FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second quarter ArvinMeritor, Incorporated earnings conference call. My name is Nikita, and I will be your coordinator for today. At this time, all participants are in listen-only mode. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Mr. Terry Huch, Director, Investor Relations. Please proceed, sir.

Terry Huch - *ArvinMeritor, Inc. - Director-IR*

Thank you, Nikita. Good morning everyone, and welcome to the ArvinMeritor second quarter 2008 earnings call. On the call today we have Chip McClure, our Chairman, CEO and President; Jim Donlon, our CFO; and Jay Craig, our Controller. The slides accompanying today's call are available at www.arvinmeritor.com. We will refer to the slides in our discussion this morning. The content of this conference call which we're recording is the property of ArvinMeritor Inc. It's protected by U.S. and international copyright law and may not be rebroadcast without the express written consent of ArvinMeritor. We consider your continued participation to be your consent to our recording. Our discussion may contain certain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. And let me refer you to Slide 2 for a more complete disclosure of the risks that could affect our results. To the extent we refer to any non-GAAP measures in our call, you'll find the reconciliation to GAAP in the slides on our website. Now I'd like to turn the call over to Chip.

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Thank you Terry and good morning everyone. Before I go through the second quarter highlights, I'd like to express my appreciation for what our team has achieved. Despite a slower than expected truck market, volume declines in the North American light vehicle segment and near recession level economic performance in North America, we delivered strong results this quarter. We're pleased to report that we improved our net income, EBITDA, our free cash flow, and our earnings per share. These improvements are a direct result of the cost reduction and growth initiatives we've been implementing as part of our Performance Plus program, which includes lean improvements in our global manufacturing operations. We're confident that these actions have helped us build a strong foundation from which to build our future business and increase earnings potential.

Now let's turn to Slide 3. I'd like to take a few moments to review some of the highlights of our second quarter performance. We earned $0.37 per share from Continuing Operations before special items, up $0.20 compared to last year's $0.17. We reported sales of $1.8 billion, up 9% or $154 million compared to a year ago, primarily due to foreign currency exchange rates. We achieved free cash flow of $134 million from operations net of capital expenditures for the second quarter. This compares to an outflow of $71 million in the same period of last year. Our cash flow has been, and in the near term will continue to be, affected by increased working capital requirements driven by higher sales volumes in Europe, Asia-Pacific and South America. We believe, however, that our strategic direction, diversified customer base and global footprint should help us to weather some of these short term challenges. At the same time, we will maintain our focus on product strategies and long-term growth initiatives. We improved our CVS margins by 1.5 percentage points in this quarter compared to a year ago. This increase reflects improvements in pricing, higher sales in our Specialty business, higher truck sales in Europe and South America, and through cost reductions associated with our Performance Plus program. We have also made progress in the growth of our profitable commercial vehicle aftermarket business. In this quarter, we're proud of the new, long-term, multi-million dollar supply agreement we received to provide remanufactured transmissions and axle carriers to Navistar Parts. These actions are part of our ongoing strategy to grow this profitable market segment. Global market expansion is also part of our Commercial Vehicle Aftermarket growth strategy. In Europe, we've grown our year-over-year sales by nearly 20%. We expect to accelerate that growth while our expansion is essential in Eastern Europe, where we're launching a new facility in Russia.

Let's turn to Slide 4. In the second quarter, we entered into a multi-year agreement with Tata Consultancy Services in India to enhance our LVS engineering capabilities including product development and support for our light vehicle product lines in Asia Pacific. And we announced that we've re-entered the Off-highway business in North America, South America, Europe and Africa. As we re-enter this profitable and growing market segment, we bring a 100-year reputation for building high quality, reliable products. We intend to be a leading player on this world stage. We're currently well-positioned in the Off-highway business in Asia and are continuing to take advantage of the huge opportunities in that region. We're benefiting from the booming Off-highway business in China as that country continues to build roads and infrastructure. In China, our Off-highway sales are up approximately 63% year-over-year. Also in China, our sales for the bus and coach segment have nearly doubled. We also continue to gain new business in the United States on the military side. Since January of this year, we were awarded new supply contracts for nearly 2200 MRAP vehicles. We have nearly 60% of all the MRAP vehicle businesses awarded to date. Our Light Vehicle business group has been awarded new business with an Asian manufacturer to supply more than 2 million window regulator motors. This next generation motor will be manufactured in ArvinMeritor's facility located in Zhenjiang, China. We also recently announced two new door latch design programs for the growing Chinese and Asian markets.

