MERITOR INC
Form 10-Q
August 03, 2017
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 2, 2017
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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No X
88,565,934 shares of Common Stock, $1.00 par value, of Meritor, Inc. were outstanding on July 31, 2017.

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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,	
	2017	2016	2017	2016
	(Unaudited)			
Sales	$920	$841	$2,425	$2,471
Cost of sales	(778)	(714)	(2,073)	(2,119)
GROSS MARGIN	142	127	352	352
Selling, general and administrative	(73)	(59)	(192)	(175)
Restructuring costs	—	(6)	(4)	(9)
Other operating expense, net	—	—	(5)	(3)
OPERATING INCOME	69	62	151	165
Other income (expense), net	1	—	1	(1)
Equity in earnings of affiliates	14	9	32	26
Interest expense, net	(21)	(20)	(63)	(63)
INCOME BEFORE INCOME TAXES	63	51	121	127
Provision for income taxes	(11)	(8)	(30)	(22)
INCOME FROM CONTINUING OPERATIONS	52	43	91	105
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(1)	(1)	(1)	(4)
NET INCOME	51	42	90	101
Less: Net income attributable to noncontrolling interests	(3)	(1)	(5)	(2)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	$48	$41	$85	$99
NET INCOME ATTRIBUTABLE TO MERITOR, INC.				
Net income from continuing operations	$49	$42	$86	$103
Loss from discontinued operations	(1)	(1)	(1)	(4)
Net income	$48	$41	$85	$99
BASIC EARNINGS (LOSS) PER SHARE				
Continuing operations	$0.55	$0.47	$0.98	$1.13
Discontinued operations	(0.01)	(0.01)	(0.01)	(0.04)
Basic earnings per share	$0.54	$0.46	$0.97	$1.09
DILUTED EARNINGS (LOSS) PER SHARE				
Continuing operations	$0.52	$0.46	$0.94	$1.10
Discontinued operations	(0.01)	(0.01)	(0.01)	(0.04)
Diluted earnings per share	$0.51	$0.45	$0.93	$1.06
Basic average common shares outstanding	88.4	89.8	87.9	91.2
Diluted average common shares outstanding	93.3	92.0	91.4	93.1

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,	
	2017	2016	2017	2016
	(Unaudited)			
Net income	$51	$42	$90	$101
Other comprehensive income (loss):				
Foreign currency translation adjustments:				
Attributable to Meritor, Inc.	17	(10)	8	(6)
Attributable to noncontrolling interest	—	—	(1)	—
Pension and other postretirement benefit related adjustments	11	7	33	25
Unrealized gain (loss) on investments and foreign exchange contracts	(2)	3	—	5
Other comprehensive income, net of tax	26	—	40	24
Total comprehensive income	77	42	130	125
Less: Comprehensive income attributable to noncontrolling interest	(3)	(1)	(4)	(2)
Comprehensive income attributable to Meritor, Inc.	$74	$41	$126	$123

See notes to condensed consolidated financial statements.

MERITOR, INC.

CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

	June 30, 2017 (Unaudited)	September 30, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents [1]	$ 231	$ 160
Receivables, trade and other, net [1]	500	396
Inventories [1]	360	316
Other current assets	37	33
TOTAL CURRENT ASSETS	1,128	905
NET PROPERTY [1]	430	439
GOODWILL [1]	391	390
OTHER ASSETS	763	760
TOTAL ASSETS	$ 2,712	$ 2,494
LIABILITIES, MEZZANINE EQUITY AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Short-term debt	$ 132	$ 14
Accounts and notes payable [1]	602	475
Other current liabilities	277	268
TOTAL CURRENT LIABILITIES	1,011	757
LONG-TERM DEBT	858	982
RETIREMENT BENEFITS	667	703
OTHER LIABILITIES	220	238
TOTAL LIABILITIES	2,756	2,680
COMMITMENTS AND CONTINGENCIES (See Note 20)		
MEZZANINE EQUITY:		
Convertible debt with cash settlement	12	—
EQUITY (DEFICIT):		
Common stock (June 30, 2017 and September 30, 2016, 101.4 and 99.6 shares issued and 88.6 and 86.8 shares outstanding, respectively)	101	99
Additional paid-in capital	875	876
Accumulated deficit	(156)	(241)
Treasury stock, at cost (at both June 30, 2017 and September 30, 2016, 12.8 shares)	(136)	(136)
Accumulated other comprehensive loss	(768)	(809)
Total deficit attributable to Meritor, Inc.	(84)	(211)
Noncontrolling interests [1]	28	25
TOTAL DEFICIT	(56)	(186)
TOTAL LIABILITIES, MEZZANINE EQUITY AND DEFICIT	$ 2,712	$ 2,494

[1] As of June 30, 2017, Assets and Liabilities held for sale were: (i) $1 million Cash and cash equivalents; (ii) $11 million Receivables, trade and other, net; (iii) $2 million Inventories; (iv) $3 million Net property; (v) $1 million Goodwill; (vi) $10 million Accounts and notes payable; and (vii) $2 million Noncontrolling interests. As of September 30, 2016, Assets and Liabilities held for sale were: (i) $1 million Cash and cash equivalents; (ii) $8 million Receivables, trade and other, net; (iii) $1 million Inventories; (iv) $5 million Net property; (v) $5 million Accounts and notes payable; and (vi) $3 million Noncontrolling interests.

See notes to condensed consolidated financial statements.

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MERITOR, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)

	Nine Months Ended June 30,	
	2017	2016
	(Unaudited)	
OPERATING ACTIVITIES		
CASH PROVIDED BY OPERATING ACTIVITIES (See Note 10)	$136	$144
INVESTING ACTIVITIES		
Capital expenditures	(52)	(66)
Other investing activities	—	3
Net investing cash flows provided by discontinued operations	2	4
CASH USED FOR INVESTING ACTIVITIES	(50)	(59)
FINANCING ACTIVITIES		
Repayment of notes	—	(55)
Debt issuance costs	(4)	—
Other financing activities	(12)	(15)
Net change in debt	(16)	(70)
Repurchase of common stock	—	(81)
CASH USED FOR FINANCING ACTIVITIES	(16)	(151)
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	1	2
CHANGE IN CASH AND CASH EQUIVALENTS	71	(64)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	160	193
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$231	$129

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, 2016	$ 99	$ 876	$ (241)	$ (136)	$ (809)	$ (211)	$ 25	$ (186)
Comprehensive income	—	—	85	—	41	126	4	130
Equity based compensation expense	—	12	—	—	—	12	—	12
Vesting of equity based awards	2	(2)	—	—	—	—	—	—
Stock option exercises	—	2	—	—	—	2	—	2
Convertible debt with cash settlement	—	(12)	—	—	—	(12)	—	(12)
Noncontrolling interest dividend	—	—	—	—	—	—	(1)	(1)
Other equity adjustments	—	(1)	—	—	—	(1)	—	(1)
Ending Balance at June 30, 2017	$ 101	$ 875	$ (156)	$ (136)	$ (768)	$ (84)	$ 28	$ (56)
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 dividends	—	—	—	—	—	—	(2)	(2)
Ending Balance at June 30, 2016	$ 99	$ 873	$ (715)	$ (136)	$ (742)	$ (621)	$ 25	$ (596)

See notes to condensed consolidated financial statements.

