Maremont currently expects that its settled insurance coverage will not be sufficient to fully offset its expected asbestos-related liabilities through the end of the ten-year forecasted liability period.

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 2025;
- 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;
- Potential payments made to claimants from other sources, including other defendants and 524(g) trusts favorably impact Maremont’s estimated liability in the future; and

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

Recoveries: Maremont has insurance that reimburses a substantial portion of the costs incurred defending against asbestos-related claims. The insurance receivable related to asbestos-related liabilities is $34 million and $41 million as of June 30, 2016 and September 30, 2015, 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. Amounts received from insurance settlements generally reduce recorded insurance receivables.

Maremont maintained insurance coverage with other insurance carriers that management believes also covers 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. One of these insurance policies has been partially settled in cash. On December 12, 2015, Maremont received $17 million, 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. The settlement also provides additional recovery for Maremont if certain 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 firms, jurisdictions and diseases; 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 3,200 and 3,000 pending active asbestos claims in lawsuits that name AM, together with many other companies, as defendants at June 30, 2016 and September 30, 2015, 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 Rockwell legacy asbestos-related reserves and corresponding asbestos-related recoveries are summarized as follows (in millions):

	June 30, 2016	September 30, 2015
Pending and future claims	$ 55	$ 55
Billed but unpaid claims	2	3
Asbestos-related liabilities	$ 57	$ 58
Asbestos-related insurance recoveries	$ 14	$ 14

Pending and Future Claims: The company has 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. Bates White prepares these cost estimates annually in September. As of September 30, 2015, 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 $55 million to $74 million. Management recognized a liability for the pending and future claims over the next ten years of $55 million as of each of June 30, 2016 and September 30, 2015. 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.

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 2025;
- 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 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 the company’s prior experience;
- Potential payments made to claimants from other sources, including other defendants and 524(g) trusts favorably impact the company’s estimated liability in the future; and
- The ultimate indemnity cost of resolving nonmalignant claims with plaintiff’s law firms in jurisdictions without an established history with Rockwell cannot be reasonably estimated.

Recoveries: The insurance receivable related to asbestos-related liabilities was $14 million as of each of June 30, 2016 and September 30, 2015. Included in these amounts are insurance receivables of $9 million as of each of June 30, 2016 and September 30, 2015 that are associated with policies in dispute. Rockwell has insurance coverage that management believes covers indemnity and defense costs, over and above self-insurance retentions, for most of these claims. The company has initiated claims against certain of these carriers to enforce the insurance policies, which are in various stages of the litigation process. The company expects to recover some portion of the defense and indemnity costs it has incurred to date, over and above self-insured retentions, and some portion of the costs for defending asbestos claims going forward. The amounts recognized for policies in dispute are based on consultation with advisors, status of settlement negotiations with certain insurers and underlying analysis performed by management. The remaining receivable recognized is related to coverage provided by one carrier based on a coverage-in-place insurance arrangement. 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'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. 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 (“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.

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 June 30, 2016 and September 30, 2015, the remaining estimated liability for this matter was approximately $12 million and $13 million, respectively.

In connection with the sale of its interest in MSSC in October 2009, the company provided certain indemnities 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. At June 30, 2016 and September 30, 2015, the company's exposure was approximately $1 million and $2 million, respectively, which is included in other liabilities in the condensed consolidated balance sheet.

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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 was potentially required to be remitted to certain tax jurisdictions for tax years 2009 through 2015. At June 30, 2016 and September 30, 2015, the company's estimate of the probable liability was $10 million.

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 in the third quarter of fiscal year 2016. The settlement 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.

In March 2016, the company was served with a complaint filed against the 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 the company violated federal and state antitrust and other laws in connection with a former business of the company's 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, the Company was served with a virtually identical suit also naming the company as a defendant on behalf of a purported class of automobile dealers. The company is reviewing the complaints and developing its response and intends to vigorously defend the claims. At this point, the company cannot estimate the ultimate impact on the company, and there can be no assurance that the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial position, results of operations or liquidity.

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. The company intends to vigorously defend the claims. The ultimate outcome of this litigation, and consequently, an estimate of the possible loss, if any, related to this litigation, cannot reasonably be determined at this time and no assurance can be given that the ultimate outcome would not materially adversely affect the company.

In addition, various lawsuits, claims and proceedings, other than those specifically disclosed in the condensed 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.