The new Asian latch products are specifically customized for vehicle applications in that region. And we're continuing to restructure our global footprint. We're in the process of contracting three new manufacturing facilities in the Asian Pacific market where we already have a strong foothold to support the expected growth in that region. We recently started building two new plants in China and we're launching a new manufacturing facility in Pune, India to produce light vehicle body systems products. We have begun production of our LVS doors facility to supply components in Salonta, Romania, to supply components directly to Romanian OE customer Dacia, as well as for export to Western European customers. Let's move on to Slide 5 to review our 2008 outlook. We're pleased to re-confirm our guidance of $1.40 to $1.60 for our fiscal year 2008 earnings per share before special items. Our Performance Plus cost reductions of $75 million per year are on track for 2008 and 2009. I'll cover the progress we're making with this important initiative in just a few minutes. We've raised our sales forecast to a range of $7.1 to $7.3 billion, primarily due to currency exchange rates and continued growth outside the U.S. Although our cash flow performance in the first six months was negative $171 million, we're improving and expect to report cash flow for fiscal year 2008 of negative $75 to $125 million. This negative cash flow reflects increased investments in certain regions, primarily to grow our business in emerging markets and to address overall capacity constraints impacting some of our CVS businesses. You've all seen the tremendous run-up in steel prices, as well as increases in other commodity prices in the marketplace. This is a major concern for us, and our entire global management team is working aggressively to mitigate the impact to our company. Our guidance completely comprehends the pricing environment that we're in. That's not to say that we are accepting every proposed price increase from our suppliers. We strongly resist increases that break our contracts and we fully intend to recover the remaining increases from our customers. There are other risks on the horizon -- ongoing volatility in other commodities and risk to both heavy truck and light vehicle production volumes. But we believe our forecast is conservative enough to allow us offset known risks.

Let's turn to Slide 6. As promised, we expect that our Performance Plus program will achieve a savings of $75 million in the 2008 fiscal year, even after the impact of steel price increases and the down market in North America. $32 million worth of additional ideas were implemented in this quarter, bringing the run rate of actions we've executed to $90 million per year. In this quarter, we saved $18 million, which is on track with our ramp-up plan for the calendar year. We're still on our December implementation path for gross savings, which helps us offset some of the risks I talked about earlier. Now to Slide 7. We can attribute a portion of our overall Commercial Vehicle margin improvement to the resolution of some capacity and through-put issues that we faced in our European truck and trailer businesses. We dramatically improved our productivity during the second half of 2007 and we've been able to continue this momentum over the last quarter. As can you see from this chart on the truck side, we were able to achieve continued productivity improvements. On the trailer side, we also maintained strong productivity improvements compared to earlier in the year. We were impacted by material shortages in January but regained our momentum in February.

Let's take a look add Slide 8. In addition to our Asia-Pacific strategy, we're experiencing strong growth in the South American market. Industry production of commercial trucks in South America was up 25% compared to last year. In the second quarter, our company enjoyed a 39% growth rate for LVS and an astounding 108% growth rate for our CVS business group in that market. We've seen the South American truck segment grow in the past five years from $120 million in '03 to $750 million in '08, with more than half of that growth coming from our wholly owned truck operations. On a constant currency basis, that's a 200% increase in five years, and this is with very good profit margins. We're the leading supplier of wheels in the region through the Fumagalli brand, and we have contracts to provide the majority of the drive axles to four of the top six heavy truck manufacturers; and again, we experienced strong profit margins in this market. Now I'd like to turn the call over to our Controller, Jay Craig. He will walk you through the results for the quarter, and then Jim Donlon will review the outlook for the future. Jay?

