COHEN JOSEPH N
Form 4
January 27, 2012

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
COHEN JOSEPH N

(Last) (First) (Middle)

3027 TOWNSGATE ROAD, SUITE 300

(Street)

WESTLAKE VILLAGE, CA 91361

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
First California Financial Group, Inc. [FCAL]

3. Date of Earliest Transaction (Month/Day/Year)
01/25/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, $0.01 par value	01/25/2012		A		3,597 (1)	A	$ 0	32,688 (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
COHEN JOSEPH N 3027 TOWNSGATE ROAD, SUITE 300 WESTLAKE VILLAGE, CA 91361	X			

Signatures

/s/ Romolo Santarosa, Attorney-in-Fact	01/27/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents restricted stock that will vest in one-third increments annually on each of January 25, 2013, 2014 and 2015.

(2) Includes previously reported 3,969 shares of restricted stock granted on March 16, 2011 that vest in one-third increments annually on each of March 16, 2012, 2013 and 2014 and 3045 shares of restricted stock granted on February 25, 2009 that vest in one-third increments annually on each of February 25, 2010, 2011 and 2012.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Less: Net income attributable to noncontrolling interests
—

—

(5
)

—

(5
)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.
$
21

$
161

$
67

$
(228
)

$
21

45

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

	Six Months Ended March 31, 2018				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income (loss)	$21	$ 161	$ 72	$(228)	$ 26
Other comprehensive income (loss)	15	12	14	(25)	16
Total comprehensive income (loss)	36	173	86	(253)	42
Less: Comprehensive income attributable to noncontrolling interests	—	—	(6)	—	(6)
Comprehensive income (loss) attributable to Meritor, Inc.	$36	$ 173	$ 80	$(253)	$ 36

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

	Six Months Ended March 31, 2017 (1)				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Sales					
External	$—	$ 716	$ 789	$—	$ 1,505
Subsidiaries	—	56	26	(82)	—
Total sales	—	772	815	(82)	1,505
Cost of sales	(29)	(642)	(706)	82	(1,295)
GROSS MARGIN	(29)	130	109	—	210
Selling, general and administrative	(43)	(52)	(24)	—	(119)
Restructuring costs	2	(2)	(4)	—	(4)
Other operating expense	(2)	—	(3)	—	(5)
OPERATING INCOME (LOSS)	(72)	76	78	—	82
Other income (loss), net	24	(5)	(19)	—	—
Equity in earnings of affiliates	—	15	3	—	18
Interest income (expense), net	(67)	19	6	—	(42)
INCOME (LOSS) BEFORE INCOME TAXES	(115)	105	68	—	58
Benefit (Provision) for income taxes	35	(35)	(19)	—	(19)
Equity income from continuing operations of subsidiaries	117	41	—	(158)	—
INCOME FROM CONTINUING OPERATIONS	37	111	49	(158)	39
LOSS FROM DISCONTINUED OPERATIONS, net of tax	—	—	—	—	—
NET INCOME	37	111	49	(158)	39
Less: Net income attributable to noncontrolling interests	—	—	(2)	—	(2)
NET INCOME ATTRIBUTABLE TO MERITOR, INC.	$37	$ 111	$ 47	$(158)	$ 37

(1) Amounts have been recast to reflect the release of certain guarantors in accordance with the company’s senior secured revolving credit facility.

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

	Six Months Ended March 31, 2017 [1]				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
Net income	$37	$ 111	$ 49	$(158)	$ 39
Other comprehensive income (loss)	14	(4)	(6)	10	14
Total comprehensive income	51	107	43	(148)	53
Less: Comprehensive income attributable to noncontrolling interests	—	—	(1)	—	(1)
Comprehensive income attributable to Meritor, Inc.	$51	$ 107	$ 42	$(148)	$ 52

(1) Amounts have been recast to reflect the release of certain guarantors in accordance with the company’s senior secured revolving credit facility.

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

	March 31, 2018				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	$9	$ 5	$ 86	$—	$ 100
Restricted cash	—	—	9	—	9
Receivables trade and other, net	1	44	536	—	581
Inventories	—	215	240	—	455
Other current assets	4	7	30	—	41
TOTAL CURRENT ASSETS	14	271	901	—	1,186
NET PROPERTY [(1)]	20	220	219	—	459
GOODWILL	—	239	179	—	418
OTHER ASSETS	187	117	228	—	532
INVESTMENTS IN SUBSIDIARIES	3,426	872	—	(4,298)	—
TOTAL ASSETS	$3,647	$ 1,719	$ 1,527	$(4,298)	$ 2,595
CURRENT LIABILITIES:					
Short-term debt	$46	$ 1	$ 30	$—	$ 77
Accounts and notes payable	51	268	373	—	692
Other current liabilities	73	50	126	—	249
TOTAL CURRENT LIABILITIES	170	319	529	—	1,018
LONG-TERM DEBT	723	—	5	—	728
RETIREMENT BENEFITS	269	—	22	—	291
INTERCOMPANY PAYABLE (RECEIVABLE)	2,156	(2,507)	351	—	—
OTHER LIABILITIES	45	91	108	—	244
MEZZANINE EQUITY	2	—	—	—	2
EQUITY ATTRIBUTABLE TO MERITOR, INC.	282	3,816	482	(4,298)	282
NONCONTROLLING INTERESTS	—	—	30	—	30
TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY	$3,647	$ 1,719	$ 1,527	$(4,298)	$ 2,595

[(1)] As of March 31, 2018, Assets and liabilities held for sale consisted of $3 million Net property. These assets and liabilities held for sale are included in the Non-Guarantor column, other than $1 million of Net property that is included in the Guarantor column.

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

	September 30, 2017				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents (1)	$10	$ 3	$ 75	$—	$ 88
Receivables trade and other, net (1)	—	296	493	—	789
Inventories (1)	—	184	194	—	378
Other current assets	5	6	32	—	43
TOTAL CURRENT ASSETS	15	489	794	—	1,298
NET PROPERTY (1)	21	227	226	—	474
GOODWILL (1)	—	237	177	—	414
OTHER ASSETS (1)	271	106	219	—	596
INVESTMENTS IN SUBSIDIARIES	3,222	787	—	(4,009)	—
TOTAL ASSETS	$3,529	$ 1,846	$ 1,416	$(4,009)	$ 2,782
CURRENT LIABILITIES:					
Short-term debt	$195	$ 2	$ 91	$—	$ 288
Accounts and notes payable (1)	55	246	321	—	622
Other current liabilities	69	69	134	—	272
TOTAL CURRENT LIABILITIES	319	317	546	—	1,182
LONG-TERM DEBT	743	—	7	—	750
RETIREMENT BENEFITS	291	—	23	—	314
INTERCOMPANY PAYABLE (RECEIVABLE)	1,866	(2,160)	294	—	—
OTHER LIABILITIES	40	93	106	—	239
MEZZANINE EQUITY	2	—	—	—	2
EQUITY (DEFICIT) ATTRIBUTABLE TO MERITOR, INC.	268	3,596	413	(4,009)	268
NONCONTROLLING INTERESTS (1)	—	—	27	—	27
TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY	$3,529	$ 1,846	$ 1,416	$(4,009)	$ 2,782

(1) As of September 30, 2017, Assets and Liabilities held for sale were: (i) $1 million Cash and cash equivalents; (ii) $13 million Receivables, trade and other, net; (iii) $2 million Inventories; (iv) $3 million Net property, including land, buildings and equipment; (v) $1 million Goodwill; (vi) $1 million Other assets; (vii) $12 million Accounts and notes payable; and (viii) $2 million Noncontrolling interests. These assets and liabilities held for sale are included in the Non-Guarantors column, other than $1 million of Net property that is included in the Guarantor column.

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

	Six Months Ended March 31, 2018				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$(50)	$ 20	$ 102	$ —	$ 72
INVESTING ACTIVITIES					
Capital expenditures	(2)	(17)	(16)	—	(35)
Proceeds from sale of a business	4	—	—	—	4
Proceeds from prior year sale of equity method investment	250	—	—	—	250
Cash paid for investment in Transportation Power, Inc.	(3)	—	—	—	(3)
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	249	(17)	(16)	—	216
FINANCING ACTIVITIES					
Borrowings and securitization	—	—	(60)	—	(60)
Redemption of notes	(181)	—	—	—	(181)
Repurchase of common stock	(33)	—	—	—	(33)
Intercompany advances	15	—	(15)	—	—
Other financing activities	(1)	(1)	—	—	(2)
CASH USED FOR FINANCING ACTIVITIES	(200)	(1)	(75)	—	(276)
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	—	—	—
CHANGE IN CASH AND CASH EQUIVALENTS	(1)	2	11	—	12
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10	3	75	—	88
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$9	$ 5	$ 86	$ —	$ 100

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

	Six Months Ended March 31, 2017 [1]				
	Parent	Guarantors	Non-Guarantors	Elims	Consolidated
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ (51)	$ 21	$ 60	$ —	$ 30
INVESTING ACTIVITIES					
Capital expenditures	(6)	(21)	(13)	—	(40)
Net investing cash flows provided by discontinued operations	—	2	—	—	2
CASH USED FOR INVESTING ACTIVITIES	(6)	(19)	(13)	—	(38)
FINANCING ACTIVITIES					
Debt issuance costs	(4)	—	—	—	(4)
Intercompany advances	38	—	(38)	—	—
Other financing activities	—	(2)	(9)	—	(11)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	34	(2)	(47)	—	(15)
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	—	—	1	—	1
CHANGE IN CASH AND CASH EQUIVALENTS	(23)	—	1	—	(22)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	90	4	66	—	160
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 67	$ 4	$ 67	$ —	$ 138

(1) Amounts have been recast to reflect the release of certain guarantors in accordance with the company's senior secured revolving credit facility.