20. Shareowners' Equity
Equity and Equity-Linked Repurchase Authorizations
In June 2014, the company's Board of Directors authorized the repurchase of up to $210 million of its 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. In September 2014, the company's Board authorized the repurchase of up to $40 million of its equity or equity-linked securities (including convertible debt securities) under the $210 million authorization that may be made annually without regard to achievement of the M2016 net debt reduction target. These authorizations had no stated expiration. During the nine months ended June 30, 2016, the company repurchased 8.6 million shares of common stock for $81 million (including commission costs) pursuant to these authorizations. As of June 30, 2016, the company has 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 due 2027, and all of the $55 million principal amount of its 4.625 percent convertible notes due 2026 pursuant to the equity and equity-linked repurchase authorizations. This repurchase program was substantially complete as of June 30, 2016.
In January 2015, the Offering Committee of the company's Board of Directors approved a repurchase program for up to $150 million aggregate principal amount of any of its public debt securities (including convertible debt securities) from time to time through open market purchases or privately negotiated transactions or otherwise, until September 30, 2016, subject to compliance with legal and regulatory requirements and the company's debt covenants. This repurchase program was in addition to the equity and equity-linked repurchase authorizations described above. The amount remaining available for repurchases under this program was $150 million as of June 30, 2016 and September 30, 2015.

On July 21, 2016, the Board of Directors authorized the repurchase of up to $150 million aggregate principal amount of any of the company's public debt securities (including convertible debt securities) and up to $100 million of the company's common stock (see Note 23 of the Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report).

Accumulated Other Comprehensive Loss ("AOCL")
The components of AOCL and the changes in AOCL by components, net of tax, for three months ended June 30, 2016 and 2015 are as follows (in millions):

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss, net of tax	Total
Balance at March 31, 2016	$ (50)	$ (687)	$ (5)	$ (742)
Other comprehensive income (loss) before reclassification	(10)	(2)	3	(9)
Amounts reclassified from accumulated other comprehensive loss - net of tax	—	9	—	9
Net current-period other comprehensive income (loss)	$ (10)	$ 7	$ 3	$ —
Balance at June 30, 2016	$ (60)	$ (680)	$ (2)	$ (742)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other	Affected Line Item in the Consolidated Statement of Operations

	Comprehensive Income		
Employee Benefit Related Adjustment			
Actuarial losses	9		[a]
	9		Total before tax
	—		Tax (benefit) expense
Total reclassifications for the period	$	9	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 18 for additional details).

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	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss, net of tax	Total
Balance at March 31, 2015	$ (25)	$ (766)	$ (2)	$(793)
Other comprehensive income before reclassification	13	1	(2)	12
Amounts reclassified from accumulated other comprehensive loss - net of tax	—	11	—	11
Net current-period other comprehensive income	$ 13	$ 12	$ (2)	$23
Balance at June 30, 2015	$ (12)	$ (754)	$ (4)	$(770)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Operations
Employee Benefit Related Adjustment		
Prior service costs	$ (1)	(b)
Actuarial losses	12	(b)
	11	Total before tax
	—	Tax expense
Total reclassifications for the period	11	Net of tax

(b) These accumulated other comprehensive income components are included in the computation of net periodic pension and retiree medical expense (see Note 18 for additional details).

The components of AOCL and the changes in AOCL by components, net of tax, for nine months ended June 30, 2016 and 2015 are as follows (in millions):

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss, net of tax	Total
Balance at September 30, 2015	$ (54)	$ (705)	$ (7)	(766)
Other comprehensive income (loss) before reclassification	(6)	(2)	5	(3)
Amounts reclassified from accumulated other comprehensive loss - net of tax	—	27	—	27
Net current-period other comprehensive income (loss)	$ (6)	$ 25	$ 5	$24
Balance at June 30, 2016	$ (60)	$ (680)	$ (2)	$(742)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other	Affected Line Item in the Consolidated Statement of Operations

	Comprehensive Income	
Employee Benefit Related Adjustment		
Actuarial losses	27	(a)
	27	Total before tax
	—	Tax (benefit) expense
Total reclassifications for the period	$ 27	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 18 for additional details).