Jeffrey "Jay" Craig - *ArvinMeritor, Inc. - SVP & Controller*

Thank you, Chip. I'm going to start by reviewing our income statement on Slide 9. We had had a good quarter. Our 9% higher sales, which Chip told you, were due to stronger currencies outside the U.S. We had a 61% increase in operating income. This reflects a good execution in our operations, and mounting cost reductions. It also reflected improved business mix, with strong growth in some of our best performing business units, particularly in our Specialty Products and in South America across all segments. SG&A was higher on an absolute basis; but like our sales, it was also inflated somewhat by currency exchange. As a percent of revenue, it was about flat to last year at 6%, but much better than two quarters ago when we were at 7%. Equity and earnings of affiliates has been a growing contributor to our bottom line over the last several years. We continue to see substantial profit growth in our unconsolidated subsidiaries outside the U.S. Like our other truck operations in North America, our large, unconsolidated JV in the U.S. is suffering from the continuing downturn here, which brought down our affiliate income compared to last year. Interest expense was $8 million lower than a year ago, reflecting lower debt balances and lower average interest rates. Our tax rate for the quarter was 34%, which is higher than our normalized rate at this point in the cycle, largely because of a discrete tax item. We continue to expect some meaningfully positive discrete tax items in the second half of the fiscal year.

Income from Continuing Operations before special items was $27 million, more than double last year's results. The only special item was a $3 million restructuring charge in LVS, for footprint actions under our Performance Plus program. Adjusted earnings per share was $0.37 for the quarter, which keeps us solidly on the path to hit our guidance for the year. Slide 10 reviews our segment earnings before interest, taxes, depreciation and amortization. EBITDA for CVS was $84 million, up $25 million or 42% from the second quarter of 2007. This is a strong performance, especially when you consider that production volumes in North America Class 8 were down more than 30% on a year-over-year basis. EBITDA margins in CVS were up 1.5 percentage points from last year, which I will explain in more detail on the next slide. LVS EBITDA was lower by $6 million, which I will also review in detail. Total for EBITDA was $104 million, or 5.8% of sales. On Slide 11, you can see the factors that contributed to the margin improvement in CVS. As you know, we are in the middle of a downturn in the Class 5 through 8 truck market that we originally thought would end six months ago.

It's not over yet, but conditions during this last quarter improved slightly. Class 8 production in the quarter was 14% higher than it had been in any of the preceding three quarters, and our forecast calls for it to continue to build gradually from here. Compared to the second quarter of 2007, production volumes were down significantly, which cost us about 1.8 percentage points of EBITDA margin. But production volumes in other regions were up just as significantly, which contributed 2.1 percentage points for the margin improvement. We have included quarterly truck production forecasts for North America and Europe in the appendix.

For South America, the growth Chip talked about translated to a 1.1 percentage point increase in margins for CVS globally. So you can see that our operations there are big enough and profitable enough to make major contributions. Specialty volumes were also much higher. The two most significant growth areas for us were military vehicles in the U.S. and off-highway equipment in China. I think a lot of people think of sales volumes as the biggest negative factor for our CVS operations right now. But if you add up the first four rows on this chart, it starts to look like the biggest positive factor. We are really looking forward to a time when the North American downturn ends and we have one more cylinder firing in the engine. On the next row, we have shown the margin improvement attributable to Performance Plus and other cost reductions. These efforts have been very successful this year and we expect the benefits to continue to build in future quarters. We need them to continue to build in order to help us through some recovery lags as raw material prices continue to escalate. Jim will talk about this in some detail in a few minutes. On this slide, we have shown the gross increases we have experienced in steel prices, energy costs and other commodity prices compared to last year. Some of these are offset by pass-through arrangements and other pricing included in the row labeled "Other."

The key message is that we are already feeling some of the pressure of raw material economics and we expect this -- we expect this to become a more challenging headwind going forward. The last thing I'll point out on this chart is that a year ago quarter benefited from Emissions Technologies absorbing some of our corporate overhead. This year, the remaining two business units have had to absorb the remaining portion of that that we have not been able to eliminate. LVS margins were down year-over-year, as I mentioned earlier. The next slide walks through LVS margins from last year. The key message here is that LVS is making some good progress in its base business, but it is being masked by industry headwinds and non-recurring items. We included this slide in the appendix that shows what LVS EBITDA would look like without some of the major non-recurring items. On a comparable basis to last year, EBITDA would be up meaningfully, even in the disappointing environment -- volume environment. Slide 12 shows the lower industry production in North America reduced margins by 50 basis points. For us, very little of this reduction related to the American Axle strike because we have a minimal amount of content on the vehicles that have been affected. Other volume and mix included industry growth in South America, and continuing share gains in Asia.