Basis of Presentation

Certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. As of March 31, 2018 and September 30, 2017, Parent-only obligations included $280 million and $303 million of pension and retiree medical benefits, respectively (see Note 19). All debt is debt of the Parent other than $36 million and $100 million at March 31, 2018 and September 30, 2017, respectively (see Note 17), and is primarily related to U.S. accounts receivable securitization and capital lease obligations. There were $29 million and $1 million of cash dividends paid to the Parent by subsidiaries and investments accounted for by the equity method for the six months ended March 31, 2018 and March 31, 2017, respectively.

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

24. Subsequent Events

On April 30, 2018, the company acquired substantially all of the assets of AA Gear & Manufacturing, Inc. and its subsidiaries (“AAG”) for a cash purchase price of approximately $35 million. The AAG acquisition will be accounted for as a business combination. AAG provides low-to-medium volume batch manufacturing for complex gear and shaft applications, as well as quick-turnaround prototyping solutions and emergency plant support. The company has a strong manufacturing engineering team with a reputation for solving customers’ technical issues as a means to building long-term customer relationships. Those relationships include some of the world’s leading manufacturers across a wide range of attractive end markets including agriculture, construction, heavy truck, diversified industrial and automotive.
On April 13, 2018, the company purchased an additional $1.5 million of TransPower preferred shares.

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

OVERVIEW

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

2nd Quarter Fiscal Year 2018 Results

Our sales for the second quarter of fiscal year 2018 were $1,066 million, an increase compared to $806 million in the same period in the prior fiscal year. The increase in sales was primarily driven by higher production in all of our major markets. Sales for the quarter were also favorably impacted by new business wins and favorable foreign currency.
Net income attributable to Meritor for the second quarter of fiscal year 2018 was $57 million compared to $22 million in the same period in the prior fiscal year. Higher net income year over year was driven primarily by conversion on increased revenue.
Adjusted EBITDA (see Non-GAAP Financial Measures below) for the second quarter of fiscal year 2018 was $122 million compared to $82 million in the same period in the prior fiscal year. Our adjusted EBITDA margin (see Non-GAAP Financial Measures below) in the second quarter of fiscal year 2018 was 11.4 percent compared to 10.2 percent in the same period a year ago. Higher adjusted EBITDA and adjusted EBITDA margin year over year were driven primarily by conversion on higher revenue, $11 million of lower pension and retiree medical benefits and a one-time $10 million legal charge related to a dispute with a joint venture in the prior year that did not repeat. These increases were partially offset by a $9 million increase to our environmental reserve in the current period, related to remediation of a previously disposed property and $5 million of Meritor WABCO Vehicle Control Systems ("Meritor WABCO") affiliate earnings in the prior year that did not repeat.
Net income from continuing operations attributable to the company for the second quarter of fiscal year 2018 was $57 million compared to $22 million in the same period in the prior fiscal year. Adjusted income from continuing operations attributable to the company (see Non-GAAP Financial Measures below) for the second quarter of fiscal year 2018 was $68 million compared to $32 million in the same period in the prior fiscal year.
Cash provided by operating activities was $39 million in the second quarter of fiscal year 2018 compared to $44 million in the second quarter of fiscal year 2017. The decrease in cash provided by operating activities was driven by an increase in working capital requirements and lower dividends received from equity method investments, partially offset by conversion on higher sales year over year.

Reportable Segment Changes

On March 12, 2018, we announced a realignment of our operations to further drive our long-term strategic objectives while also assigning new responsibilities as part of our commitment to leadership development. As part of this realignment, our reportable segments changed. As of the second quarter of fiscal year 2018, our reportable segments are (1) Commercial Truck & Trailer and (2) Aftermarket & Industrial. Prior year reportable segment financial results have been recast for these changes.

Equity Repurchase Authorization

On July 21, 2016, our Board of Directors authorized the repurchase of up to $100 million of our common stock from time to time through open market purchases, privately negotiated transactions or otherwise, until September 30, 2019, subject to compliance with legal and regulatory requirements and our debt covenants. During the second quarter of fiscal year 2018, we repurchased 1.4 million shares of common stock for $33 million (including commission costs) pursuant to this authorization. Certain of these

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MERITOR, INC.

shares were repurchased from January 1, 2018 through February 1, 2018 under a 10b5-1 stock repurchase plan. The amount remaining available for repurchases under this authorization was $67 million as of March 31, 2018.

Trends and Uncertainties

Industry Production Volumes

The following table reflects estimated on-highway commercial truck production volumes for selected original equipment ("OE") markets for the three and six months ended March 31, 2018 and 2017 based on available sources and management’s estimates.

	Three Months Ended March 31,		Percent	Six Months Ended March 31,		Percent
	2018	2017	Change	2018	2017	Change
Estimated Commercial Truck production (in thousands):						
North America, Heavy-Duty Trucks	73	51	43 %	140	98	43 %
North America, Medium-Duty Trucks	65	64	2 %	121	117	3 %
North America, Trailers	69	62	11 %	146	132	11 %
Western Europe, Heavy- and Medium-Duty Trucks	115	115	— %	240	238	1 %
South America, Heavy- and Medium-Duty Trucks	25	16	56 %	49	30	63 %
India, Heavy- and Medium-Duty Trucks	109	101	8 %	210	180	17 %

North America:

During fiscal year 2018, we expect Class 8 truck production volumes in North America to increase significantly from the production levels experienced in fiscal year 2017.

Western Europe:

During fiscal year 2018, we expect production volumes in Western Europe to remain relatively consistent with the levels experienced in fiscal year 2017.

South America:

During fiscal year 2018, we expect production volumes in South America to increase significantly from the levels experienced in fiscal year 2017.

China:

During fiscal year 2018, we expect production volumes in China to increase significantly from the levels experienced in fiscal year 2017 primarily due to improvements in the construction market.

India:

During fiscal year 2018, we expect production volumes in India to increase significantly from the levels experienced in fiscal year 2017.

Industry-Wide Issues

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

- Uncertainty around the global market outlook;
- Volatility in price and availability of steel, components and other commodities;
- Potential for disruptions in the financial markets and their impact on the availability and cost of credit;

- Volatile energy and transportation costs;
- Impact of currency exchange rate volatility;
- Consolidation and globalization of OEMs and their suppliers; and

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MERITOR, INC.

- Significant pension costs.

Other

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

- Significant contract awards or losses of existing contracts or failure to negotiate acceptable terms in contract renewals;
- Ability to successfully launch a significant number of new products, including potential product quality issues, and obtain new business;
- Ability to manage possible adverse effects on our European operations, or financing arrangements related thereto, following the United Kingdom's decision to exit the European Union, or in the event one or more other countries exit the European monetary union;
- Ability to further implement planned productivity, cost reduction, and other margin improvement initiatives;
- Ability to successfully execute and implement strategic initiatives;
- Ability to work with our customers to manage rapidly changing production volumes;
- Ability to recover, and timing of recovery of, steel price and other cost increases from our customers;
- Any unplanned extended shutdowns or production interruptions by us, our customers or our suppliers;
- A significant deterioration or slowdown in economic activity in the key markets in which we operate;
- Competitively driven price reductions to our customers;
- Potential price increases from our suppliers;
- Additional restructuring actions and the timing and recognition of restructuring charges, including any actions associated with the prolonged softness in markets in which we operate;
- Higher-than-planned warranty expenses, including the outcome of known or potential recall campaigns;
- Uncertainties of asbestos claim and other legal proceedings, including the outcome of litigation with insurance companies regarding scope of asbestos coverage, and the long-term solvency of our insurance carriers; and
- Restrictive government actions (such as restrictions on transfer of funds and trade protection measures, including import and export duties, quotas and customs duties and tariffs).

NON-GAAP FINANCIAL MEASURES

In addition to the results reported in accordance with accounting principles generally accepted in the United States (“GAAP”), we have provided information regarding non-GAAP financial measures. These non-GAAP financial measures include adjusted income (loss) from continuing operations attributable to the company, adjusted diluted earnings (loss) per share from continuing operations, adjusted EBITDA, adjusted EBITDA margin, segment adjusted EBITDA, segment adjusted EBITDA margin, free cash flow and net debt.

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

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Explanation of Responses:

MERITOR, INC.

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

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

Management uses the aforementioned non-GAAP financial measures for planning and forecasting purposes, and segment adjusted EBITDA is also used as the primary basis for the Chief Operating Decision Maker ("CODM") to evaluate the performance of each of our reportable segments.