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	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss, net of tax	Total
Balance at September 30, 2014	$ 41	$ (789)	$ (1)	$(749)
Other comprehensive income before reclassification	(54)	—	(3)	(57)
Amounts reclassified from accumulated other comprehensive loss - net of tax	1	35	—	36
Net current-period other comprehensive income	$ (53)	$ 35	$ (3)	$(21)
Balance at June 30, 2015	$ (12)	$ (754)	$ (4)	$(770)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Operations
Employee Benefit Related Adjustment		
Prior service costs	$ (1)	(b)
Actuarial losses	36	(b)
	35	Total before tax
	—	Tax expense
	35	Net of tax
Foreign Currency Translation Related Adjustment		
Other reclassification adjustment	$ 1	
	1	Total before tax
	—	Tax expense
	1	Net of tax
Total reclassifications for the period	$ 36	Net of tax

(b) These accumulated other comprehensive income components are included in the computation of net periodic pension and retiree medical expense (see Note 18 for additional details).

21. 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 June 30, 2016, as follows:

- The Commercial Truck & Industrial segment supplies drivetrain systems and components, including axles, drivelines and braking 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. This segment also supplies a wide variety of undercarriage products and systems for trailer applications in North America.

Segment EBITDA is defined as income (loss) from continuing operations before interest expense, income taxes, depreciation and amortization, non-controlling interests in consolidated joint ventures, loss on sale of receivables, restructuring expense and asset impairment charges. The company uses Segment EBITDA as the primary basis for the CODM to evaluate the performance of each of its reportable segments.

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

Segment information is summarized as follows (in millions):

	Commercial Truck & Industrial	Aftermarket & Trailer	Eliminations	Total
Three Months Ended June 30, 2016				
External Sales	$ 623	$ 218	$ —	$841
Intersegment Sales	17	9	(26)	—
Total Sales	$ 640	$ 227	$ (26)	$841
Three Months Ended June 30, 2015				
External Sales	$ 682	$ 227	$ —	$909
Intersegment Sales	23	6	(29)	—
Total Sales	$ 705	$ 233	$ (29)	$909

	Commercial Truck & Industrial	Aftermarket & Trailer	Eliminations	Total
Nine Months Ended June 30, 2016				
External Sales	$ 1,846	$ 625	$ —	$2,471
Intersegment Sales	58	23	(81)	—
Total Sales	$ 1,904	$ 648	$ (81)	$2,471
Nine months ended June 30, 2015				
External Sales	$ 2,020	$ 632	$ —	$2,652
Intersegment Sales	69	21	(90)	—
Total Sales	$ 2,089	$ 653	$ (90)	$2,652

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	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Segment EBITDA:				
Commercial Truck & Industrial	$61	$58	$169	$171
Aftermarket & Trailer	38	31	86	86
Segment EBITDA	99	89	255	257
Unallocated legacy and corporate costs, net [1]	(3)	(2)	(2)	(4)
Interest expense, net	(20)	(38)	(63)	(78)
Provision for income taxes	(8)	(6)	(22)	(19)
Depreciation and amortization	(17)	(17)	(48)	(49)
Noncontrolling interests	(1)	(1)	(2)	(2)
Loss on sale of receivables	(2)	(1)	(6)	(4)
Restructuring costs	(6)	(9)	(9)	(15)
Income from continuing operations attributable to Meritor, Inc.	$42	$15	$103	$86

(1) Unallocated legacy and corporate costs, net represents items that are not directly related to the company's business segments. These costs 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.

Segment Assets:	June 30, 2016	September 30, 2015
Commercial Truck & Industrial	$1,488	$ 1,569
Aftermarket & Trailer	444	448
Total segment assets	1,932	2,017
Corporate [1]	374	434
Less: Accounts receivable sold under off-balance sheet factoring programs[2]	(222)	(256)
Total assets	$2,084	$ 2,195

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

(2) At June 30, 2016 and September 30, 2015, segment assets include $222 million and $256 million, 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.

22. Supplemental Guarantor Condensed Consolidating Financial Statements

Rule 3-10 of Regulation S-X requires that separate financial information for issuers and guarantors of registered securities be filed in certain circumstances. Certain of the company's 100-percent-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 notes outstanding under the company's indentures (see Note 16).

Schedule I of Rule 5-04 of Regulation S-X requires that condensed financial information of the registrant ("Parent") on a stand alone basis 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. Certain subsidiaries in China, India and Brazil are restricted by law from transfer of cash by dividends, loans, or advances to Parent, which exceeded 25 percent of consolidated net assets of Parent as of September 30, 2015. As of June 30, 2016, the company's proportionate share of net assets restricted from transfer by law was $29 million.

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(Unaudited)

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 Regulation 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 Guarantors are combined in the condensed consolidating financial statements.