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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 company's Annual Report on Form 10-K for the fiscal year ended September 30, 2016, as amended. The condensed consolidated balance sheet data as of September 30, 2016 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, 2017 are not necessarily indicative of the results for the full year.

The company's fiscal year ends on the Sunday nearest September 30, and its fiscal quarters generally end on the Sundays nearest December 31, March 31 and June 30. The third quarter of fiscal years 2017 and 2016 ended on July 2, 2017 and July 3, 2016, 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,	
	2017	2016	2017	2016
Basic average common shares outstanding	88.4	89.8	87.9	91.2
Impact of restricted shares, restricted share units and performance share units	1.8	2.2	1.4	1.9
Impact of convertible notes	3.1	—	2.1	—
Diluted average common shares outstanding	93.3	92.0	91.4	93.1

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

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

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

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

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

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

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

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

The actual number of performance share units that vested on December 1, 2016 depended upon the company’s performance relative to the established M2016 goals for the three-year performance period of October 1, 2013 to September 30, 2016, which was measured after the end of the performance period. The company's performance resulted in the vesting of the performance share units at 112% of the grant date amounts. There were 0.1 million and 0.4 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, 2017, respectively, as certain payout thresholds were achieved relative to the

established M2016 goals. 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 relative to the established M2016 goals.

For the three months ended June 30, 2017, the dilutive impact of previously issued restricted shares, restricted share units and performance share units was 1.8 million shares, compared to 2.2 million shares for the same period in the prior fiscal year. For the nine months ended June 30, 2017, the dilutive impact of previously issued restricted shares, restricted share units and performance share units was 1.4 million shares, compared to 1.9 million shares for the same period in the prior fiscal year. For the three and nine months ended June 30, 2017, compensation cost related to restricted shares, restricted share units and performance

share units was $5 million and $12 million, respectively. For the three and nine months ended June 30, 2016, compensation cost related to restricted shares, restricted share units and performance share units was $2 million and $8 million, respectively.

For each of the three and nine months 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, 2017, 3.1 million and 2.1 million shares, respectively, were included in the computation of diluted earnings per share, as the company's average stock price during these periods exceeded the conversion price for the 7.875 percent convertible notes due 2026. For the three and nine months ended June 30, 2016, the company’s 7.875 percent convertible notes due 2026 were excluded from the computation of diluted earnings per share, as the company’s average stock price during these periods was less than the conversion price for the notes.

3. New Accounting Standards

Accounting standards to be implemented

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

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

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

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

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new guidance eliminates the need to determine the fair value of individual assets and liabilities of a

reporting unit to measure a goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value. The revised guidance will be applied prospectively, and is effective for calendar year-end SEC filers in 2020. Early adoption is permitted for any impairment tests performed after January 1, 2017. The new guidance is not expected to have a material impact on the company's consolidated financial statements.

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

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

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

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

retrospective transition method. The company is currently evaluating the potential impact of this new guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including accounts receivable. The ASU also modifies the impairment model for available-for-sale (AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The amendments in this update are required to be adopted by public business entities in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The company is currently evaluating the potential impact of this new guidance on its accounting policies and its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The ASU clarifies the assessment of the likelihood that revenue will be collected from a contract, the guidance for presenting sales taxes and similar taxes, and the timing for measuring customer payments that are not in cash. The ASU also establishes a practical expedient for contract modifications at the transition. The amendments in this update affect the guidance in ASU 2014-09, which is not effective yet. The effective date and the transition requirements for the amendments in ASU 2016-12 are the same as the effective date and transition requirements in ASU 2014-09 as described below. Therefore, the

company plans to implement this standard in the first quarter of the fiscal year beginning October 1, 2018 in connection with its planned implementation of ASU 2014-09 and is currently evaluating the potential impact of this new guidance on its accounting policies and its consolidated financial statements.

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

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

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

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

In March 2016, the FASB issued ASU 2016-07, Investments-Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting. The ASU will eliminate the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously

held investment. The standard is required to be adopted by public business entities in fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The company does not expect a material impact on its consolidated financial statements from adoption of this guidance.

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

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815), Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The update clarifies that a change in a counterparty to a derivative instrument designated as a hedging instrument would not require the entity to dedesignate the hedging relationship and discontinue the application of hedge accounting. The standard is required to be adopted by public business entities in fiscal years beginning after

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

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

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

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

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40), which provides guidance about management's responsibility in evaluating whether there is substantial doubt relating to an entity’s ability to continue as a going concern and to provide related footnote disclosures as applicable. ASU 2014-15 is effective for the annual period ending after December 15, 2016 and for annual periods and interim periods thereafter. Early adoption is permitted. The company does not expect a material impact on its consolidated financial statements from adoption of this guidance.

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

Accounting standards implemented during fiscal year 2017

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

but not yet adopted ASUs was also updated to reflect this amendment.

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

4. Discontinued Operations

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Sales	$—	$—	$—	$—
Loss before income taxes	$(1)	$(1)	$(1)	$(5)
Benefit from income taxes	—	—	—	1
Loss from discontinued operations attributable to Meritor, Inc.	$(1)	$(1)	$(1)	$(4)

Loss from discontinued operations attributable to the company for the three and nine months ended June 30, 2017 and June 30, 2016 was primarily related to changes in estimates related to legal costs incurred in connection with a previously divested business.

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

5. Assets and Liabilities Held for Sale

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

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

Assets and liabilities held for sale, when measured in subsequent periods, are permitted to be written-up for increases in the fair value, less cost to sell, not in excess of the cumulative loss previously recognized. During the third quarter of fiscal year 2017, the fair value less costs to sell of the business increased relative to the carrying value. As a result, a $1 million adjustment, which reduced the previously recognized loss, was recorded in the company's condensed consolidated statement of operations within other operating expense, net.