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

Adjusted income (loss) from continuing operations attributable to the company, adjusted diluted earnings (loss) per share from continuing operations, adjusted EBITDA, adjusted EBITDA margin, segment adjusted EBITDA and segment adjusted EBITDA margin should not be considered a substitute for the reported results prepared in accordance with GAAP and should not be considered as an alternative to net income as an indicator of our financial performance. Free cash flow should not be considered a substitute for cash provided by (used for) operating activities, or other cash flow statement data prepared in accordance with GAAP, or as a measure of financial position or liquidity. In addition, this non-GAAP cash flow measure does not reflect cash used to repay debt or cash received from the divestitures of businesses or sales of other assets and thus does not reflect funds available for investment or other discretionary uses. Net debt should not be considered a substitute for total debt as reported on the balance sheet. These non-GAAP financial measures, as determined and presented by the company, may not be comparable to related or similarly titled measures reported by other companies. Set forth below are reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with GAAP.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Income from continuing operations attributable to the company	$57	$22	$22	$37
Loss on debt extinguishment	—	—	8	—
Restructuring costs	1	4	3	4
Asset impairment charges, net of noncontrolling interests	2	—	2	2
Non-cash tax expense [1]	9	6	14	11
U.S. tax reform impacts [2]	(1)	—	76	—
Income tax benefits	—	—	(2)	—
Adjusted income from continuing operations attributable to the company	$68	$32	$123	$54
Diluted earnings per share from continuing operations	$0.63	$0.24	$0.24	$0.41
Impact of adjustments on diluted earnings per share	0.12	0.11	1.11	0.19

Adjusted diluted earnings per share from continuing operations	$0.75	$0.35	$1.35	$0.60

MERITOR, INC.

(1) Represents tax expense related to the use of deferred tax assets in jurisdictions with net operating loss carry forwards.
(2) The six months ended March 31, 2018 include $42 million of non-cash tax expense related to the revaluation of our deferred tax assets and liabilities as a result of the U.S. tax reform and $34 million of non-cash tax expense related to the one-time deemed repatriation of accumulated foreign earnings, which has no cash tax impact due to the use of foreign tax credits.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Cash provided by operating activities	$39	$44	$72	$30
Capital expenditures	(17)	(23)	(35)	(40)
Free cash flow	$22	$21	$37	$(10)

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MERITOR, INC.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net income attributable to Meritor, Inc.	$57	$22	$21	$37
Loss from discontinued operations, net of tax, attributable to Meritor, Inc.	—	—	1	—
Income from continuing operations, net of tax, attributable to Meritor, Inc.	$57	$22	$22	$37
Interest expense, net	16	21	40	42
Provision for income taxes	22	13	105	19
Depreciation and amortization	21	20	42	37
Noncontrolling interests	3	1	5	2
Loss on sale of receivables	—	1	2	2
Asset impairment charges	2	—	2	3
Restructuring costs	1	4	3	4
Adjusted EBITDA	$122	$82	$221	$146
Adjusted EBITDA margin [(1)]	11.4 %	10.2%	11.2 %	9.7 %
Unallocated legacy and corporate expense (income), net [(2)]	10	2	12	2
Segment adjusted EBITDA	$132	$84	$233	$148
Commercial Truck & Trailer [(3)]				
Segment adjusted EBITDA	$96	$52	$165	$92
Segment adjusted EBITDA margin [(4)]	11.2 %	8.4 %	10.5 %	8.0 %
Aftermarket & Industrial [(3)]				
Segment adjusted EBITDA	$36	$32	$68	$56
Segment adjusted EBITDA margin [(4)]	14.1 %	14.2%	14.0 %	13.3 %

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

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

(3) Amounts for the three and six months ended March 31, 2017 have been recast to reflect reportable segment changes.

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

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MERITOR, INC.

Net debt is reconciled to total debt and adjusted EBITDA is reconciled to net income attributable to Meritor, Inc. below (dollars in millions).

	March 31, 2018	September 30, 2017
Short-term debt [1]	$ 77	$ 288
Long-term debt	728	750
Total debt	805	1,038
Less: Cash and cash equivalents	(100)	(88)
Net debt	$ 705	$ 950

[1] In the first quarter of fiscal year 2018, we redeemed the remaining $175 million aggregate principal amount outstanding of the 6.75 percent notes due 2021. In the second quarter of fiscal year 2018, the 4.0 percent convertible notes due 2027 were classified as short-term as the securities are redeemable at the option of the holder on February 15, 2019.

	Twelve Months Ended [1] March 31, 2018	Twelve Months Ended September 30, 2017
Net income attributable to Meritor, Inc.	$ 308	$ 324
Loss from discontinued operations, net of tax, attributable to Meritor, Inc.	2	1
Income from continuing operations, net of tax, attributable to Meritor, Inc.	$ 310	$ 325
Interest expense, net	117	119
Gain on sale of equity investment	(243)	(243)
Provision for income taxes	138	52
Depreciation and amortization	80	75
Noncontrolling interests	7	4
Loss on sale of receivables	5	5
Asset impairment charges	3	4
Restructuring costs	5	6
Adjusted EBITDA	$ 422	$ 347
Net debt over adjusted EBITDA	1.7	2.7

[1] Trailing-twelve-month period ended March 31, 2018 is used to measure the company's leverage in order to assist management in its assessment of appropriate allocation of capital as part of our current M2019 plan and is also used to assess management's performance under one of our performance-based compensation plans.

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MERITOR, INC.

Results of Operations

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Sales

The following table reflects total company and business segment sales for the three months ended March 31, 2018 and 2017 (dollars in millions). The reconciliation is intended to reflect the trend in business segment sales and to illustrate the impact that changes in foreign currency exchange rates, volumes and other factors had on sales. Business segment sales include intersegment sales.

	Three Months Ended March 31,				Dollar Change Due To	
	2018	2017 [1]	Dollar Change	% Change	Currency	Volume/ Other
Sales:						
Commercial Truck & Trailer						
North America	$414	$288	$ 126	44 %	$—	$ 126
Europe	198	156	42	27 %	26	16
South America	61	37	24	65 %	(2)	26
China	53	28	25	89 %	5	20
India	61	53	8	15 %	2	6
Other	28	21	7	33 %	1	6
Total External Sales	$815	$583	$ 232	40 %	$32	$ 200
Intersegment Sales	39	35	4	11 %	5	(1)
Total Sales	$854	$618	$ 236	38 %	$37	$ 199
Aftermarket & Industrial						
North America	$217	$198	$ 19	10 %	$1	$ 18
Europe	34	25	9	36 %	5	4
Total External Sales	$251	$223	$ 28	13 %	$6	$ 22
Intersegment Sales	5	3	2	67 %	4	(2)
Total Sales	$256	$226	$ 30	13 %	$10	$ 20
Total External Sales	$1,066	$806	$ 260	32 %	$38	$ 222

[1] Amounts for the three months ended March 31, 2017 have been recast to reflect reportable segment changes.

Commercial Truck & Trailer sales were $854 million in the second quarter of fiscal year 2018, up 38 percent compared to the second quarter of fiscal year 2017. The increase in sales was primarily driven by higher production in all of our major markets. Higher sales in the quarter were also driven by the continued benefits from new business wins, as well as favorable foreign currency.

Aftermarket & Industrial sales were $256 million in the second quarter of fiscal year 2018, up 13 percent compared to the second quarter of fiscal year 2017. The increase in sales was primarily driven by higher sales in our Industrial business, which included sales from the Fabco Holdings, Inc. ("Fabco") business that was acquired in the fourth quarter of fiscal year 2017.

Cost of Sales and Gross Profit

Cost of sales primarily represents materials, labor and overhead production costs associated with the company's products and production facilities. Cost of sales for the three months ended March 31, 2018 was $888 million compared to $685 million in the same period in the prior fiscal year, representing an increase of 30 percent, primarily driven by increased volumes. Total cost of sales was 83.3 and 85.0 percent of sales for the three-month periods ended

March 31, 2018 and 2017, respectively.

The following table summarizes significant factors contributing to the changes in costs of sales during the second quarter of fiscal year 2018 compared to the same quarter in the prior year (in millions):

Explanation of Responses:

MERITOR, INC.

	Cost of Sales
Three Months Ended March 31, 2017	$ 685
Volume, mix and other, net	177
Foreign exchange	26
Three Months Ended March 31, 2018	$ 888

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

	Change in Cost of Sales
Higher material costs	$ 172
Higher labor and overhead costs	40
Other, net	(9)
Total change in costs of sales	$ 203

Material costs represent the majority of our cost of sales and include raw materials, composed primarily of steel and purchased components. Material costs for the three months ended March 31, 2018 increased $172 million compared to the same period in the prior fiscal year primarily due to higher volumes.

Labor and overhead costs increased $40 million compared to the same period in the prior fiscal year primarily due to higher volumes.

Other, net decreased $9 million compared to the same period in the prior fiscal year primarily due to lower retiree medical expense.

Gross margin was $178 million and $121 million for the three-month periods ended March 31, 2018 and 2017, respectively. Gross margin, as a percentage of sales, was 16.7 and 15.0 percent for the three-month periods ended March 31, 2018 and 2017, respectively. Gross margin as a percentage of sales increased due primarily to conversion on higher sales and lower pension and retiree medical expense.