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

	Three Months Ended June 30, 2016				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$—	$ 410	$ 431	$—	$ 841
Subsidiaries	—	30	14	(44)	—
Total sales	—	440	445	(44)	841
Cost of sales	(14)	(361)	(383)	44	(714)
GROSS MARGIN	(14)	79	62	—	127
Selling, general and administrative	(23)	(20)	(16)	—	(59)
Restructuring costs	—	(3)	(3)	—	(6)
Other operating income (expense), net	—	—	—	—	—
OPERATING INCOME (LOSS)	(37)	56	43	—	62
Other income (expense), net	8	(48)	40	—	—
Equity in earnings of affiliates	—	8	1	—	9
Interest income (expense), net	(29)	8	1	—	(20)
INCOME (LOSS) BEFORE INCOME TAXES	(58)	24	85	—	51
Provision for income taxes	(1)	—	(7)	—	(8)
Equity income (loss) from continuing operations of subsidiaries	101	74	—	(175)	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	42	98	78	(175)	43
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(1)	—	—	—	(1)
NET INCOME (LOSS)	41	98	78	(175)	42
Less: Net income attributable to noncontrolling interests	—	—	(1)	—	(1)
NET INCOME (LOSS) ATTRIBUTABLE TO MERITOR, INC.	$41	$ 98	$ 77	$(175)	$ 41

MERITOR, INC.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Three Months Ended June 30, 2016				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income (loss)	$41	$ 98	$ 78	$(175)	$ 42
Other comprehensive income (loss)	—	44	(50)	6	—
Total comprehensive income (loss)	41	142	28	(169)	42
Less: Comprehensive income attributable to noncontrolling interests	—	—	(1)	—	(1)
Comprehensive income (loss) attributable to Meritor, Inc.	$41	$ 142	$ 27	$(169)	$ 41

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

	Three Months Ended June 30, 2015				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$—	$ 461	$ 448	$—	$ 909
Subsidiaries	—	34	19	(53)	—
Total sales	—	495	467	(53)	909
Cost of sales	(14)	(416)	(408)	53	(785)
GROSS MARGIN	(14)	79	59	—	124
Selling, general and administrative	(20)	(29)	(16)	—	(65)
Restructuring costs	—	(2)	(7)	—	(9)
Other operating income (expense), net	(2)	—	3	—	1
OPERATING INCOME (LOSS)	(36)	48	39	—	51
Other income (expense), net	10	(6)	(5)	—	(1)
Equity in earnings of affiliates	—	9	1	—	10
Interest income (expense), net	(47)	7	2	—	(38)
INCOME (LOSS) BEFORE INCOME TAXES	(73)	58	37	—	22
Provision for income taxes	(1)	—	(5)	—	(6)
Equity income from continuing operations of subsidiaries	89	28	—	(117)	—
INCOME FROM CONTINUING OPERATIONS	15	86	32	(117)	16
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(2)	(1)	(2)	3	(2)
NET INCOME	13	85	30	(114)	14
Less: Net income attributable to noncontrolling interests	—	—	(1)	—	(1)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	$13	$ 85	$ 29	$(114)	$ 13

MERITOR, INC.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Three Months Ended June 30, 2015				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income	$13	$ 85	$ 30	$(114)	$ 14
Other comprehensive income (loss)	23	30	(15)	(15)	23
Total comprehensive income	36	115	15	(129)	37
Less: Comprehensive income attributable to noncontrolling interests	—	—	(1)	—	(1)
Comprehensive income attributable to Meritor, Inc.	$36	$ 115	$ 14	$(129)	$ 36

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

	Nine Months Ended June 30, 2016				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$—	$ 1,247	$ 1,224	$—	$ 2,471
Subsidiaries	—	85	46	(131)	—
Total sales	—	1,332	1,270	(131)	2,471
Cost of sales	(40)	(1,107)	(1,103)	131	(2,119)
GROSS MARGIN	(40)	225	167	—	352
Selling, general and administrative	(62)	(62)	(51)	—	(175)
Restructuring costs	—	(4)	(5)	—	(9)
Other operating income (expense), net	(3)	—	—	—	(3)
OPERATING INCOME (LOSS)	(105)	159	111	—	165
Other income (loss), net	42	(57)	14	—	(1)
Equity in earnings of affiliates	—	24	2	—	26
Interest income (expense), net	(88)	23	2	—	(63)
INCOME (LOSS) BEFORE INCOME TAXES	(151)	149	129	—	127
Provision for income taxes	(1)	—	(21)	—	(22)
Equity income from continuing operations of subsidiaries	255	95	—	(350)	—
INCOME FROM CONTINUING OPERATIONS	103	244	108	(350)	105
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(4)	(5)	(4)	9	(4)
Net income	99	239	104	(341)	101
Less: Net income attributable to noncontrolling interests	—	—	(2)	—	(2)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	$99	$ 239	$ 102	$(341)	$ 99