During the third quarter of fiscal year 2017, an additional $2 million of assets met the criteria for presentation as assets held for sale within the Aftermarket & Trailer segment related to the Aftermarket restructuring actions (see Note 7).

6. 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.

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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
Goodwill	$ 245	$ 160	$ 405
Accumulated impairment losses	(15)	—	(15)
Beginning balance at September 30, 2016	230	160	390
Foreign currency translation	—	1	1
Balance at June 30, 2017	$ 230	$ 161	$ 391

7. Restructuring Costs

Restructuring reserves, primarily related to unpaid employee termination benefits, were $8 million at June 30, 2017 and $16 million at September 30, 2016. The changes in restructuring reserves for the nine months ended June 30, 2017 and 2016 are as follows (in millions):

	Employee Termination Benefits	Plant Shutdown & Other	Total
Beginning balance at September 30, 2016	$ 15	$ 1	$ 16
Activity during the period:			
Charges to continuing operations	4	—	4
Cash payments – continuing operations	(10)	(1)	(11)
Other	(1)	—	(1)
Total restructuring reserves at June 30, 2017	8	—	8
Less: non-current restructuring reserves	(1)	—	(1)
Restructuring reserves – current, at June 30, 2017	$ 7	$ —	$ 7
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

Ongoing Aftermarket Actions: During the third quarter of fiscal year 2016, the company approved various restructuring plans in the North American and European Aftermarket businesses. The company recorded $5 million of restructuring costs during the third quarter of fiscal year 2016. The company recorded $4 million of restructuring costs during the second quarter of fiscal year 2017. Restructuring actions associated with these plans are expected to be completed by the end of fiscal year 2017.

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

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8. Income Taxes

For each interim reporting period, the company makes an estimate of the effective tax rate expected to be applicable for the full fiscal year pursuant to FASB 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, Brazil 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.

During the fourth quarter of fiscal year 2016, as a result of sustained profitability in the U.S. evidenced by a strong earnings history, future forecasted earnings and additional positive evidence, the company determined it was more likely than not that it would be able to realize deferred tax assets in the U.S. Accordingly, the company reversed a portion of the valuation allowance in the U.S. Also in the fourth quarter of fiscal year 2016, due to a three-year cumulative loss and future economic uncertainty, the company established a tax valuation allowance in Brazil because the company determined it was not more likely than not that it would realize its deferred tax assets in Brazil.

The company continues to maintain valuation allowances in France, the United Kingdom, Brazil and certain other jurisdictions, as the company believes the negative evidence that it will be able to recover these net deferred tax assets continues to outweigh the positive evidence.

For the three months ended June 30, 2017, the company had approximately $3 million of net pre-tax income compared to $19 million of net pre-tax income in the same period in fiscal year 2016 in tax jurisdictions in which tax expense (benefit) is not recorded.

For the nine months ended June 30, 2017, the company had an insignificant net pre-tax loss compared to $47 million of net pre-tax income in the same period in fiscal year 2016 in tax jurisdictions in which tax expense (benefit) is not recorded.

9. 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 European subsidiaries. Under this arrangement with Nordea Bank, which expires in March 2020, the

company can sell up to, at any point in time, €155 million ($177 million) of eligible trade receivables. The amount of eligible receivables sold may exceed Nordea Bank's commitment at Nordea Bank's discretion. The receivables under this program are sold at face value and are excluded from the condensed consolidated balance sheet. The company had utilized €162 million ($186 million) and €121 million ($135 million) of this accounts receivable factoring facility as of June 30, 2017 and September 30, 2016, respectively.
The facility is backed by a 364-day liquidity commitment from Nordea Bank which extends through April 23, 2018. The commitment is subject to standard terms and conditions for this type of arrangement.

U.S. Factoring Facility: The company has an arrangement to sell trade receivables due from AB Volvo and its U.S. subsidiaries through one of its U.S. subsidiaries. Under this arrangement with Nordea Bank, which expires in February 2019, the company can sell up to, at any point in time, €80 million ($91 million) of eligible trade receivables. The amount of eligible receivables sold may exceed Nordea Bank's commitment at Nordea Bank's discretion. The receivables under this program are sold at face value and are excluded from the condensed consolidated balance sheet. The company had utilized €38 million ($43 million) and €39 million ($44 million) of this accounts receivable factoring facility as of June 30, 2017 and September 30, 2016, respectively.

United Kingdom Factoring Facility: The company has an arrangement to sell trade receivables due from AB Volvo and its European subsidiaries through one of its United Kingdom subsidiaries. Under this arrangement with Nordea Bank, which expires in February 2018, the company can sell up to, at any point in time, €25 million ($29 million) of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the condensed consolidated balance sheet. The company had utilized €4 million ($5 million) and €6 million ($6 million) of this accounts receivable factoring facility as of June 30, 2017 and September 30, 2016, respectively. The agreement is subject to standard terms and conditions for these types of arrangements, including a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the program.

Italy Factoring Facility: The company has an arrangement to sell trade receivables due from AB Volvo and its European subsidiaries through one of its Italian subsidiaries. On June 13, 2017, Meritor extended this Italy factoring facility with Nordea Bank until June 18, 2022, with all other terms of the agreement remaining unchanged. Under this arrangement, the company can sell up to, at any point in time, €30 million ($34 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 €29 million ($33 million) and €22 million ($24 million) of this accounts receivable factoring facility as of June 30, 2017 and September 30, 2016, respectively. The agreement is subject to standard terms and conditions for these types of arrangements, including a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the program.

In addition to the above facilities, a number of the company's subsidiaries, primarily in Europe, factor eligible accounts receivable with financial institutions. Certain receivables are factored without recourse to the company and are excluded from accounts receivable in the condensed consolidated balance sheet. The amount of factored receivables excluded from accounts receivable under these arrangements was $21 million and $10 million at June 30, 2017 and September 30, 2016, respectively.

Total costs associated with all of the off-balance sheet arrangements described above were $2 million in the three months ended June 30, 2017 and 2016, and $4 million and $6 million in the nine months ended June 30, 2017 and 2016, respectively, and are included in selling, general and administrative expenses in the condensed consolidated statements of operations.

On-balance sheet arrangements

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

this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the condensed consolidated balance sheet. At June 30, 2017 and September 30, 2016, no amounts, including letters of credit, were outstanding under this program. This securitization program contains a cross default to the revolving credit facility. At certain times during any given month, the company may sell eligible accounts receivable under this program to fund intra-month working capital needs. In such months, the company would then typically utilize the cash received from customers throughout the month to repay the borrowings under the program. Accordingly, during any given month, the company may borrow under this program amounts exceeding the amounts shown as outstanding at fiscal quarter ends.