Other Income Statement Items

Selling, general and administrative expenses ("SG&A") for the three months ended March 31, 2018 and 2017 are summarized as follows (dollars in millions):

	Three Months Ended					
	March 31, 2018		March 31, 2017		Increase (Decrease)	
SG&A	Amount	% of sales	Amount	% of sales	Amount	% of sales
Loss on sale of receivables	$—	— %	$(1)	(0.1)%	$(1)	(0.1) pts
Short and long-term variable compensation	(15)	(1.4)%	(9)	(1.1)%	6	0.3 pts
Asbestos-related expense, net of asbestos-related insurance recoveries	(2)	(0.2)%	(2)	(0.2)%	—	0.0 pts
2017 Legal settlement charge	—	— %	(10)	(1.2)%	(10)	(1.2) pts
All other SG&A	(57)	(5.3)%	(44)	(5.6)%	13	(0.3) pts
Total SG&A	$(74)	(6.9)%	$(66)	(8.2)%	$8	(1.3) pts

We recognized $2 million and $5 million related to previous cash settlements with insurance companies for recoveries of defense and indemnity costs associated with asbestos liabilities in the second quarter of fiscal years 2018 and 2017, respectively, which are included in Asbestos-related expense, net of asbestos-related insurance recoveries (see Note 20 of the Notes to the Condensed Consolidated Financial Statements in Part I of this Quarterly Report). In the second quarter of fiscal year 2017, we recognized a $10 million charge for a legal settlement related to a dispute with a joint venture.

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MERITOR, INC.

All other SG&A, which represents normal selling, general and administrative expense, increased year over year, primarily due to investments to support M2019 plan growth initiatives.
Restructuring costs were $1 million in the second quarter of fiscal year 2018, down $3 million from $4 million in the second quarter of fiscal year 2017. During the three months ended March 31, 2017, these costs primarily related to employee severance costs.
Other operating expense, net increased by $9 million from $2 million in the second quarter of fiscal year 2017 to $11 million in the second quarter of fiscal year 2018. During the three months ended March 31, 2018 and March 31, 2017, these costs primarily related to environmental remediation.
Operating income increased by $43 million from $49 million in the second quarter of fiscal year 2017 to $92 million in the same period in fiscal year 2018. Key items affecting operating income are discussed above.
Equity in earnings of affiliates decreased by $2 million from $8 million in the second quarter of fiscal year 2017 to $6 million in the same period in fiscal year 2018. In the fourth quarter of fiscal year 2017, we sold our interest in Meritor WABCO Vehicle Control Systems ("Meritor WABCO") to a subsidiary of our joint venture partner, WABCO Holdings Inc. The decrease in equity in earnings of affiliates was primarily driven by Meritor WABCO earnings that were included in fiscal year 2017 results but not in fiscal year 2018. This decrease was partially offset by improved earnings in our remaining joint ventures.
Interest expense, net decreased by $5 million from $21 million in the second quarter of fiscal year 2017 to $16 million in the same period in fiscal year 2018. Interest expense related to fixed-rate debt decreased approximately $5 million as a result of capital market transactions completed in the fourth quarter of fiscal year 2017 and the first quarter of fiscal year 2018, which lowered our total average debt balance and associated weighted average interest rate.
Provision for income taxes was $22 million in the second quarter of fiscal year 2018 compared to $13 million in the same period in the prior fiscal year. The increase in tax expense primarily relates to stronger earnings in certain jurisdictions that do not have a tax valuation allowance.
Income from continuing operations (before noncontrolling interests) was $60 million in the second quarter of fiscal year 2018 compared to $23 million in the second quarter of fiscal year 2017. The reasons for the increase are discussed above.
Loss from discontinued operations, net of tax was an insignificant amount in the second quarter of fiscal years 2018 and 2017.
Net income attributable to Meritor, Inc. was $57 million in the second quarter of fiscal year 2018 compared to $22 million in the second quarter of fiscal year 2017. The various factors affecting net income are discussed above.

Segment Adjusted EBITDA and Segment Adjusted EBITDA Margins
Segment adjusted EBITDA is defined as income (loss) from continuing operations before interest expense, income taxes, depreciation and amortization, noncontrolling interests in consolidated joint ventures, loss on sale of receivables, restructuring expense, asset impairment charges and other special items as determined by management. Segment adjusted EBITDA excludes unallocated legacy and corporate expense (income), net. We use segment adjusted EBITDA as the primary basis for the CODM to evaluate the performance of each of our reportable segments. Segment adjusted EBITDA margin is defined as segment adjusted EBITDA divided by consolidated sales from continuing operations, either in the aggregate or by segment, as applicable. Segment adjusted EBITDA and segment adjusted EBITDA margin are non-GAAP measures (see Non-GAAP Financial Measures above).

The following table reflects segment adjusted EBITDA and segment adjusted EBITDA margins for the three months ended March 31, 2018 and 2017 (dollars in millions).

	Segment adjusted EBITDA	Segment adjusted EBITDA margins
	Three Months Ended March 31,	Three Months Ended March 31,

	2018	2017 (1)	Change	2018	2017 (1)	Change
Commercial Truck & Trailer	$96	$ 52	$ 44	11.2%	8.4 %	2.8 pts
Aftermarket & Industrial	36	32	4	14.1%	14.2%	(0.1) pts
Segment adjusted EBITDA	$132	$ 84	$ 48	12.4%	10.4%	2.0 pts

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MERITOR, INC.

(1) Amounts for the three months ended March 31, 2017 have been recast to reflect reportable segment changes.

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

	Commercial Truck & Trailer	Aftermarket & Industrial	TOTAL
Segment adjusted EBITDA– Quarter ended March 31, 2017[1]	$ 52	$ 32	$ 84
Lower earnings from unconsolidated affiliates	(2)	—	(2)
Higher short-and long-term variable compensation	(6)	(2)	(8)
Lower pension and retiree medical expense, net	4	7	11
Impact of foreign currency exchange rates	3	—	3
2017 Legal settlement charge	10	—	10
Volume, mix, pricing and other	35	(1)	34
Segment adjusted EBITDA – Quarter ended March 31, 2018	$ 96	$ 36	$ 132

(1) Amounts for the three months ended March 31, 2017 have been recast to reflect reportable segment changes.

Commercial Truck & Trailer segment adjusted EBITDA was $96 million in the second quarter of fiscal year 2018, up $44 million from the same period in the prior fiscal year. Segment adjusted EBITDA margin increased to 11.2 percent compared to 8.4 percent in the same period in the prior fiscal year. The increases in both segment adjusted EBITDA and segment adjusted EBITDA margin were driven primarily by conversion on higher revenue, a one-time legal charge related to a dispute with a joint venture in the prior year that did not repeat and the favorable impact of changes to retiree medical benefits, partially offset by higher variable compensation and lower affiliate earnings arising from the sale of our interest in the Meritor WABCO joint venture in the previous year.

Aftermarket & Industrial segment adjusted EBITDA was $36 million in the second quarter of fiscal year 2018, up $4 million from the same period in the prior fiscal year. Segment adjusted EBITDA margin decreased to 14.1 percent compared to 14.2 percent in the second quarter of fiscal year 2017. The increase in segment Adjusted EBITDA was driven primarily by the favorable impact of changes to retiree medical benefits; however, segment Adjusted EBITDA margin decreased due to higher material and freight costs as well as higher allocated variable compensation accruals.

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MERITOR, INC.

Six Months Ended March 31, 2018 Compared to Six Months Ended March 31, 2017

Sales

The following table reflects total company and business segment sales for the six months ended March 31, 2018 and 2017 (dollars in millions). The reconciliation is intended to reflect the trend in business segment sales and to illustrate the impact that changes in foreign currency exchange rates, volumes and other factors had on sales. Business segment sales include intersegment sales.

	Six Months Ended March 31,				Dollar Change Due To	
	2018	2017 (1)	Dollar Change	% Change	Currency	Volume/ Other
Sales:						
Commercial Truck & Trailer						
North America	$749	$544	$ 205	38 %	$—	$ 205
Europe	371	289	82	28 %	41	41
South America	107	67	40	60 %	(1)	41
China	96	52	44	85 %	7	37
India	114	95	19	20 %	4	15
Other	56	43	13	30 %	1	12
Total External Sales	$1,493	$1,090	$ 403	37 %	$52	$ 351
Intersegment Sales	74	65	9	14 %	8	1
Total Sales	$1,567	$1,155	$ 412	36 %	$60	$ 352
Aftermarket & Industrial						
North America	$415	$368	$ 47	13 %	$1	$ 46
Europe	61	47	14	30 %	7	7
Total External Sales	$476	$415	$ 61	15 %	$8	$ 53
Intersegment Sales	9	7	2	29 %	6	(4)
Total Sales	$485	$422	$ 63	15 %	$14	$ 49
Total External Sales	$1,969	$1,505	$ 464	31 %	$60	$ 404

(1) Amounts for the six months ended March 31, 2017 have been recast to reflect reportable segment changes.

Commercial Truck & Trailer sales were $1,567 million in the first six months of fiscal year 2018, up 36 percent compared to the first six months of fiscal year 2017. The increase in sales was primarily driven by higher production in all of our major markets. Higher sales were also driven by the continued benefits from new business wins and increased market share, as well as favorable foreign currency.