MERITOR, INC.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Nine Months Ended June 30, 2016				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income	$99	$ 239	$ 104	$(341)	$ 101
Other comprehensive income (loss)	24	56	(52)	(4)	24
Total comprehensive income	123	295	52	(345)	125
Less: Comprehensive income attributable to noncontrolling interests	—	—	(2)	—	(2)
Comprehensive income attributable to Meritor, Inc.	$123	$ 295	$ 50	$(345)	$ 123

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MERITOR, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(In millions)

(Unaudited)

	Nine months ended June 30, 2015				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$—	$ 1,282	$ 1,370	$—	$ 2,652
Subsidiaries	—	95	52	(147)	—
Total sales	—	1,377	1,422	(147)	2,652
Cost of sales	(38)	(1,167)	(1,240)	147	(2,298)
GROSS MARGIN	(38)	210	182	—	354
Selling, general and administrative	(54)	(83)	(50)	—	(187)
Restructuring costs	(1)	(5)	(9)	—	(15)
Other operating income (expense), net	(2)	—	4	—	2
OPERATING INCOME (LOSS)	(95)	122	127	—	154
Other income (expense), net	47	(15)	(29)	—	3
Equity in earnings of affiliates	—	24	4	—	28
Interest income (expense), net	(105)	20	7	—	(78)
INCOME (LOSS) BEFORE INCOME TAXES	(153)	151	109	—	107
Provision for income taxes	(2)	—	(17)	—	(19)
Equity income from continuing operations of subsidiaries	241	81	—	(322)	—
INCOME FROM CONTINUING OPERATIONS	86	232	92	(322)	88
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(1)	1	(2)	1	(1)
NET INCOME	85	233	90	(321)	87
Less: Net income attributable to noncontrolling interests	—	—	(2)	—	(2)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	$85	$ 233	$ 88	$(321)	$ 85

MERITOR, INC.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Nine months ended June 30, 2015				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income	$ 85	$ 233	$ 90	$ (321)	$ 87
Other comprehensive income (loss)	(21)	(62)	3	58	(22)
Total comprehensive income	64	171	93	(263)	65
Less: Comprehensive income attributable to noncontrolling interests	—	—	(1)	—	(1)
Comprehensive income attributable to Meritor, Inc.	$ 64	$ 171	$ 92	$ (263)	$ 64

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

	June 30, 2016				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	$35	$ 3	$ 91	$—	$ 129
Receivables trade and other, net	1	22	399	—	422
Inventories	—	148	187	—	335
Other current assets	4	21	28	—	53
TOTAL CURRENT ASSETS	40	194	705	—	939
NET PROPERTY	19	189	220	—	428
GOODWILL	—	219	173	—	392
OTHER ASSETS	56	127	142	—	325
INVESTMENTS IN SUBSIDIARIES	2,471	747	—	(3,218)	—
TOTAL ASSETS	$2,586	$ 1,476	$ 1,240	$(3,218)	$ 2,084
CURRENT LIABILITIES:					
Short-term debt	$1	$ 3	$ 10	$—	$ 14
Accounts and notes payable	41	172	290	—	503
Other current liabilities	94	62	111	—	267
TOTAL CURRENT LIABILITIES	136	237	411	—	784
LONG-TERM DEBT	969	4	7	—	980
RETIREMENT BENEFITS	573	—	28	—	601
INTERCOMPANY PAYABLE (RECEIVABLE)	1,497	(1,674)	177	—	—
OTHER LIABILITIES	32	238	45	—	315
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	(621)	2,671	547	(3,218)	(621)
NONCONTROLLING INTERESTS	—	—	25	—	25
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$2,586	$ 1,476	$ 1,240	$(3,218)	$ 2,084