We have announced a number of new business awards we have won in Asia that will start contributing to the bottom line at various times over the next two years. Performance Plus and other cost reduction efforts also have been extremely successful in LVS, and this improved margins by 1.2 percentage points compared to last year. The LVS team has been particularly successful by lean -- in both Lean Manufacturing and consolidating its staff functions. Although LVS doesn't consume as much steel as CVS, you can see it has also been hit by higher input costs. Contractual pass through mechanisms are not as robust for LVS, so we have to fight for all the pricing offsets we can get. In addition to steel and energy, LVS is also feeling pressure on aluminum and copper prices. Last quarter, we told you about a legal and commercial dispute LVS was involved in with a customer. There has been no change in that situation over the last quarter, but we did settle an ongoing dispute we had with a supplier. In that case, the amount of settlement was about 2 million[LT1]. Lastly, the prior period benefited from ET's absorption of central overhead, as well as from one-time pricing adjustments. I'd like to cover one more thing before I hand it off to Jim, and that is the cash flow picture which is on Slide 13.

Our free cash flow in the quarter was $134 million compared to an outflow of $71 million last year. $82 million of that related to an increase in non-recourse sale of receivables, which has been a key lever for us as our receivable base has grown, especially in Europe. But even without the growth in securitization, our cash flow was $52 million compared to a negative $88 million last year. As the press release mentioned, this included a $28 million benefit from terminating certain interest rate swap arrangements, but did not include the final working capital true-up related to the sale of ET, which also was $28 million. At this point, I'd like to hand it over to Jim.

James D. Donlon III - *ArvinMeritor, Inc. - CFO & EVP*

Thanks, Jay. The second quarter was a very good one for ArvinMeritor. To keep that momentum going, we're going to have to overcome the serious headwinds in raw material prices that both Chip and Jay have referred to. Slide 14 shows a picture that I know you are very familiar with.

Back at the beginning of 2004, the industry faced a two-year period of higher steel prices. They didn't continue on that pace forever, but they settled into a range that was much higher than it had been in the past. ArvinMeritor and many of our peers were poorly prepared for increases of that magnitude. We had fixed price steel contracts which protected us for a time, but we didn't have adequate pass-through mechanisms. We're now in a period of even more rapid escalation. We don't know how long this phase will continue, but we know that the index is going higher than the March data point that you see referenced on this chart. Steel makers have since notified customers of their intent to implement a surcharge on top of existing contractual prices. That's not something we're going to take lying down. We have some hard discussions coming up with both the suppliers and the customers. We've worked hard to get this company to the point that it's at today, and we intend to continue to improve our situation. We will sit down with the steel suppliers and assert our contractual position. We'll make counter proposals on both pricing and timing, and we'll explore other supply avenues that may be available to us. Then we'll work with the customers where we do not currently have satisfactory arrangements. Even where we do have indexing arrangements, we may need to address extraordinary surcharges we face.

We also may need to address time lags between when we see price increases and when contractual indexing starts to reimburse us for them. The bottom line is that we cannot and we will not be the ones to bear the increases. One of our customers last week said that they have an obligation to pass these costs along to the end customer. We have that same obligation. Nonetheless, we will look to offset profit hits from remaining timing differences with incremental cost reductions.

As Chip touched on earlier, Performance Plus may be in a position to deliver some help in these cases. The next slide, Slide 15, provides more detail on our guidance for 2008. We've taken our sales guidance up by $200 million to a range of $7.1 to $7.3 billion. Stronger currencies and growth outside the U.S. account for most of this change. We've also raised EBITDA guidance by

$5 million, largely reflecting the same favorable exchange. Our interest expense guidance has come down by $5 million because of lower debt balances and interest rates. So our guidance for pretax income is up by $10 million compared to our previous guidance. Unfortunately, our tax rate is going to be a little higher than previously expected. We had told you to expect some favorable discrete tax items in the second half of the year, and we still expect those to come home. But it now appears that some of that benefit will be allocated to the Discontinued Operations.