Aftermarket & Industrial sales were $485 million in the first six months of fiscal year 2018, up 15 percent compared to the first six months of fiscal year 2017. The increase in sales was primarily driven by higher sales in our Industrial business which included sales from the Fabco business that was acquired in the fourth quarter of fiscal year 2017.

Cost of Sales and Gross Profit

Cost of sales primarily represents materials, labor and overhead production costs associated with the company's products and production facilities. Cost of sales for the six months ended March 31, 2018 was $1,651 million compared to $1,295 million in the same period in the prior fiscal year, representing an increase of 27 percent, primarily driven by increased volumes. Total cost of sales was 83.8 and 86.0 percent of sales for the six-month periods ended March 31, 2018 and 2017, respectively.

The following table summarizes significant factors contributing to the changes in costs of sales during the first six months of fiscal year 2018 compared to the same period in the prior year (in millions):

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MERITOR, INC.

	Cost of Sales
Six Months Ended March 31, 2017	$1,295
Volume, mix and other, net	313
Foreign exchange	43
Six Months Ended March 31, 2018	$1,651

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

	Change in Cost of Sales
Higher material costs	$ 296
Higher labor and overhead costs	78
Other, net	(18)
Total change in costs of sales	$ 356

Material costs represent the majority of our cost of sales and include raw materials, composed primarily of steel and purchased components. Material costs for the six months ended March 31, 2018 increased $296 million compared to the same period in the prior fiscal year primarily due to higher volumes.

Labor and overhead costs increased $78 million compared to the same period in the prior fiscal year primarily due to higher volumes.

Other, net decreased $18 million compared to the same period in the prior fiscal year primarily due to lower retiree medical expense.

Gross margin was $318 million and $210 million for the six-month periods ended March 31, 2018 and 2017, respectively. Gross margin, as a percentage of sales, was 16.2 and 14.0 percent for the six-month periods ended March 31, 2018 and 2017, respectively. Gross margin as a percentage of sales increased due primarily to conversion on higher sales and lower pension and retiree medical expense.

Other Income Statement Items

SG&A for the six months ended March 31, 2018 and 2017 are summarized as follows (dollars in millions):

	Six Months Ended					
	March 31, 2018		March 31, 2017		Increase (Decrease)	
SG&A	Amount	% of sales	Amount	% of sales	Amount	% of sales
Loss on sale of receivables	$(2)	(0.1)%	$(2)	(0.1)%	$—	0.0 pts
Short and long-term variable compensation	(27)	(1.4)%	(17)	(1.1)%	10	0.3 pts
Asbestos-related expense, net of asbestos-related insurance recoveries	(4)	(0.2)%	(1)	(0.1)%	3	0.1 pts
2017 Legal settlement charge	—	— %	(10)	(0.7)%	(10)	(0.7) pts
All other SG&A	(108)	(5.5)%	(89)	(5.9)%	19	(0.4) pts
Total SG&A	$(141)	(7.2)%	$(119)	(7.9)%	$22	(0.7) pts

We recognized $4 million and $11 million related to previous cash settlements with insurance companies for recoveries of defense and indemnity costs associated with asbestos liabilities in the first six months of fiscal years 2018 and 2017, respectively, which are included in Asbestos-related expense, net of asbestos-related insurance recoveries (see Note 20 of the Notes to the Condensed Consolidated Financial Statements in Part I of this Quarterly Report). In the second quarter of fiscal year 2017, we recognized a $10 million charge for a legal settlement related to a dispute with a joint venture.

All other SG&A, which represents normal selling, general and administrative expense, increased year over year, primarily due to investments to support M2019 plan growth initiatives.

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MERITOR, INC.

Restructuring costs decreased by $1 million from $4 million in the first six months of fiscal year 2017 to $3 million in the same period in fiscal year 2018. During the six months ended March 31, 2018 and March 31, 2017, these costs primarily related to employee severance costs.

Other operating expense, net increased by $7 million from $5 million in the first six months of fiscal year 2017 to $12 million in the first six months of 2018. During the first six months ended March 31, 2018, these costs primarily related to environmental remediation. During the first six months ended March 31, 2017, we recognized an asset impairment of $3 million related to a business classified as held for sale, and we incurred $2 million of environmental remediation costs.

Operating income increased by $80 million from $82 million in the first six months of fiscal year 2017 to $162 million in the same period in fiscal year 2018. Key items affecting operating income are discussed above.

Equity in earnings of affiliates decreased by $7 million from $18 million in the first six months of fiscal year 2017 to $11 million in the same period in fiscal year 2018. The decrease in equity in earnings of affiliates was primarily driven by Meritor WABCO earnings that were included in fiscal year 2017 results but not in fiscal year 2018. This decrease was partially offset by improved earnings in our remaining joint ventures.

Interest expense, net decreased by $2 million from $42 million in the first six months of fiscal year 2017 to $40 million in the same period in fiscal year 2018. In the first six months of fiscal year 2018, we recognized an approximately $8 million loss on debt extinguishment, which is included in Interest expense, net, related to the redemption of our 6.75 percent notes due 2021 (the "6.75 Percent Notes"). Interest expense related to fixed-rate debt decreased approximately $10 million as a result of capital markets transactions completed in the fourth quarter of fiscal year 2017 and the first quarter of fiscal year 2018, which lowered our total average debt balance and associated weighted average interest rate.

Provision for income taxes was $105 million in the first six months of fiscal year 2018 compared to $19 million in the same period in the prior fiscal year. The six months ended March 31, 2018 include $42 million of non-cash tax expense related to the revaluation of our deferred tax assets and liabilities as a result of the U.S. tax reform and $34 million of non-cash tax expense related to the one-time deemed repatriation of accumulated foreign earnings, which has no cash impact due to the use of foreign tax credits. Also, a tax planning strategy was implemented that resulted in a $4 million tax benefit from the reversal of a tax valuation allowance in Sweden.

Income from continuing operations (before noncontrolling interests) was $27 million in the first six months of fiscal year 2018 compared to $39 million in the same period in fiscal year 2017. The reasons for the decrease are discussed above.

Loss from discontinued operations, net of tax was $1 million in the first six months of fiscal year 2018 and an insignificant amount in the same period in fiscal year 2017.

Net income attributable to Meritor, Inc. was $21 million in the first six months of fiscal year 2018 compared to $37 million in the same period in fiscal year 2017. The various factors affecting net income are discussed above.

Segment Adjusted EBITDA and Segment Adjusted EBITDA Margins

The following table reflects segment adjusted EBITDA and segment adjusted EBITDA margins for the six months ended March 31, 2018 and 2017 (dollars in millions).

	Segment adjusted EBITDA Six Months Ended March 31,			Segment adjusted EBITDA margins Six Months Ended March 31,		
	2018	2017 (1)	Change	2018	2017 (1)	Change
Commercial Truck & Trailer	$165	$92	$ 73	10.5%	8.0 %	2.5 pts
Aftermarket & Industrial	68	56	12	14.0%	13.3%	0.7 pts
Segment adjusted EBITDA	$233	$148	$ 85	11.8%	9.8 %	2.0 pts

(1) Amounts for the six months ended March 31, 2017 have been recast to reflect reportable segment changes.

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MERITOR, INC.

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

	Commercial Truck & Trailer	Aftermarket & Industrial	TOTAL
Segment adjusted EBITDA– Six months ended March 31, 2017[1]	$ 92	$ 56	$ 148
Lower earnings from unconsolidated affiliates	(7)	—	(7)
Higher short-and long-term variable compensation	(9)	(3)	(12)
Lower pension and retiree medical expense, net	8	14	22
Impact of foreign currency exchange rates	6	—	6
2017 Legal settlement charge	10	—	10
Volume, mix, pricing and other	65	1	66
Segment adjusted EBITDA – Six months ended March 31, 2018	$ 165	$ 68	$ 233

(1) Amounts for the six months ended March 31, 2017 have been recast to reflect reportable segment changes.

Commercial Truck & Trailer segment adjusted EBITDA was $165 million in the first six months of fiscal year 2018, up $73 million from the same period in the prior fiscal year. Segment adjusted EBITDA margin increased to 10.5 percent compared to 8.0 percent in the same period in the prior fiscal year. The increases in both segment adjusted EBITDA and segment adjusted EBITDA margin were driven primarily by conversion on higher revenue, a one-time legal charge related to a dispute with a joint venture in the prior year that did not repeat and the favorable impact of changes to retiree medical benefits, partially offset by higher variable compensation and lower affiliate earnings arising from the sale of our interest in the Meritor WABCO joint venture in the previous year.

Aftermarket & Industrial segment adjusted EBITDA was $68 million in the first six months of fiscal year 2018, up $12 million from the same period in the prior fiscal year. Segment adjusted EBITDA margin increased to 14.0 percent compared to 13.3 percent in the first six months of fiscal year 2017. The increases in both segment adjusted EBITDA and segment adjusted EBITDA margin were driven by conversion on higher revenue and the favorable impact of changes to retiree medical benefits partially offset by higher material and freight costs.