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

	September 30, 2015				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	$73	$ 6	$ 114	$—	$ 193
Receivables trade and other, net	1	40	420	—	461
Inventories	—	159	179	—	338
Other current assets	4	20	26	—	50
TOTAL CURRENT ASSETS	78	225	739	—	1,042
NET PROPERTY	15	183	221	—	419
GOODWILL	—	219	183	—	402
OTHER ASSETS	61	129	142	—	332
INVESTMENTS IN SUBSIDIARIES	2,354	313	—	(2,667)	—
TOTAL ASSETS	$2,508	$ 1,069	$ 1,285	$(2,667)	$ 2,195
CURRENT LIABILITIES:					
Short-term debt	$1	$ 4	$ 10	$—	$ 15
Accounts and notes payable	55	213	306	—	574
Other current liabilities	93	83	103	—	279
TOTAL CURRENT LIABILITIES	149	300	419	—	868
LONG-TERM DEBT	1,017	6	13	—	1,036
RETIREMENT BENEFITS	603	—	29	—	632
INTERCOMPANY PAYABLE (RECEIVABLE)	1,365	(1,886)	521	—	—
OTHER LIABILITIES	45	217	43	—	305
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	(671)	2,432	235	(2,667)	(671)
NONCONTROLLING INTERESTS	—	—	25	—	25
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$2,508	$ 1,069	$ 1,285	$(2,667)	$ 2,195

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

	Nine Months Ended June 30, 2016				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$124	$ 25	$ (5)	$ —	$ 144
INVESTING ACTIVITIES					
Capital expenditures	(16)	(29)	(21)	—	(66)
Other investing activities	—	4	(1)	—	3
Net investing cash flows provided by discontinued operations	—	1	3	—	4
CASH USED FOR INVESTING ACTIVITIES	(16)	(24)	(19)	—	(59)
FINANCING ACTIVITIES					
Repayment of notes	(55)	—	—	—	(55)
Repurchase of common stock	(81)	—	—	—	(81)
Intercompany advances	(10)	—	10	—	—
Other financing activities	—	(4)	(11)	—	(15)
CASH USED FOR FINANCING ACTIVITIES	(146)	(4)	(1)	—	(151)
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	2	—	2
CHANGE IN CASH AND CASH EQUIVALENTS	(38)	(3)	(23)	—	(64)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	73	6	114	—	193
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$35	$ 3	$ 91	$ —	$ 129

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

	Nine months ended June 30, 2015				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	$76	$ 19	$ 27	$ —	$ 122
INVESTING ACTIVITIES					
Capital expenditures	(4)	(17)	(24)	—	(45)
Proceeds from the sale of property	—	—	4	—	4
Net investing cash flows provided by discontinued operations	—	1	3	—	4
CASH USED FOR INVESTING ACTIVITIES	(4)	(16)	(17)	—	(37)
FINANCING ACTIVITIES					
Repayment of notes	(159)	—	—	—	(159)
Proceeds from debt issuance	225	—	—	—	225
Debt issuance costs	(4)	—	—	—	(4)
Repurchase of common stock	(30)				(30)
Intercompany advances	63	—	(63)	—	—
Other financing activities	—	(3)	(4)	—	(7)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	95	(3)	(67)	—	25
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	(12)	—	(12)
CHANGE IN CASH AND CASH EQUIVALENTS	167	—	(69)	—	98
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	71	5	171	—	247
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$238	$ 5	$ 102	$ —	$ 345

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 Securities and Exchange Commission. As of June 30, 2016 and September 30, 2015, Parent-only obligations included $601 million and $631 million of pension and retiree medical benefits, respectively (see Note 18). All debt is debt of the Parent other than $24 million and $33 million at June 30, 2016 and September 30, 2015, respectively (see Note 16), and is primarily related to capital lease obligations and lines of credit. There were $18 million cash dividends paid to the Parent by subsidiaries and investments accounted for by the equity method for the nine months ended June 30, 2016 and $37 million for the nine months ended June 30, 2015.

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

23. Subsequent Events

On July 21, 2016, the Board of Directors authorized the repurchase of up to $150 million aggregate principal amount of any of the company’s public debt securities (including convertible debt securities) and up to $100 million of the company’s common stock, 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 new debt repurchase authorization replaces the prior January 2015 authorization of the Offering Committee of the company’s Board of Directors. No purchases have been made under these authorizations.

MERITOR, INC.