We maintained our free cash flow guidance of negative $75 to $125 million. Our strong performance this quarter means that we have another $50 to $100 million of positive cash flow to go to achieve that guidance level. We're achieving success in accomplishing the goals of our Performance Plus restructuring with lower cash requirements. We've already discussed many of the planed assumptions listed on Slide 16, so I will just take a moment to hit the main points. External forecasts for 2008 GDP growth in the U.S. and Europe have come down fractionally since our last update on March 18th. The external source we typically use to forecast light vehicle industry sales has been holding steady, but we've made our own assessment and concluded that they are likely to be lower in the U.S. As a result, we're dropping this indicator from 15.5 million to 15.2 million units for the calendar year. The Europe assumption continues to be at risk, but signs have been mixed between a slowdown in Western Europe and continued expansion in Central and Eastern Europe. We're holding the forecast at 17.1 million units for now.

We're also holding our Class 8 truck production forecast for North America at 220,000 to 240,000 units, but we acknowledge that the points in the lower half of the range look somewhat more probable than the points in the upper half. We'll keep an eye on that over the upcoming next couple of months. In Europe, medium and heavy duty truck production continues to be very strong. We raised our forecast last month and we're raising it again now. With the strong order books the OEMs have, the industry is more constrained by supply this year than by demand. Some of the constraints we thought might be imposed by other suppliers, or the OEMs themselves have been mitigated. The best news of all is that our operating performance has improved to the point where a little more volume can be a good thing. We've talked about steel prices at length. Obviously, they deserve a bright red rating right now. We've also talked about incremental military vehicle business we were awarded in the quarter. Most of this production will take place in 2008, but any further awards will probably land into our 2009 fiscal year.

And lastly, we've raised our forecast for light vehicle production in South America by more than 5%. Our outlook for commercial truck production in South America, which is up 25% over the first six months, has also improved. Now I'd like to turn it back to Chip for his summary.

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Thank you, Jim. And now let's turn to Slide 17. It's clear that our number one priority for the remainder of 2008 and going to 2009 is to focus on addressing the steel issues, as well as monitoring other highly volatile commodity markets. But as I said earlier, our customers and suppliers will have to be part of the solution. To summarize today's call, I'd like to emphasize the significance of our performance this quarter. Despite headwinds to the truck and light vehicle North American volumes, we clearly outperformed the industry as well as many of our competitors, proving that the aggressive steps we've taken including restructuring actions, Lean Manufacturing improvements, significant cost reductions and profitable growth initiatives have had a positive impact on our bottom line. Again, that's why I'm confident in re-confirming our guidance of $1.40 to $1.60 for our fiscal year. That's why we were able to significantly improve our CVS margins in this quarter, even though the heavy truck market in North America is down more than 30%. And that's why when we strip away non-recurring items, the underlying financial results for our LVS business segment also improved in the first half compared to the prior year, despite lower light vehicle volumes in North America. Now, let's take some questions. Operator?

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Please stand by for your first question. Your first question comes from the line of Brian Johnson of Lehman Brothers. Please proceed, sir.

Brian Johnson - *Lehman Brothers - Analyst*

Thank you. Good morning. Turning back to page 11 and 12, can you give us a sense of how currency has influenced the LVS and CVS margin development? That is, if you were to kind of take another cut at it and just look at the currency impact of taking Euro denominated EBITDA over into the U.S., how much of the improvement is due to that?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Brian, I'll turn it over to Jay. This is Chip. I'll turn it over to Jay in a moment to kind of get to the details. But obviously, as we look at the currency effect in Europe, Euro is a big one. But as you know, we've got a lot of business in Asia, and in South America we've also seen different currency impacts that way too. But I'll turn it over to Jay to kind of talk about it in more detail.

Jeffrey "Jay" Craig - *ArvinMeritor, Inc. - SVP & Controller*

We've isolated the impact of the currency for the quarter, and the strengthening of the foreign currencies for the quarter we estimate to be relatively insignificant, between $5 and $7 million of impact on our second fiscal quarter.

Brian Johnson - *Lehman Brothers - Analyst*

On the EBITDA line?

Jeffrey "Jay" Craig - *ArvinMeritor, Inc. - SVP & Controller*

On the EBITDA line.