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10. Operating Cash Flows

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

	Nine Months Ended June 30,	
	2017	2016
OPERATING ACTIVITIES		
Net income	$90	$101
Less: Loss from discontinued operations, net of tax	(1)	(4)
Income from continuing operations	91	105
Adjustments to income from continuing operations to arrive at cash provided by operating activities:		
Depreciation and amortization	55	48
Deferred income tax expense	19	2
Restructuring costs	4	9
Asset impairment charges	2	—
Gain on sale of property	—	(2)
Equity in earnings of affiliates	(32)	(26)
Pension and retiree medical expense	11	15
Other adjustments to income from continuing operations	12	5
Dividends received from equity method investments	25	29
Pension and retiree medical contributions	(28)	(32)
Restructuring payments	(11)	(8)
Changes in off-balance sheet accounts receivable factoring	62	(30)
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations	(73)	31
Operating cash flows provided by continuing operations	137	146
Operating cash flows used for discontinued operations	(1)	(2)
CASH PROVIDED BY OPERATING ACTIVITIES	$136	$144

11. Inventories

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

	June 30, 2017	September 30, 2016
Finished goods	$ 142	$ 125
Work in process	33	26
Raw materials, parts and supplies	185	165
Total	$ 360	$ 316

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12. Other Current Assets

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

	June 30, 2017	September 30, 2016
Asbestos-related recoveries (see Note 20)	$ 10	$ 10
Prepaid and other	27	23
Other current assets	$ 37	$ 33

13. Net Property

Net property is summarized as follows (in millions):

	June 30, 2017	September 30, 2016
Property at cost:		
Land and land improvements	$ 29	$ 30
Buildings	234	231
Machinery and equipment	867	839
Company-owned tooling	122	113
Construction in progress	38	56
Total	1,290	1,269
Less: accumulated depreciation	(860)	(830)
Net property	$ 430	$ 439

14. Other Assets

Other assets are summarized as follows (in millions):

	June 30, 2017	September 30, 2016
Investments in non-consolidated joint ventures	$ 108	$ 100
Asbestos-related recoveries (see Note 20)	44	49
Unamortized revolver debt issuance costs	8	7
Capitalized software costs, net	28	29
Non-current deferred income tax assets, net	395	413
Assets for uncertain tax positions	37	35
Prepaid pension costs	138	123
Other	5	4
Other assets	$ 763	$ 760

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, 2017 and September 30, 2016, the company’s investment in the joint venture was $48 million and $45 million, respectively.

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15. Other Current Liabilities

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

	June 30, 2017	September 30, 2016
Compensation and benefits	$ 121	$ 115
Income taxes	4	8
Taxes other than income taxes	24	21
Accrued interest	15	14
Product warranties	18	18
Environmental reserves (see Note 20)	5	7
Restructuring (see Note 7)	7	14
Asbestos-related liabilities (see Note 20)	18	18
Indemnity obligations (see Note 20)	2	2
Other	63	51
Other current liabilities	$ 277	$ 268

The company records estimated product warranty costs at the time of shipment of products to customers. Warranty reserves are primarily based on factors that include past claims experience, sales history, product manufacturing and engineering changes and industry developments. Liabilities for product recall campaigns are recorded at the time the company's obligation is probable and can be reasonably estimated. Policy repair actions to maintain customer 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.

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

	Nine Months Ended June 30, 2017	2016
Total product warranties – beginning of period	$44	$48
Accruals for product warranties	8	11
Payments	(10)	(13)
Change in estimates and other	1	(1)
Total product warranties – end of period	43	45
Less: Non-current product warranties	(25)	(27)
Product warranties – current	$18	$18

16. Other Liabilities

Other liabilities are summarized as follows (in millions):

	June 30, 2017	September 30, 2016
Asbestos-related liabilities (see Note 20)	$ 122	$ 136
Restructuring (see Note 7)	1	2
Non-current deferred income tax liabilities	13	12
Liabilities for uncertain tax positions	15	16
Product warranties (see Note 15)	25	26
Environmental (see Note 20)	6	6

Indemnity obligations (see Note 20)	11	11
Other	27	29
Other liabilities	$ 220	$ 238

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17. Long-Term Debt

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

	June 30, 2017	September 30, 2016
4.0 percent convertible notes due 2027[1][3]	$ 142	$ 142
7.875 percent convertible notes due 2026[1][4]	131	129
6.75 percent notes due 2021[2][5]	271	271
6.25 percent notes due 2024[2][6]	443	442
Capital lease obligation	13	16
Export financing arrangements and other	—	10
Unamortized discount on convertible notes [7]	(10)	(14)
Subtotal	990	996
Less: current maturities	(132)	(14)
Long-term debt	$ 858	$ 982

[1] The 4.0 percent convertible notes due 2027 and 7.875 percent convertible notes due 2026 contain a put and call feature, which allows for earlier redemption beginning in 2019 and 2020, respectively.
[2] The 6.75 percent notes and 6.25 percent notes contain a call option, which allows for early redemption.
[3] The 4.0 percent convertible notes due 2027 are presented net of $1 million unamortized issuance costs as of June 30, 2017 and September 30, 2016.
[4] The 7.875 percent convertible notes due 2026 are presented net of $2 million unamortized issuance costs as of June 30, 2017 and September 30, 2016, and $7 million and $9 million original issuance discount as of June 30, 2017 and September 30, 2016, respectively.
[5] The 6.75 percent notes due 2021 are presented net of $4 million unamortized issuance costs as of June 30, 2017 and September 30, 2016.
[6] The 6.25 percent notes due 2024 are presented net of $7 million and $8 million unamortized issuance costs as of June 30, 2017 and September 30, 2016, respectively.
[7] The carrying amount of the equity component related to convertible debt.

Convertible Notes Due 2026

The 7.875 percent convertible notes due 2026 (the “2026 Notes”) were classified as current as of June 30, 2017 and noncurrent as of September 30, 2016 as the holders of the company's 2026 Notes are entitled to convert all or a portion of their 2026 Notes at any time beginning July 1, 2017 and prior to the close of business on September 29, 2017 at a rate of 83.3333 shares of common stock per $1,000 principal amount at maturity of the 2026 Notes (representing a conversion price of approximately $12.00 per share). The 2026 Notes are convertible as the closing price of shares of the company's common stock for at least 20 trading days during the 30 consecutive trading-day period ending on June 30, 2017 was greater than 120% of the $12.00 conversion price associated with the 2026 Notes. The 2026 Notes surrendered for conversion, if any, would be settled in cash up to the principal amount at maturity of the 2026 Notes and cash, stock or a combination of cash and stock, at the company’s election, for the remainder of the conversion value of the 2026 Notes in excess of the principal amount at maturity and cash in lieu of any fractional shares, subject to and in accordance with the provisions of the indenture that governs the 2026 Notes.