Financial Condition

Cash Flows (in millions)

	Six Months Ended March 31, 2018	2017
OPERATING CASH FLOWS		
Income from continuing operations	$27	$39
Depreciation and amortization	42	37
Deferred income tax expense	84	12
Loss on debt extinguishment	8	—
Restructuring costs	3	4
Asset impairment charges	2	3
Equity in earnings of affiliates	(11)	(18)
Pension and retiree medical expense (income)	(16)	7
Dividends received from equity method investments	6	13
Pension and retiree medical contributions	(14)	(19)
Restructuring payments	(4)	(7)
Increase in working capital	(79)	(30)
Changes in off-balance sheet accounts receivable factoring	19	19
Other, net	5	(30)
Cash flows provided by continuing operations	72	30

Cash flows used for discontinued operations	—	—
CASH PROVIDED BY OPERATING ACTIVITIES	$72	$30

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Cash provided by operating activities in the first six months of fiscal year 2018 was $72 million compared to $30 million in the same period of fiscal year 2017. The increase in cash provided by operating activities was primarily driven by conversion on higher sales year over year.

	Six Months Ended March 31, 2018	2017
INVESTING CASH FLOWS		
Capital expenditures	$(35)	$(40)
Proceeds from prior year sale of equity method investment	250	—
Proceeds from sale of a business	4	—
Cash paid for investment in Transportation Power, Inc.	(3)	—
Net investing cash flows provided by discontinued operations	—	2
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	$216	$(38)

Cash provided by investing activities was $216 million in the first six months of fiscal year 2018 compared to cash used for investing activities of $38 million in the same period in fiscal year 2017. The increase in cash provided by investing activities was driven by $250 million of proceeds received in the first quarter of fiscal year 2018, from the sale of our interest in Meritor WABCO in the fourth quarter of fiscal year 2017.

	Six Months Ended March 31, 2018	2017
FINANCING CASH FLOWS		
Borrowings and securitization	$(60)	$—
Redemption of notes	(181)	—
Debt issuance costs	—	(4)
Other financing activities	(2)	(11)
Net change in debt	(243)	(15)
Repurchase of common stock	(33)	—
CASH USED FOR FINANCING ACTIVITIES	$(276)	$(15)

Cash used for financing activities was $276 million in the first six months of fiscal year 2018 compared to $15 million in the same period of fiscal year 2017. The increase in cash used for financing activities is primarily related to the redemption of the 6.75 Percent Notes in the first quarter of fiscal year 2018. We utilized $185 million to redeem $175 million principal amount of our 6.75 Percent Notes (see Note 17 of the Notes to the Condensed Consolidated Financial Statements in Part I of this Quarterly Report). The increase in cash used for financing activities was also driven by a reduction in outstanding borrowings against our securitization facility in the current year and the repurchase of 1.4 million shares of common stock for $33 million (including commission costs) pursuant to the July 2016 equity repurchase authorization (see Note 21 of the Notes to the Condensed Consolidated Financial Statements in Part I of this Quarterly Report).

Liquidity

Our outstanding debt, net of discounts and unamortized debt issuance costs, where applicable, is summarized in the table below (in millions).

	March 31, 2018	September 30, 2017
Fixed-rate debt securities	$444	$ 616
Fixed-rate convertible notes	364	363
Unamortized discount on convertible notes	(41)	(42)

Other borrowings	38	101
Total debt	$805	$ 1,038

Explanation of Responses:

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

We generally fund our operating and capital needs with cash on hand, cash flows from operations, our various accounts receivable securitization and factoring arrangements and availability under our revolving credit facility. Cash in excess of local operating needs is generally used to reduce amounts outstanding, if any, under our revolving credit facility or U.S. accounts receivable securitization program. Our ability to access additional capital in the long term will depend on availability of capital markets and pricing on commercially reasonable terms, as well as our credit profile at the time we are seeking funds. We continuously evaluate our capital structure to ensure the most appropriate and optimal structure and may, from time to time, retire, repurchase, exchange or redeem outstanding indebtedness or common equity, issue new equity or debt securities or enter into new lending arrangements if conditions warrant.
In December 2017, we filed a shelf registration statement with the Securities and Exchange Commission ("SEC"), registering an indeterminate amount of debt and/or equity securities that we may offer in one or more offerings on terms to be determined at the time of sale.

We believe our current financing arrangements provide us with the financial flexibility required to maintain our operations and fund future growth, including actions required to improve our market share and further diversify our global operations, through the term of our revolving credit facility, which matures in March 2022.

Sources of liquidity as of March 31, 2018, in addition to cash on hand, are as follows (in millions):

	Total Facility Size	Utilized as of 3/31/18	Readily Available as of 3/31/18	Current Expiration
On-balance sheet arrangements:				
Revolving credit facility (1)	$ 525	$ —	$ 525	March 2022 (1)
Committed U.S. accounts receivable securitization (2)	100	29	70	December 2020
Total on-balance sheet arrangements	$ 625	$ 29	$ 595	
Off-balance sheet arrangements: (2)				
Committed Swedish factoring facility (3)	$ 191	$ 175	$ —	March 2020
Committed U.S. factoring facility	98	44	—	February 2019
Uncommitted U.K. factoring facility	31	10	—	February 2022
Uncommitted Italy factoring facility	37	34	—	June 2022
Other uncommitted factoring facilities	31	16	—	None
Letter of credit facility	25	16	9	March 2019
Total off-balance sheet arrangements	413	295	9	
Total available sources	$ 1,038	$ 324	$ 604	

(1)The availability under the revolving credit facility is subject to a collateral test and a priority debt-to-EBITDA ratio covenant.
(2)Availability subject to adequate eligible accounts receivable available for sale.
(3)Actual amounts may exceed the bank's commitment at the bank's discretion.

Cash and Liquidity Needs – Our cash and liquidity needs have been affected by the level, variability and timing of our customers' worldwide vehicle production and other factors outside of our control. At March 31, 2018, we had $109 million in cash and cash equivalents.
At March 31, 2018, we had approximately $17 million of our cash and cash equivalents held in jurisdictions outside of the U.S. that, if repatriated, could result in local withholding taxes. It is our intent to reinvest those cash balances in our foreign operations, and we will continue to meet our liquidity needs in the U.S. through ongoing cash flows from operations in the U.S., external borrowings or both.

Our availability under the revolving credit facility is subject to a collateral test and a priority debt-to-EBITDA ratio covenant, as defined in the credit agreement, which may limit our borrowings under such agreement as of each quarter end. As long as we are in compliance with those covenants as of the quarter end, we have full availability (up to the amount of collateral under the

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collateral test) under the revolving credit facility every other day during the quarter. Our future liquidity is subject to a number of factors, including access to adequate funding under our revolving credit facility, access to other borrowing arrangements such as factoring or securitization facilities, vehicle production schedules and customer demand. Even taking into account these and other factors, management expects to have sufficient liquidity to fund our operating requirements through the term of our revolving credit facility. At March 31, 2018, we were in compliance with all covenants under our credit agreement.

Equity Repurchase Authorization – On July 21, 2016, our Board of Directors authorized the repurchase of up to $100 million of our common stock from time to time through open market purchases, privately negotiated transactions or otherwise, until September 30, 2019, subject to compliance with legal and regulatory requirements and our debt covenants. During the second quarter of fiscal year 2018, we repurchased 1.4 million shares of common stock for $33 million (including commission costs) pursuant to this authorization. The amount remaining available for repurchases under this authorization was $67 million as of March 31, 2018.

Debt Repurchase Authorization – On July 21, 2016, our Board of Directors authorized the repurchase of up to $150 million aggregate principal amount of any of our debt securities (including convertible debt securities) from time to time through open market purchases, privately negotiated transactions or otherwise, until September 30, 2019, subject to compliance with legal and regulatory requirements and our debt covenants. The amount remaining available for repurchases under this authorization was $50 million as of March 31, 2018.

Redemption of 6.75 Percent Notes - On September 28, 2017, we redeemed $100 million of the outstanding $275 million aggregate principal amount of our 6.75 Percent Notes at a price of $1,033.75 per $1,000 of principal amount, plus accrued and unpaid interest. As a result, a loss on debt extinguishment of $5 million was recorded in the consolidated statement of operations within Interest expense, net during fiscal year 2017. The redemption was made pursuant to the July 2016 debt repurchase authorization (see Note 21 of the Notes to Consolidated Financial Statements).

On November 2, 2017, we redeemed the remaining $175 million aggregate principal amount outstanding of the 6.75 Percent Notes at a price of $1,033.75 per $1,000 of principal amount, plus accrued and unpaid interest. As a result, a loss on debt extinguishment of $8 million was recorded in the consolidated statement of operations within Interest expense, net. The redemption was made pursuant to a special authorization from the Board of Directors in connection with the sale of our interest in Meritor WABCO.

Revolving Credit Facility – On March 31, 2017, we amended and restated our revolving credit facility. Pursuant to the revolving credit agreement, as amended, we have a $525 million revolving credit facility that matures in March 2022. Additionally, $4 million was capitalized as deferred issuance costs and will be amortized over the term of the agreement. The availability under 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 our priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. accounts receivable securitization and factoring programs, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. We are required to maintain a total priority debt-to-EBITDA ratio, as defined in the agreement, of 2.25 to 1.00 or less as of the last day of each fiscal quarter throughout the term of the agreement. At March 31, 2018, we were in compliance with all covenants under the revolving credit facility with a ratio of approximately 0.20x for the priority debt-to-EBITDA ratio covenant.