Brian Johnson - *Lehman Brothers - Analyst*

Okay. And the second thing is also on CVS margins, this is the first quarter -- last quarter you talked about the non-reoccurrence of production issues in OE. Does this mean -- may not have just been in the quarter before, but when you look at this and you look at the operational metrics in the European factories, are you comfortable now can you flex up and down cost efficiently in Europe?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Well, Brian, as we look at it, as you know, we had a real focus on Lean Manufacturing so I feel much better about the performance of our plants on that side. But as we also indicated, there was a capital investment we need to do that's going to be really coming in the second half of the year. So as we look at it, the first phase as far as Lean improvements within the existing capacity, primarily our plants and current suppliers, yes, I feel comfortable with that. But as we indicated, a lot of the capital investment we'll really start seeing that come online the second half of this year.

Brian Johnson - *Lehman Brothers - Analyst*

Okay, and final question. Can you quantify your steel buy in terms of tonnage or dollar volume? And then of that, how much is contractually pass-through versus negotiated?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Well, I would say our steel, it's hundreds of thousands of tons and both on the direct and the indirect side. And as I indicated, we're going through that kind of line item by line item with our suppliers and also our customers as the contractual obligations and what we look at with steel.

Brian Johnson - *Lehman Brothers - Analyst*

Okay. Thanks.

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Yep.

Operator

Your next question comes from the line of Doug Karson of Banc of America. Please proceed, sir.

Doug Karson - *Banc of America - Analyst*

Great. Can you guys hear me?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

We certainly can, Doug, good morning.

Doug Karson - *Banc of America - Analyst*

Good morning. Good quarter. I guess on the CVS margins you gave us an update on slide 11 with the specialty production volume. Could you give me a little more color on that?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Sure. As we look at that, you know, as we mentioned, probably the biggest ramp-up in that has been on the military side with the MRAP vehicles and we mentioned in our comments and Jim's slide that talked about that. We continue to see that and since the first of the year there's been 2,200 additional MRAP orders, and we continue to have a strong position on that. As I look going forward into the future, we're really seeing some real opportunities in the Off-highway business. We've had a very strong position in Off-highway in China, which is reflected in the current numbers. But as I look at it going forward, see that with -- you know, future growth opportunities in North America, Europe, South America and Africa.

Doug Karson - *Banc of America - Analyst*

Great. The European OE production volume looks like it helped by, looks like 1%. Since the capacity right-sizing or the improvement in your, I guess, capacity there, how much are we finished with fixing that? Are we halfway done? 75% done? Looks like there's been a lot of improvement there.

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Well, as we said, a lot of that has been done, as far as the internal improvement in the existing capacity we have, and I feel good about the progress there. And you know, as we've indicated before, really do see additional CapEx that's been invested in that capacity coming on as a result of that capital investment coming on the second half of the year.

Doug Karson - *Banc of America - Analyst*

Great. And then finally, last question, on the working capital side and the cash flow side, some of the vendors that had difficulty in the market a quarter or so ago, that hurt the working capital, looks like that's kind of stopped. Right now, is the list of vendors that you had that had issues, has that kind of calmed down or is that still a problem?

Jeffrey "Jay" Craig - *ArvinMeritor, Inc. - SVP & Controller*

It has somewhat; and also I think as we've mentioned previously, we had formed a troubled supplier group here which has been addressing those suppliers very proactively and aggressively. As far as the impact on our free cash flow, and working capital in particular, our payable days have been relatively constant on a quarter-over-quarter basis. So we've tried to again remain supportive of our suppliers in that regard this quarter.

Doug Karson - *Banc of America - Analyst*

Great. That's it for me. Thanks, guys.

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Okay. Thanks, Doug.

Operator

Your next question comes from the line of Chet Luy of Barclay's Capital. Please proceed. Keep in mind, your line is open.

Peter Nesvold - *Bear Stearns - Analyst*

Can you hear me?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

We certainly can. Good morning.