As a result of the 2026 Notes becoming currently convertible for cash up to the principal amount of $140 million at the holder's option, $12 million of permanent equity was reclassified as mezzanine equity.

Revolving Credit Facility

On March 31, 2017, the company amended and restated its revolving credit facility. Pursuant to the revolving credit agreement as amended, the company has a $525 million revolving credit facility that matures in March 2022.

Additionally, $4 million was capitalized as deferred issuance costs and will be amortized over the term of the agreement. The availability under this facility is dependent upon various factors, including performance against certain financial covenants as highlighted below.

The availability under the revolving credit facility is subject to certain financial covenants based on (i) the ratio of the company’s priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. The company is required to maintain a total priority debt-to-EBITDA ratio, as defined in the agreement, of 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, 2017, the revolving credit facility was collateralized by approximately $774 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, 2017, the margin over LIBOR rate was 300 basis points and the commitment fee was 45 basis points. Overnight revolving credit loans are at the prime rate plus a margin of 200 basis points.

Certain of the company’s subsidiaries, as defined in the revolving credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the publicly held notes outstanding under the company’s indentures (see Note 23).

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

Debt Securities

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

Repurchase of Debt Securities

On March 1, 2016, substantially all of the $55 million principal amount of 4.625 percent convertible notes were repurchased at 100 percent of their face value. On April 15, 2016, the remaining 4.625 percent convertible notes were redeemed at 100 percent of their face value. As of September 30, 2016, none of the 4.625 percent convertible notes were outstanding.

The repurchases were made under the company's equity and equity linked repurchase authorizations (see Note 21). The repurchase program under these authorizations was complete as of September 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 Wells Fargo Equipment Finance (“Wells Fargo”) 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 Wells Fargo 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 $3 million and $7 million outstanding under this capital lease arrangement as of June 30, 2017 and September 30, 2016, respectively. In addition, the company had another $10 million and $9 million outstanding through other capital lease arrangements at June 30, 2017 and September 30, 2016, respectively.

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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, which expires in March 2019, the company has the right to obtain the issuance, renewal, extension and increase of letters of credit up to an aggregate availability of $25 million. This facility contains covenants and events of default generally similar to those existing in the company's public debt indentures. There were $18 million and $23 million of letters of credit outstanding under this facility at June 30, 2017 and September 30, 2016, respectively. The company had another $5 million of letters of credit outstanding through other letter of credit facilities at June 30, 2017 and September 30, 2016.

Export Financing Arrangements

The company entered into a number of export financing arrangements through its Brazilian subsidiary during fiscal year 2014. The export financing arrangements were issued under an incentive program of the Brazilian government to fund working capital for Brazilian companies in exportation programs. The arrangements bore interest at 5.5 percent and had maturity dates in 2017. These financing arrangements were paid off at maturity, as of March 31, 2017. There was $9 million outstanding under these arrangements at September 30, 2016.

Other

One of the company's consolidated joint ventures in China participates in a bills of exchange program to settle its obligations with its trade suppliers. These programs are common in China and generally require the participation of local banks. Under these programs, the company's joint venture issues notes payable through the participating banks to its trade suppliers. If the issued notes payable remain unpaid on their respective due dates, this could constitute an event of default under the company's revolving credit facility if the defaulted amount exceeds $35 million per bank. As of June 30, 2017 and September 30, 2016, the company had $16 million and $10 million, respectively, outstanding under this program at more than one bank.

18. Financial Instruments

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

	June 30, 2017		September 30, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 231	$ 231	$ 160	$ 160
Short-term debt	132	245	14	14
Long-term debt	858	912	982	1,051
Foreign exchange forward contracts (other assets)	—	—	1	1
Foreign exchange forward contracts (other liabilities)	—	—	2	2
Short-term foreign currency option contracts (other assets)	1	1	—	—
Long-term foreign currency option contracts (other assets)	1	1	2	2

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

	June 30, 2017			September 30, 2016		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Reported	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Reported

Derivative Asset						
Foreign exchange forward contract	1	(1)	—	1	—	1
Derivative Liabilities						
Foreign exchange forward contract	1	(1)	—	2	—	2

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Fair Value

The current FASB guidance provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical instruments (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 inputs use quoted prices in active markets for identical instruments.
- Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar instruments in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related instrument.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest priority level input that is significant to the valuation. The company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Fair value of financial instruments by the valuation hierarchy at June 30, 2017 is as follows (in millions):

	Level 1	Level 2	Level 3
Cash and cash equivalents	$231	$ —	$ —
Short-term debt	—	241	4
Long-term debt	—	903	9
Foreign exchange forward contracts (asset)	—	—	—
Foreign exchange forward contracts (liability)	—	—	—
Short-term foreign currency option contracts (asset)	—	—	1
Long-term foreign currency option contracts (asset)	—	—	1

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

	Level 1	Level 2	Level 3
Cash and cash equivalents	$160	$ —	$ —
Short-term debt	—	—	14
Long-term debt	—	1,040	11
Foreign exchange forward contracts (asset)	—	1	—
Foreign exchange forward contracts (liability)	—	2	—
Short-term foreign currency option contracts (asset)	—	—	—
Long-term foreign currency option contracts (asset)	—	—	2

The tables below provide a reconciliation of changes in fair value of the Level 3 financial assets and liabilities measured at fair value in the condensed consolidated balance sheet for the three and nine months ended June 30, 2017 and 2016, respectively. No transfers of assets between any of the Levels occurred during these periods.