The availability under the revolving credit facility is also subject to a collateral test, pursuant to which borrowings on the revolving credit facility cannot exceed 1.0x the collateral test value. The collateral test is performed on a quarterly basis. At March 31, 2018, the revolving credit facility was collateralized by approximately $808 million of our assets, primarily consisting of eligible domestic U.S. accounts receivable, inventory, plant, property and equipment, intellectual property and our investment in all or a portion of certain of our wholly-owned subsidiaries.

Borrowings under the revolving credit facility are subject to interest based on quoted LIBOR rates plus a margin and a commitment fee on undrawn amounts, both of which are based upon our current corporate credit rating. At March 31, 2018, the margin over LIBOR rate was 275 basis points and the commitment fee was 37.5 basis points. Overnight revolving credit loans are at the prime rate plus a margin of 175 basis points.

Certain of our subsidiaries, as defined in the revolving credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the publicly-held notes outstanding under our indentures (see Note 23 of the Notes to the Condensed Consolidated Financial Statements in Part I of this Quarterly Report).

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No borrowings were outstanding under the revolving credit facility at March 31, 2018 and September 30, 2017. The amended and extended revolving credit facility includes $100 million of availability for the issuance of letters of credit. At March 31, 2018 and September 30, 2017, there were no letters of credit outstanding under the revolving credit facility.

U.S. Securitization Program – We have a $100 million U.S. accounts receivables securitization facility. On December 5, 2017, we entered into an amendment that extended the facility expiration date to December 2020. The maximum permitted priority debt-to-EBITDA ratio as of the last day of each fiscal quarter under the facility is 2.25 to 1.00. This program is provided by PNC Bank, National Association, as Administrator and Purchaser, and the other Purchasers and Purchaser Agents from time to time (participating lenders), which are party to the agreement. Under this program, we have the ability to sell an undivided percentage ownership interest in substantially all of our trade receivables (excluding the receivables due from AB Volvo and subsidiaries eligible for sale under the U.S. accounts receivable factoring facility) of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation ("ARC"), a wholly-owned, special purpose subsidiary. ARC funds these purchases with borrowings from participating lenders under a loan agreement. This program also includes a letter of credit facility pursuant to which ARC may request the issuance of letters of credit issued for our U.S. subsidiaries (originators) or their designees, which when issued will constitute a utilization of the facility for the amount of letters of credit issued. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the condensed consolidated balance sheet. At March 31, 2018 and September 30, 2017, $29 million and $89 million, respectively, were outstanding under this program. At March 31, 2018, $1 million was outstanding for letters of credit under this program. At September 30, 2017, no amounts were outstanding for letters of credit. This securitization program contains a cross default to our revolving credit facility. At March 31, 2018, we were in compliance with all covenants under our credit agreement (see Note 17 of the Notes to the Condensed Consolidated Financial Statements in Part I of this Quarterly Report). At certain times during any given month, we may sell eligible accounts receivable under this program to fund intra-month working capital needs. In such months, we would then typically utilize the cash received from our customers throughout the month to repay the borrowings under the program. Accordingly, during any given month, we may borrow under this program in amounts exceeding the amounts shown as outstanding at fiscal quarter ends.

Capital Leases – In March 2012, we entered into a master lease agreement with Wells Fargo Equipment Finance, under which we can enter into lease arrangements for equipment. Each lease term is 60 months and the lease interest rate is equal to the 5-year Swap Rate published by the Federal Reserve Board plus 564 basis points. We had $2 million and $3 million outstanding under this capital lease arrangement as of March 31, 2018 and September 30, 2017, respectively. In addition, we had another $7 million and $10 million outstanding through other capital lease arrangements at March 31, 2018 and September 30, 2017, respectively.

Export financing arrangements – Our export financing arrangements were entered into through our Brazilian subsidiary pursuant to an incentive program of the Brazilian government to fund working capital for Brazilian companies in exportation programs. The arrangements bore interest at 5.5 percent and had maturity dates in 2017. These financing arrangements were paid off at maturity, as of March 31, 2017.

Other – One of our consolidated joint ventures in China participates in a bills of exchange program to settle its obligations with its trade suppliers. These programs are common in China and generally require the participation of local banks. Under these programs, our joint venture issues notes payable through the participating banks to its trade suppliers. If the issued notes payable remain unpaid on their respective due dates, this could constitute an event of default under our revolving credit facility if the defaulted amount exceeds $35 million per bank. As of March 31, 2018 and September 30, 2017, we had $19 million and $24 million, respectively, outstanding under this program at more than one bank.

Credit Ratings – At May 2, 2018, our Standard & Poor’s corporate credit rating and senior unsecured credit rating were BB and BB-, respectively, and our Moody’s Investors Service corporate credit rating and senior unsecured credit rating were B1 and B2, respectively. Any lowering of our credit ratings could increase our cost of future borrowings and could reduce our access to capital markets and result in lower trading prices for our securities.

Off-Balance Sheet Arrangements

Accounts Receivable Factoring Arrangements – We participate in accounts receivable factoring programs with a total amount utilized at March 31, 2018 of $279 million, of which $219 million was attributable to committed factoring facilities involving the sale of AB Volvo accounts receivables. The remaining amount of $60 million was related to factoring by certain of our European subsidiaries under uncommitted factoring facilities with financial institutions. The receivables under all of these programs are sold at face value and are excluded from the consolidated balance sheet. Total facility size, utilized amounts, readily available amounts and expiration dates for each of these programs are shown in the table above under Liquidity.

The Swedish facility is backed by a 364-day liquidity commitment from Nordea Bank, which was renewed through February 12, 2019. Commitments under all of our factoring facilities are subject to standard terms and conditions for these types of arrangements (including, in the case of the U.K. and Italy commitments, a sole discretion clause whereby the bank retains the right to not purchase receivables, which has not been invoked since the inception of the respective programs).

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Letter of Credit Facilities – On February 21, 2014, we amended and restated our letter of credit facility with Citicorp USA, Inc., as administrative agent and issuing bank, and the other lenders party thereto. Under the terms of this amended credit agreement, which expires in March 2019, we have the right to obtain the issuance, renewal, extension and increase of letters of credit up to an aggregate availability of $25 million. This facility contains covenants and events of default generally similar to those existing in our public debt indentures. We had $16 million and $18 million of letters of credit outstanding under this facility at March 31, 2018 and September 30, 2017, respectively. In addition, we had another $6 million and $5 million of letters of credit outstanding through other letter of credit facilities at March 31, 2018 and September 30, 2017, respectively.

Contingencies

Contingencies related to environmental, asbestos and other matters are discussed in Note 20 of the Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report.

Critical Accounting Policies

Our significant accounting policies are consistent with those described in Note 2 to our consolidated financial statements in Item 8 of our 2017 Form 10-K. Our critical accounting estimates are consistent with those described in Item 7 of our 2017 Form 10-K.

New Accounting Pronouncements

New Accounting Pronouncements are discussed in Note 3 of the Notes to Condensed Consolidated Financial Statements in Item 1. Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain global market risks, including foreign currency exchange risk and interest rate risk associated with our debt.

As a result of our substantial international operations, we are exposed to foreign currency risks that arise from our normal business operations, including in connection with our transactions that are denominated in foreign currencies. In addition, we translate sales and financial results denominated in foreign currencies into U.S. dollars for purposes of our consolidated financial statements. As a result, appreciation of the U.S. dollar against these foreign currencies generally will have a negative impact on our reported revenues and operating income while depreciation of the U.S. dollar against these foreign currencies will generally have a positive effect on reported revenues and operating income.

We use foreign currency forward contracts to minimize the earnings exposures arising from foreign currency exchange risk on foreign currency purchases and sales. Gains and losses on the underlying foreign currency exposures are partially offset with gains and losses on the foreign currency forward contracts. Under this cash flow hedging program, we designate the foreign currency contracts (the “contracts”) as cash flow hedges of underlying foreign currency forecasted purchases and sales. The effective portion of changes in the fair value of the contracts is recorded in Accumulated other comprehensive loss (“AOCL”) in the statement of shareholders' equity and is recognized in operating income when the underlying forecasted transaction impacts earnings. The contracts generally mature within 18 months or less.

We use foreign currency option contracts to mitigate foreign currency exposure on expected future Indian Rupee-denominated purchases. In the second quarter of fiscal year 2015, we monetized our outstanding foreign currency option contracts and entered into a new series of foreign currency option contracts with effective dates from the start of the third quarter of fiscal year 2015 through the end of fiscal year 2017. In the fourth quarter of fiscal year 2016, we entered into a new series of foreign currency option contracts with effective dates from the start of the first quarter of fiscal year 2017 through the end of fiscal year 2018. In the third quarter of fiscal year 2017, we monetized our outstanding foreign currency option contracts and in the third and fourth quarters of fiscal year 2017, entered into a new series of foreign currency option contracts with maturity dates in fiscal year 2018 and fiscal year 2019. Changes in fair value associated with these contracts are recorded in cost of sales in the consolidated statements of operations.