Item 2. Management’s Discussion and Analysis of Financial Conditions and Results of Operations

OVERVIEW

Meritor, Inc. (the "company", "our", "we" or "Meritor"), headquartered in Troy, Michigan, is a premier global supplier of a broad range of integrated systems, modules and components to original equipment manufacturers (“OEMs”) and the aftermarket for the commercial vehicle, transportation and industrial sectors. The company serves commercial truck, trailer, 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.

3rd Quarter Fiscal Year 2016 Results

Our sales for the third quarter of fiscal year 2016 were $841 million, a decrease compared to $909 million in the same period in the prior fiscal year. The decrease in sales was driven by lower production in the North America Class 8 truck market, partially offset by new business wins.

Net income attributable to Meritor for the third quarter of fiscal year 2016 was $41 million compared to $13 million in the same period in the prior fiscal year. The increase in net income attributable to Meritor was primarily driven by a $19 million loss on debt extinguishment recognized in the prior year and the factors noted below for the increase in Adjusted EBITDA (see Non-GAAP Financial Measures below) over the same periods.

Adjusted EBITDA (see Non-GAAP Financial Measures below) for the third quarter of fiscal year 2016 was $96 million compared to $87 million in the same period in the prior fiscal year. Our Adjusted EBITDA margin (see Non-GAAP Financial Measures below) in the third quarter of fiscal year 2016 was 11.4 percent compared to 9.6 percent in the same period a year ago. The increases in Adjusted EBITDA and Adjusted EBITDA margin were driven by strong material, labor and burden performance, which continued to lower costs year over year. Material costs have been favorably impacted by lower year over year steel indices. The increase was also driven by a litigation settlement for product liability damages with a supplier and an insurance settlement in the current period (see Note 19 of the Notes to the Condensed Consolidated Financial Statements in Part I of this Quarterly Report). The increases more than offset the lower Class 8 production volumes in North America.

Net income from continuing operations attributable to the company for the third quarter of fiscal year 2016 was $42 million compared to $15 million in the same period in the prior fiscal year. Adjusted income from continuing operations attributable to the company (see Non-GAAP Financial Measures below) for the third quarter of fiscal year 2016 was $52 million compared to $42 million in the same period in the prior fiscal year.

Cash flow provided by operating activities was $105 million in the third quarter of fiscal year 2016 compared to cash flows provided by operating activities of $93 million in the same period last year.

Equity and Equity-Linked Repurchase Authorization

In the third quarter of fiscal year 2016, we repurchased 4.7 million shares of our common stock for $38 million (including commission costs) pursuant to the equity and equity-linked repurchase authorizations described in the Liquidity section. The repurchase program under the equity and equity-linked repurchase authorizations was substantially complete as of June 30, 2016. Certain of these shares were repurchased under a 10b5-1 stock repurchase plan from June 15, 2016 through July 5, 2016.

MERITOR, INC.

Trends and Uncertainties

Industry Production Volumes

The following table reflects estimated on-highway commercial truck production volumes for selected original equipment (OE) markets for the three and nine months ended June 30, 2016 and 2015 based on available sources and management's estimates.

	Three Months Ended June 30,		Percent	Nine Months Ended June 30,		Percent
	2016	2015	Change	2016	2015	Change
Estimated Commercial Truck production (in thousands):						
North America, Heavy-Duty Trucks	63	89	(29)%	199	245	(19)%
North America, Medium-Duty Trucks	63	59	7 %	187	173	8 %
North America, Trailers	75	78	(4)%	220	220	— %
Western Europe, Heavy- and Medium-Duty Trucks	111	102	9 %	333	297	12 %
South America, Heavy- and Medium-Duty Trucks	16	19	(16)%	46	71	(35)%
India, Heavy- and Medium-Duty Trucks	95	70	36 %	265	203	31 %

North America:
We expect production volumes in North America to decrease in our fourth fiscal quarter of 2016, compared to the third quarter of fiscal year 2016 and prior year, which we believe is primarily due to excess Class 8 inventory.

Western Europe:
During the fourth fiscal quarter of fiscal year 2016, we expect production volumes in Western Europe to decrease compared to the third quarter of fiscal year 2016 due to the normal impact of European summer holidays.

South America:
Continuing through the end of fiscal year 2016, we expect the markets in South America to remain consistent with the depressed levels experienced in the second half of fiscal year 2015.

China:
Continuing through the end of fiscal year 2016, we expect revenue in China to remain relatively flat compared with levels experienced in fiscal year 2015.

India:
Continuing through the end of fiscal year 2016, we expect production volumes in India to continue to improve compared to the levels experienced in fiscal year 2015.