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Three months ended June 30, 2017 (in millions)	Short-term foreign currency option contracts (asset)	Long-term foreign currency option contracts (asset)	Total
Fair Value as of March 31, 2017	$ 3	$ 2	$ 5
Total unrealized gains (losses):			
Included in other income	—	—	—
Included in cost of sales	(1)	—	(1)
Total realized gains (losses):			
Included in other income	—	—	—
Included in cost of sales	—	—	—
Purchases, issuances, sales and settlements:			
Purchases	—	1	1
Settlements	(2)	(1)	(3)
Transfer in and / or out of Level 3 (1)	—	—	—
Reclass between short-term and long-term	1	(1)	—
Fair Value as of June 30, 2017	$ 1	$ 1	$ 2

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	—	—	—
Included in cost of sales	—	—	—
Total realized gains (losses):			
Included in other income	—	—	—
Included in cost of sales	—	—	—
Purchases, issuances, sales and settlements:			
Purchases	—	—	—
Settlements	—	—	—
Transfer in and / or out of Level 3 (1)	—	—	—
Reclass between short-term and long-term	—	—	—
Fair Value as of June 30, 2016	$ —	$ —	$ —

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Nine months ended June 30, 2017 (in millions)	Short-term foreign currency option contracts (asset)	Long-term foreign currency option contracts (asset)	Total
Fair Value as of September 30, 2016	$ —	$ 2	$ 2
Total unrealized gains (losses):			
Included in other income	—	—	—
Included in cost of sales	—	2	2
Total realized gains (losses):			
Included in other income	—	—	—
Included in cost of sales	—	—	—
Purchases, issuances, sales and settlements:			
Purchases	—	1	1
Settlements	(2)	(1)	(3)
Transfer in and / or out of Level 3 [(1)]	—	—	—
Reclass between short-term and long-term	3	(3)	—
Fair Value as of June 30, 2017	$ 1	$ 1	$ 2

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)
Total realized gains (losses):			
Included in other income	—	—	—
Included in cost of sales	—	—	—
Purchases, issuances, sales and settlements:			
Purchases	1	—	1
Settlements	—	—	—
Transfer in and / or out of Level 3 (1)	—	—	—
Reclass between short-term and long-term	—	—	—
Fair Value as of June 30, 2016	$ —	$ —	$ —

[(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 as of June 30, 2017 or September 30, 2016.

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

maturities.

Foreign exchange forward contracts — The company uses foreign exchange forward purchase and sale contracts with terms of one year or less to hedge its exposure to changes in foreign currency exchange rates. As of June 30, 2017 and September 30, 2016, the notional amount of the company's foreign exchange forward contracts outstanding was $125 million and $190 million, respectively. 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 shareholders' 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. In the fourth quarter of fiscal year 2016, the company entered into a new series of foreign currency option contracts with effective dates from the start of the first quarter of fiscal year 2017 through the end of fiscal year 2018. In the third quarter of fiscal year 2017, the company monetized certain foreign currency options maturing in fiscal year 2018 and entered into a new series of foreign currency option contracts with effective dates from the start of the first quarter of fiscal year 2018 through the end of fiscal year 2019. As of June 30, 2017 and September 30, 2016, the notional amount of the company's Indian rupee foreign exchange contracts outstanding was $141 million and $174 million, respectively. 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.

Also, in 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 Swedish krona and euro earnings to U.S. dollars, respectively. During the third quarter of fiscal year 2017, the company entered into additional foreign currency contracts with a total notional amount of $35 million to mitigate the risk of volatility in the translation of euro earnings to U.S. dollars. These foreign currency option contracts did not qualify for a hedge accounting election. As of June 30, 2017 and September 30, 2016, there were no Swedish krona foreign currency option contracts outstanding. As of June 30, 2017, the notional amount of the company's euro foreign currency option contracts outstanding was $20 million. Changes in fair value associated with these contracts were recorded in other income, net, in the consolidated statement of operations.

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19. Retirement Benefit Liabilities

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

	June 30, 2017	September 30, 2016
Retiree medical liability	$ 432	$ 447
Pension liability	261	283
Other	13	13
Subtotal	706	743
Less: current portion (included in compensation and benefits, Note 15)	(39)	(40)
Retirement benefits	$ 667	$ 703

The components of net periodic pension and retiree medical expense included in continuing operations for the three months ended June 30 are as follows (in millions):

	2017		2016	
	Pension	Retiree Medical	Pension	Retiree Medical
Interest cost	$13	$ 4	$16	$ 4
Assumed return on plan assets	(24)	—	(24)	—
Amortization of prior service costs	—	(1)	—	—
Recognized actuarial loss	8	4	6	3
Total expense (income)	$(3)	$ 7	$(2)	$ 7

The components of net periodic pension and retiree medical expense included in continuing operations for the nine months ended June 30 are as follows (in millions):

	2017		2016	
	Pension	Retiree Medical	Pension	Retiree Medical
Interest cost	$39	$ 11	$49	$ 13
Assumed return on plan assets	(71)	—	(74)	—
Amortization of prior service costs	—	(2)	—	—
Recognized actuarial loss	23	11	18	9
Total expense (income)	$(9)	$ 20	$(7)	$ 22

20. Contingencies

Environmental

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

party, the company records a liability for the total probable and estimable costs of remediation before consideration of

recovery from insurers or other third parties.

The company has been designated as a potentially responsible party at nine Superfund sites, excluding sites as to which the company's records disclose no involvement or as to which the company's liability has been finally determined. Management estimates the total reasonably possible costs the company could incur for the remediation of Superfund sites at June 30, 2017 to be approximately $8 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, 2017 to be approximately $27 million, of which $9 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 1.0 to 3.0 percent and is approximately $7 million at June 30, 2017. 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, 2016	$ 2	$ 11	$ 13
Payments and other	—	(4)	(4)
Accruals	—	2	2
Balance at June 30, 2017	$ 2	$ 9	$ 11

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

In April 2016, the company was served with several complaints filed against the company and other defendants in the United States District Court for the Northern District of Mississippi. The complaints were amended in July 2016. These complaints allege damages, including diminution of property value, concealment/fraud and emotional distress resulting from alleged environmental pollution in and around a neighborhood in Grenada, Mississippi. Rockwell owned and operated a facility near the neighborhood from 1965 to 1985. The company filed answers to the complaints in July 2016. In May 2017, the company was served with a complaint filed against the company and other defendants by the Mississippi Attorney General in the Chancery Court of Grenada County, Mississippi. The complaint alleges that operations at the above-referenced Grenada facility caused contamination of off-site groundwater and surface waters. Subsequently, the company removed this action to the United States District Court for the Northern District of Mississippi.The company intends to defend itself vigorously against these claims. The company believes at this time

that liabilities associated with this case, while possible, are not probable and estimable, and therefore has not recorded any accrual for them as of June 30, 2017. Further, a reasonably possible range of loss cannot be estimated at this time.