Peter Nesvold - *Bear Stearns - Analyst*

Actually, it's Peter Nesvold. Must have crossed lines there. So Chip, you know, as I look at the first two quarters of the year, you've been able to upside expectations even as you've had to cut Class 8 forecasts, North America trailer, North America light duty automotive, as there's been some -- I don't want to say cushion, but there's been upside to other parts of the model. As you progress through this year, how much cushion would you say it left in the business plan so that if things like steel economics really do run away from us or if you have to cut that Class 8 outlook from 230 down to maybe 220 that there's a more immediate hit to the EPS range of $1.40 to $1.60?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Yes, well, there's no question when you look at it, Peter, that the headwinds we face are really several with the steel and, you know, the continued uncertainty in the volume, really both on Commercial Vehicles and the Light Vehicle side here in North America. I think on the other side when we look at the model -- and I think it's really starting to pay off for us as far as having a diversified product portfolio, also a global footprint; and then I think thirdly would be our Performance Plus results we're starting to get in that. So when I look at those three items, I think they're really helping to offset that. As I said, I think we're starting to -- the last couple quarters, we've seen that kind of performance; and not ignoring the headwinds that we've talked about, feel that those -- having a diversified global product portfolio and the continued focus of Performance Plus, feel we've got the tools in place to kind of address that going forward.

Peter Nesvold - *Bear Stearns - Analyst*

And Chip, as a follow-up, on the Aftermarket, it seems like historically that's been a pretty good barometer of what's going on in terms of freight volumes. It seemed like freight exited '07 very strong but is taking a bit of a step back here in calendar first quarter. You know, what is your -- what's your Aftermarket business telling you? Are you still seeing accelerating improvement there? Is it leveled off? Is it starting to decline from how we exited last year, seasonally adjusted?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

As a matter of fact, what I may do is have Jay talk about that in a little more detail because as part of the Performance Plus team, he's been working with that more closely. But in a very general sense, Peter, as you look at it, there's no question the last couple months there's been uncertainty just as you look at Class 8 orders and the truck tonnage. But let me let Jay kind of talk in detail as it relates to the aftermarket business here in North America.

Jeffrey "Jay" Craig - *ArvinMeritor, Inc. - SVP & Controller*

Good morning, Peter. I think what we have seen is really different by region. In North America certainly with some of the softening in truck tonnage miles, we have seen some of the volumes in our Aftermarket business be under pressure in North America. But because of some of our product extensions and our new product entries, and obviously our acquisition of Mascot, we've started to believe that we are increasing our market share. It's a different story in Europe and South America, where our growth strategies are being executed and we continue to see double-digit growth in both of those regions that are more than offsetting some of the pressures that we're seeing in North America.

Peter Nesvold - *Bear Stearns - Analyst*

Okay. Great, thanks for the time.

Operator

Your next question comes from the line of Chet Luy of Barclay's Capital. Please proceed. Mr. Luy, your line is line open. Your next question comes from the line of Brett Hoselton of KeyBanc Capital Markets . Please

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Brett Hoselton - *KeyBanc Capital Markets - Analyst*

Gentlemen, good morning.

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Good morning, Brett.

Brett Hoselton - *KeyBanc Capital Markets - Analyst*

How are you this morning?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Good.

Brett Hoselton - *KeyBanc Capital Markets - Analyst*

Can you -- I know we keep talking about the steel issue. Can you possibly give us a sense of, as you look at the Commercial Vehicles segment, as you look at the Light Vehicles segment, can you talk about the specific segments where you think that you have the most exposure? And then secondly -- to rising steel prices -- and then secondly, where you have the most risk of not being able to recover those steel prices?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

What I may do on that one, Brett, is turn it over to Jim to kind of talk in a little bit more detail both from the -- as you refer to the supply side, and also the customer side -- both markets, the CVS and LVS side.

James D. Donlon III - *ArvinMeritor, Inc. - CFO & EVP*

Well, generally, Brett -- this is Jim Donlon -- on the CVS side, we have put in place a better position for recovery with our customers and pass-through with our customers, so on that -- that segment of the business, a better recovery pattern. On the LVS side, it varies quite a bit by customer. Some of the customers have worked with us very closely and we have some good arrangements in place, but unfortunately there are some that we have a lot of work to do on the LVS side to get to the recovery that is appropriate for this kind of a situation that we're in right now. So I would say a more difficult situation on the LVS side to work in, but we are committed and we will work our way through it. There is no way that these increases can find their way into ArvinMeritor's results, and so we've got a lot of work to do and we will. But that is the segment that is the more difficult. Within LVS, our Wheels business is in a good cost position; so when we talk to our customers there, because of the good cost position of our Wheels business, we are able to work toward the full recovery on the Wheels business. That leaves us with the Chassis business which is also a very difficult area and that one we've got a lot of tough conversations coming up with the few customers that are not yet in recovery category.