Industry-Wide Issues

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

- Uncertainty around the global market outlook;
- Volatility in price and availability of steel, components and other commodities;
- Disruptions in the financial markets and their impact on the availability and cost of credit;
- Volatile energy and increasing transportation costs;
- Impact of currency exchange rate volatility;
- Consolidation and globalization of OEMs and their suppliers; and

- Significant pension and retiree medical health care costs.

Other

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MERITOR, INC.

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;
- Failure to obtain new business;
- 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 additional countries exit the European Monetary Union;
- Our ability to implement planned productivity, cost reduction, and other margin improvement initiatives;
- Our ability to work with our customers to manage rapidly changing production volumes;
- Our 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 litigation and the outcome of litigation with insurance companies regarding the scope of coverage and the long-term solvency of our insurance carriers; and
- Restrictive government actions by foreign countries (such as restrictions on transfer of funds and trade protection measures, including 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, and Free cash flow.

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 or 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. Free cash flow is defined as cash flows provided by (used for) operating activities less capital expenditures.

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, management believes that Adjusted EBITDA, Adjusted EBITDA margin and Adjusted diluted earnings (loss) per share from continuing operations are meaningful measures of performance as they are commonly utilized by management and the investment community to analyze operating performance in our industry. Further, management uses these non-GAAP financial measures for planning and forecasting future periods. Management believes that Free cash flow is useful in analyzing our ability to service and repay debt and return value directly to shareholders.

Adjusted income (loss) from continuing operations attributable to the company, Adjusted diluted earnings (loss) per share from continuing operations and Adjusted EBITDA should not be considered a substitute for the reported results prepared in accordance with GAAP and should not be considered as an alternative to net income as an indicator of our operating performance. Free cash flow should not be considered a substitute for cash provided by (used for) operating activities, or other cash flow statement data prepared in accordance with GAAP, or as a measure of financial position or liquidity. In addition, these non-GAAP cash flow measures do not reflect cash used to repay debt or cash received from the divestitures of businesses or sales of other assets and

MERITOR, INC.

thus do not reflect funds available for investment or other discretionary uses. These non-GAAP financial measures, as determined and presented by the company, may not be comparable to related or similarly titled measures reported by other companies. Set forth below are reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with GAAP.

Adjusted income 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).

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015 [1]	2016	2015 [1]
Adjusted income from continuing operations attributable to the company	$52	$42	$121	$121
Loss on debt extinguishment	—	(19)	—	(19)
Restructuring costs	(6)	(9)	(9)	(15)
Non-cash tax expense [2]	(5)	(1)	(10)	(3)
Income tax benefits	1	2	1	2
Income from continuing operations attributable to the company	$42	$15	$103	$86
Adjusted diluted earnings per share from continuing operations	$0.57	$0.42	$1.30	$1.20
Impact of adjustments on diluted earnings per share	(0.11)	(0.27)	(0.20)	(0.35)
Diluted earnings per share from continuing operations	$0.46	$0.15	$1.10	$0.85

[1] The three and nine months ended June 30, 2015 have 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.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Cash provided by operating activities	$105	$93	$144	$122
Capital expenditures	(19)	(22)	(66)	(45)
Free cash flow	$86	$71	$78	$77

Adjusted EBITDA is reconciled to net income attributable to Meritor, Inc. below.

MERITOR, INC.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Net income attributable to Meritor, Inc.	$41	$13	$99	$85
Loss from discontinued operations, net of tax, attributable to Meritor, Inc.	1	2	4	1
Income from continuing operations, net of tax, attributable to Meritor, Inc.	$42	$15	$103	$86
Interest expense, net	20	38	63	78
Provision for income taxes	8	6	22	19
Depreciation and amortization	17	17	48	49
Noncontrolling interests	1	1	2	2
Loss on sale of receivables	2	1	6	4
Restructuring costs	6	9	9	15
Adjusted EBITDA	$96	$87	$253	$253
Adjusted EBITDA Margin(1)	11.4%	9.6 %	10.2 %	9.5 %

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

MERITOR, INC.

Results of Operations

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Sales

The following table reflects total company and business segment sales for the three months ended June 30, 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.

	Three Months Ended June 30,				Dollar Change Due To	
	2016	2015	Dollar Change	% Change	Currency	Volume/ Other
Sales:						
Commercial Truck & Industrial						
North America	$335	$414	$ (79)	(19)%	$—	$ (79)