Asbestos

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

Maremont had approximately 4,200 and 5,800 pending asbestos-related claims at June 30, 2017 and September 30, 2016, respectively. Although Maremont has been named in these cases, in the cases where actual injury has been alleged, very few claimants have established that a Maremont product caused their injuries. Plaintiffs' lawyers often sue dozens or even hundreds of defendants in individual lawsuits, seeking damages against all named defendants irrespective of the disease or injury and irrespective of any causal connection with a particular product. For these reasons, the total number of claims filed is not necessarily the most meaningful factor in determining Maremont's asbestos-related liability.

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

	June 30, 2017	September 30, 2016
Pending and future claims	$ 70	$ 70
Billed but unpaid claims	3	2
Asbestos-related liabilities	$ 73	$ 72
Asbestos-related insurance recoveries	$ 27	$ 32

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

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

As of September 30, 2016, 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 $70 million to $83 million. After consultation with Bates White, management recognized a liability of $70 million as of each of June 30, 2017 and September 30, 2016 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. Maremont has recognized incremental insurance receivables associated with recoveries expected for asbestos-related liabilities as the estimate of asbestos-related liabilities for pending and future claims changes.

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

- Pending and future claims were estimated for a ten-year period ending in fiscal year 2026;
- 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 historically had insurance that reimburses a substantial portion of the costs incurred defending against asbestos-related claims. The insurance receivable related to asbestos-related liabilities was $27 million and $32 million as of June 30, 2017 and September 30, 2016, respectively. The receivable is for coverage provided by one insurance carrier based on a coverage-in-place agreement. Maremont currently expects to exhaust the remaining limits provided by this coverage sometime in the next ten years. The difference between the estimated liability and insurance receivable is primarily related to exhaustion of settled insurance coverage within the forecasted period.

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. During the first quarter of fiscal year 2016, the dispute related to these insurance policies was settled. As a part of this settlement, on December 12, 2015, Maremont received $17 million in cash, of which $5 million was recognized as a reduction in asbestos expense and $12 million was recorded as a liability to the insurance carrier as it is required to be returned to the carrier if additional asbestos liability is not incurred. During the fourth quarter of fiscal year 2016, Maremont recognized an additional $9 million of the cash settlement proceeds as a reduction in asbestos expense. During the first quarter of fiscal year 2017, the company recognized the remaining $3 million of the cash settlement proceeds as a reduction in asbestos expense. The settlement also provides additional recovery for Maremont if certain future defense and indemnity spending thresholds are met.

The amounts recorded for the asbestos-related reserves and recoveries from insurance companies are based upon assumptions and estimates derived from currently known facts. All such estimates of liabilities and recoveries for asbestos-related claims are subject to considerable uncertainty because such liabilities and recoveries are influenced by variables that are difficult to predict. The future litigation environment for Maremont could change significantly from its past experience, due, for example, to changes in the mix of claims filed against Maremont in terms of plaintiffs' law 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 1,600 and 3,200 pending active asbestos claims in lawsuits that name AM, together with many other companies, as defendants at June 30, 2017 and September 30, 2016, respectively.

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

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

	June 30, 2017	September 30, 2016
Pending and future claims	$ 60	$ 60
Billed but unpaid claims	4	1
Asbestos-related liabilities	$ 64	$ 61
Asbestos-related insurance recoveries	$ 27	$ 27

Pending and Future Claims: The company engaged Bates White to assist with determining whether it would be possible to estimate the cost of resolving pending and future Rockwell legacy asbestos-related claims that have been, and could reasonably be expected to be, filed against the company. As of September 30, 2016, 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

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ten years of $60 million to $75 million. After consultation with Bates White, management recognized a liability for the pending and future claims over the next ten years of $60 million as of each of June 30, 2017 and September 30, 2016. The ultimate cost of resolving pending and future claims is estimated based on the history of claims and expenses for plaintiffs represented by law firms in jurisdictions with an established history with Rockwell.

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 2026;
- 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: Rockwell has insurance coverage that management believes covers indemnity and defense costs, over and above self-insurance retentions, for a significant portion of these claims. In 2004, the company initiated litigation against certain of these carriers to enforce the insurance policies. During the third quarter of fiscal year 2016, the company reached a settlement, relating to certain proofs of claim filed by the company under certain insurance policies, with an insolvent insurer for $5.5 million (the "allowed claim"). On June 17, 2016, the company entered into an assignment of claim (the "Assignment") with Macquarie Bank to assign the allowed claim the company had against the insolvent insurer. The Assignment was approved by the liquidator, which resulted in the company receiving $3 million in the third quarter of fiscal year 2016. During the fourth quarter of fiscal year 2016, the company executed settlement agreements with two of these carriers, thereby resolving the litigation against those particular carriers. Pursuant to the terms of one of those settlement agreements, in the fourth quarter of fiscal year 2016 the company received $32 million in cash from an insurer, of which $10 million was recognized as a reduction in asbestos expense, and $22 million was recorded as a liability to the insurance carrier as it is required to be returned to the carrier if additional asbestos liability is not ultimately incurred. During the first nine months of fiscal year 2017, Rockwell recognized an additional $12 million of the cash settlement proceeds as a reduction in asbestos expense. Pursuant to the terms of a second settlement agreement, in the fourth quarter of fiscal year 2016 the company recorded a $12 million receivable to reflect expected reimbursement of future defense and indemnity payments under a coverage-in-place arrangement with that insurer. In addition to the coverage provided from the settlement agreements executed during the fourth quarter of fiscal year 2016, the company continues to maintain a receivable of $6 million related to a previously executed coverage-in-place arrangement with other insurers. The insurance receivable for Rockwell's asbestos-related liabilities totaled $27 million as of each of June 30, 2017 and September 30, 2016. Included in these amounts are insurance receivables of $9 million as of each of June 30, 2017 and September 30, 2016, which are associated with policies in dispute and have been fully reserved.

The amounts recorded for the asbestos-related reserves and recoveries from insurance companies are based upon assumptions and estimates derived from currently known facts. All such estimates of liabilities and recoveries for asbestos-related claims are subject to considerable uncertainty because such liabilities and recoveries are influenced by variables that are difficult to predict. The future litigation environment for Rockwell could change significantly from its past experience, due, for example, to changes in the mix of claims filed against Rockwell in terms of plaintiffs' law firms, jurisdictions and diseases; legislative or regulatory developments; Rockwell's approach to defending claims;

or payments to plaintiffs from other defendants. Estimated recoveries are influenced by coverage issues among insurers and the continuing solvency of various insurance companies. If the assumptions with respect to the estimation period, the nature of pending claims, the cost to resolve claims and the amount of available insurance prove to be incorrect, the actual amount of liability for Rockwell asbestos-related claims, and the effect on the company, could differ materially from current estimates and, therefore, could have a material impact on the company's financial condition and results of operations.