We use foreign currency option contracts to mitigate foreign currency exposure on expected future South Korean won-denominated purchases. In the first quarter of fiscal year 2018, we entered into a new series of foreign currency option contracts with effective dates from the start of the third quarter of fiscal year 2018 through the end of fiscal year 2018. Changes in fair value associated with these contracts are recorded in cost of sales in the consolidated statements of operations.

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

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2018. Changes in fair value associated with these contracts were recorded in other income, net, in the consolidated statements of operations.
In the fourth quarter of fiscal year 2015 and the first quarter of fiscal year 2016, due to the risk of volatility of the Swedish krona as compared to the U.S. dollar, we entered into a series of foreign currency option contracts that did not qualify for hedge accounting but were expected to mitigate foreign currency translation exposure of Swedish krona earnings to U.S. dollars. In the fourth quarter of fiscal year 2017, we entered into a new series of foreign currency option contracts with maturity dates in fiscal year 2018. Changes in fair value associated with these contracts were recorded in other income, net, in the consolidated statement of operations.
Interest rate risk relates to the gain/increase or loss/decrease we could incur on our debt balances and interest expense associated with changes in interest rates. To manage this risk, we may enter into interest rate swaps from time to time to economically convert portions of our fixed-rate debt into floating rate exposure, ensuring that the sensitivity of the economic value of debt falls within our corporate risk tolerances. It is our policy not to enter into derivative instruments for speculative purposes, and therefore, we hold no derivative instruments for trading purposes.
Included below is a sensitivity analysis to measure the potential gain (loss) in the fair value of financial instruments with exposure to market risk (in millions). The model assumes a 10% hypothetical change (increase or decrease) in exchange rates and instantaneous, parallel shifts of 50 basis points in interest rates.

Market Risk

	Assuming a 10% Increase in Rates	Assuming a 10% Decrease in Rates	Increase (Decrease) in
Foreign Currency Sensitivity:			
Forward contracts in USD (1)	$ 2.4	$ (2.4)	Fair Value
Forward contracts in Euro (1)	(3.2)	3.2	Fair Value
Foreign currency denominated debt (2)	0.6	(0.6)	Fair Value
Foreign currency option contracts in USD	3.4	3.1	Fair Value
Foreign currency option contracts in Euro	—	1.3	Fair Value

	Assuming a 50 BPS Increase in Rates	Assuming a 50 BPS Decrease in Rates	Increase (Decrease) in
Interest Rate Sensitivity:			
Debt – fixed rate (3)	$ (35.9)	$ 38.4	Fair Value
Debt – variable rate	(0.1)	0.1	Cash flow
Interest rate swaps	—	—	Fair Value

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

(2)At March 31, 2018, the fair value of outstanding foreign currency denominated debt was $6 million. A 10% decrease in quoted currency exchange rates would result in a decrease of $1 million in foreign currency denominated debt. At March 31, 2018, a 10% increase in quoted currency exchange rates would result in an increase of $1 million in foreign currency denominated debt.

(3) At March 31, 2018, the fair value of outstanding debt was $899 million. A 50 basis points decrease in quoted interest rates would result in an increase of $38.4 million in the fair value of fixed rate debt. A 50 basis points increase in quoted interest rates would result in a decrease of $35.9 million in the fair value of fixed rate debt.

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Item 4. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the “Exchange Act”), management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2018. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of March 31, 2018, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and to ensure that information required to be disclosed by us in the reports we file or submit is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the company’s internal control over financial reporting that occurred during the quarter ended March 31, 2018 that materially affected, or are reasonably likely to materially affect, the company’s internal control over financial reporting.

In connection with the rule, the company continues to review and document its disclosure controls and procedures, including the company’s internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and ensuring that the company’s systems evolve with the business.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Except as set forth in Note 20 of the Notes to the Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q, there have been no material developments in legal proceedings involving the company or its subsidiaries since those reported in the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2017, as amended.

Item 1A. Risk Factors

There have been no material changes in risk factors involving the company or its subsidiaries from those previously disclosed in the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2017, as amended.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer repurchases

The table below sets forth information with respect to purchases made by or on behalf of us of shares of our common stock during the three months ended March 31, 2018:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1- 31, 2018	2,400	$ 22.99	2,400	$ 99,825,827
February 1- 28, 2018	509,416	$ 25.16	509,416	$ 87,010,389
March 1- 31, 2018	865,199	$ 23.23	865,199	$ 66,908,568
Total	1,377,015		1,377,015	

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

The independent trustee of our 401(k) plans purchases shares in the open market to fund investments by employees in our common stock, one of the investment options available under such plans, and any matching contributions in company stock we provide under certain of such plans. In addition, our stock incentive plans permit payment of an option exercise price by means of cashless exercise through a broker and permit the satisfaction of the minimum statutory tax obligations upon exercise of options and the vesting of restricted stock units through stock withholding. There were no shares withheld in the second quarter of fiscal 2018 to satisfy tax obligations for exercise of options. In addition, our stock incentive plans also permit the satisfaction of tax obligations upon the vesting of restricted stock through stock withholding. There were no shares withheld in the second quarter of fiscal 2018 to satisfy tax obligations upon the vesting of restricted shares. The company does not believe such purchases or transactions described above are issuer repurchases for the purposes of this Item 2 of Part II of this Quarterly Report on Form 10-Q.

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Item 5. Other Information

Cautionary Statement

This Quarterly Report on Form 10-Q contains statements relating to future results of the company (including certain projections and business trends) that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as “believe,” “expect,” “anticipate,” “estimate,” “should,” “are likely to be,” “will” and similar expressions. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to reliance on major OEM customers and possible negative outcomes from contract negotiations with our major customers, including failure to negotiate acceptable terms in contract renewal negotiations and our ability to obtain new customers; the outcome of actual and potential product liability, warranty and recall claims; our ability to successfully manage rapidly changing volumes in the commercial truck markets and work with our customers to manage demand expectations in view of rapid changes in production levels; global economic and market cycles and conditions; availability and sharply rising costs of raw materials, including steel, and our ability to manage or recover such costs; our ability to manage possible adverse effects on our European operations, or financing arrangements related thereto following the United Kingdom's decision to exit the European Union or, in the event one or more other countries exit the European monetary union; risks inherent in operating abroad (including foreign currency exchange rates, restrictive government actions regarding trade, implications of foreign regulations relating to pensions and potential disruption of production and supply due to terrorist attacks or acts of aggression); risks related to our joint ventures; rising costs of pension benefits; the ability to achieve the expected benefits of strategic initiatives and restructuring actions; our ability to successfully integrate the products and technologies of Fabco Holdings, Inc. and AA Gear Mfg., Inc. and future results of such acquisitions, including their generation of revenue and their being accretive; the demand for commercial and specialty vehicles for which we supply products; whether our liquidity will be affected by declining vehicle productions in the future; OEM program delays; demand for and market acceptance of new and existing products; successful development and launch of new products; labor relations of our company, our suppliers and customers, including potential disruptions in supply of parts to our facilities or demand for our products due to work stoppages; the financial condition of our suppliers and customers, including potential bankruptcies; possible adverse effects of any future suspension of normal trade credit terms by our suppliers; potential impairment of long-lived assets, including goodwill; potential adjustment of the value of deferred tax assets; competitive product and pricing pressures; the amount of our debt; our ability to continue to comply with covenants in our financing agreements; our ability to access capital markets; credit ratings of our debt; the outcome of existing and any future legal proceedings, including any litigation with respect to environmental, asbestos-related, or other matters; the actual impacts of our modifications to benefits provided to certain former union employee retirees on the company’s balance sheet, earnings and amount of cash payments; possible changes in accounting rules; ineffective internal controls; and other substantial costs, risks and uncertainties, including but not limited to those detailed herein and from time to time in other filings of the company with the SEC. These forward-looking statements are made only as of the date hereof, and the company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law.

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Item 6. Exhibits

3-a	Amended and Restated Articles of Incorporation of Meritor, filed as Exhibit 3-a to Meritor's Annual Report on Form 10-K for the fiscal year ended September 27, 2015, is incorporated herein by reference.
3-b	Amended and Restated By-laws of Meritor, filed as Exhibit 3-b to Meritor's Annual Report on Form 10-K for the fiscal year ended October 2, 2016, is incorporated herein by reference.
12**	Computation of ratio of earnings to fixed charges
23**	Consent of Bates White LLC
31-a**	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act
31-b**	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act
32-a**	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350
32-b**	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350
101.INS	XBRL INSTANCE DOCUMENT
101.SCH	XBRL TAXONOMY EXTENSION SCHEMA
101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE
101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE
101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE

** Filed herewith.

MERITOR, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERITOR, INC.

Date:	May 3, 2018	By:	/s/	April Miller Boise
				April Miller Boise
				Senior Vice President, Chief Legal Officer and Corporate Secretary
				(For the registrant)
Date:	May 3, 2018	By:	/s/	Paul D. Bialy
				Paul D. Bialy
				Vice President, Controller and Principal Accounting Officer
Date:	May 3, 2018	By:	/s/	Kevin A. Nowlan
				Kevin A. Nowlan
				Senior Vice President and President, Trailer and Components, and Chief Financial Officer

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