Indemnifications

The company has provided indemnifications in conjunction with certain transactions, primarily divestitures. These indemnities address a variety of matters, which may include environmental, tax, asbestos and employment-related matters, and the periods of indemnification vary in duration.

In December 2005, the company guaranteed a third party's obligation to reimburse another party for payment of health and prescription drug benefits to a group of retired employees. The retirees were former employees of a wholly-owned subsidiary of the company prior to it being acquired by the company. The wholly-owned subsidiary, which was part of the company's light vehicle aftermarket business, was sold by the company in fiscal year 2006. Prior to May 2009, except as set forth hereinafter, the third party met its obligations to reimburse the other party. In May 2009, the third party filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code, requiring the company to recognize its obligations under the guarantee. The company recorded a $28 million liability in fiscal year 2009 for this matter. At each of June 30, 2017 and September 30, 2016, the remaining estimated liability for this matter was approximately $11 million.

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, 2017 and September 30, 2016, the company's remaining exposure was approximately $1 million, which is included in other liabilities in the condensed consolidated balance sheet.

The company is not aware of any other claims or other information that would give rise to material payments under such indemnifications.

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 2016. At June 30, 2017 and September 30, 2016, the company's estimate of the probable liability was $11 million and $10 million, respectively.

On June 24, 2014, the company filed a complaint in the Circuit Court for Oakland County Michigan against a supplier alleging that certain bearings supplied by the supplier for TL Trailer Axles were faulty, and as a result, the company suffered product liability damages and expenses with respect to vehicle recalls. On May 13, 2016, the company entered into a settlement agreement with the supplier pursuant to which the company received approximately $6 million 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.

On July 5, 2017, the company's subsidiary Meritor Heavy Vehicle Systems, LLC fully and finally resolved all claims with respect to its various legal proceedings with Sistemas Automotrices de Mexico, S.A. de C.V. ("Sisamex"), its Mexican joint venture with Quimmco, S.A. de C.V. ("Quimmco"), that were originally filed in 2014 in the District Court for the Northern District of Illinois regarding Sisamex's rights to manufacture certain products and the components thereof for sale in Mexico. The parties entered into a confidential settlement agreement and release pursuant to which the parties agreed to dismiss, with prejudice, all of the legal proceedings between them and Meritor agreed to pay Quimmco a settlement of $10 million, consistent with the reserve recorded as of June 30, 2017.

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.

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21. Shareholders' Equity

Common Stock and Debt Repurchase Authorizations

On July 21, 2016, the Board of Directors authorized the repurchase of up to $100 million of the company’s common stock and up to $150 million aggregate principal amount of any of the company’s debt securities (including convertible debt securities), in each case from time to time through open market purchases, privately negotiated transactions or otherwise, until September 30, 2019, subject to compliance with legal and regulatory requirements and the company's debt covenants. As of June 30, 2017, an insignificant amount of repurchases had been made under these authorizations.

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, 2017 and 2016 are as follows (in millions):

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss, net of tax	Total
Balance at March 31, 2017	$ (75)	$ (718)	$ (1)	$ (794)
Other comprehensive income (loss) before reclassification	17	—	(2)	15
Amounts reclassified from accumulated other comprehensive loss	—	11	—	11
Net current-period other comprehensive income (loss)	$ 17	$ 11	$ (2)	$ 26
Balance at June 30, 2017	$ (58)	$ (707)	$ (3)	$ (768)

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)	(a)
Actuarial losses	$ 12	(a)
	11	Total before tax
	(3)	Tax benefit
Total reclassifications for the period	$ 8	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 19 for additional details), which is recorded in cost of sales and selling, general and administrative expenses.

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss, 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)

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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		
Actuarial losses	$ 9	(b)
	9	Total before tax
	—	Tax expense
Total reclassifications for the period	$ 9	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 19 for additional details).

The components of AOCL and the changes in AOCL by components, net of tax, for nine months ended June 30, 2017 and 2016 are as follows (in millions):

	Foreign Currency Translation	Employee Benefit Related Adjustments	Unrealized Loss, net of tax	Total
Balance at September 30, 2016	$ (66)	$ (740)	$ (3)	$ (809)
Other comprehensive income (loss) before reclassification	8	1	—	9
Amounts reclassified from accumulated other comprehensive loss	—	32	—	32
Net current-period other comprehensive income (loss)	$ 8	$ 33	$ —	$ 41
Balance at June 30, 2017	$ (58)	$ (707)	$ (3)	$ (768)

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	$ (2)	(a)
Actuarial losses	34	(a)
	32	Total before tax
	(10)	Tax benefit
Total reclassifications for the period	$ 22	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 19 for additional details), which is recorded in cost of sales and selling, general and administrative expenses.

	Foreign Currency	Employee Benefit	Unrealized Loss, net	Total

	Translation	Related Adjustments	of tax	
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)

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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			
Actuarial losses	$	27	[b]
	27		Total before tax
	—		Tax expense
Total reclassifications for the period	$	27	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 19 for additional details).

22. Business Segment Information

The company defines its operating segments as components of its business where separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The company's Chief Operating Decision Maker ("CODM") is the Chief Executive Officer.

The company has two reportable segments at June 30, 2017, 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, primarily in North America and Europe. This segment also supplies a wide variety of undercarriage products and systems for trailer applications in North America.

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

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

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Segment information is summarized as follows (in millions):

	Commercial Truck & Industrial	Aftermarket & Trailer	Eliminations	Total
Three Months Ended June 30, 2017				
External Sales	$ 704	$ 216	$ —	$920
Intersegment Sales	24	12	(36)	—
Total Sales	$ 728	$ 228	$ (36)	$920
Three Months Ended June 30, 2016				
External Sales	$ 623	$ 218	$ —	$841
Intersegment Sales	17	9	(26)	—
Total Sales	$ 640	$ 227	$ (26)	$841

	Commercial Truck & Industrial	Aftermarket & Trailer	Eliminations	Total
Nine Months Ended June 30, 2017				
External Sales	$ 1,826	$ 599	$ —	$2,425
Intersegment Sales	61	28	(89)	—
Total Sales	$ 1,887	$ 627	$ (89)	$2,425
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

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	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Segment adjusted EBITDA:				
Commercial Truck & Industrial	$75	$ 61	$171	$169
Aftermarket & Trailer	26	38	78	