Brett Hoselton - *KeyBanc Capital Markets - Analyst*

And in the past you've talked about the possibility or your desire to pursue an OPEB or Goodyear style VEBA deal or something along those lines. Is that something that's still of interest to you and is that something that's still a possibility at some point in time in the future; and if so, when?

James D. Donlon III - *ArvinMeritor, Inc. - CFO & EVP*

Brett, we have been working on that, and from our side we would be interested in some arrangement like that. We've had had some early discussions about that and because our situation, our financial position, our forward outlook, our amounts that we have related to the VEBA are different from what the UAW has worked with up to now with other companies, our discussions have been at a slower pace while they are continuing to evaluate from their side just where we fit on their priority list of wanting to get a project like this done. But from our side, we are interested. The UAW is evaluating it from many different angles and at this point they're busy trying to get the big ones done that they've worked on with the main big three, and we're a little bit farther down on the priority list right now. And we'd like to work with them whenever it would come up. We cannot be sure that it will ever come to fruition, but your question was, where are we about that? And we are excited and would like to do something.

Brett Hoselton - *KeyBanc Capital Markets - Analyst*

Thank you very much, gentlemen.

Operator

Your next question comes from the line of Chris Mecray of BlackRock. Please proceed, sir.

Chris Mecray - *BlackRock - Analyst*

Good morning and congratulations on a good quarter. I wonder if you could give us some perspective on how much of your business in terms of pricing for raw materials is indexed today and what it might have looked like in that '03- '04 spike by comparison, and then I have a follow-up related.

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

You know, as you look at it from the -- if you go back to the '03- '04 time frame, there's -- obviously, we've learned a lot from that. I don't know that we really break it out as to how much is or is not indexed. But suffice to say, clearly there's been a lot more of that discussion on that. I think it's safe to say as you look at the -- from a customer perspective, a clear recognition on the customer's perspective -- that steel is a real issue. There's a lot more discussion on that. And so as you look at that from the experience, if you will, back in the '03- '04 timeframe, the fact that we've been able from a lessons learned perspective to put that in place, our recoveries clearly this time are better, so we feel better about that. I think Jim has kind of laid that out a little bit as it looks to the difference between the CVS and the LVS side. You know, if I go back to the '03- '04 time frame it was probably less than 50% and today it's in excess of 70%. So as you look at that, I think it's moving in the right direction; but as Jim has indicated, and we can't ignore some of the dynamics that are taking place in the steel industry today that are causing some of these spikes, literally, just in the very recent past, that we need to address those. So even with the indexing that we have in place and the contractual things, we've had to kind of ongoing discussions with customers on a go-forward basis that way.

Chris Mecray - *BlackRock - Analyst*

You mentioned some suppliers actually trying to push pricing even in contract business. I mean, is this something -- can you give me some perspective on this? I mean, in this industry historically have contracts held or are they only as good as the environment? I'm just not -- I don't have the perspective you would have there. Can you fill that in a little bit?

James D. Donlon III - *ArvinMeritor, Inc. - CFO & EVP*

Up to now, for the most part, contracts have been honored. There are mechanisms in the form of surcharges which has been added from time to time, which created some variability based on mostly alloy prices and so forth that we're adjusting. But those were understood and a part of the contractual arrangement. What is now troubling is a major steel company indicating that a new surcharge will be added even to over and above all of the existing contractual arrangements. So that's a troubling development that we're having to deal ;and at this point, we don't know for sure how that -- what the final outcome is going to be on that, but it's hitting right at this point in time and we'll have to see how events unfold, not only for us, but for all of the big three -- for all of the other supply industry -- it's going to reverberate through the whole industry.

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

And as we indicated in our comments, you know, we are still continuing to work both on the supply side and the customer side, and even with the ones that we do have with contractual indexes, there are still lags that we need to work on there. So obviously, continue to work on all facets and all phases of it, both on the customer side and the supplier side.

James D. Donlon III - *ArvinMeritor, Inc. - CFO & EVP*

And we consider these that we're facing now to be of an extraordinary nature, really kind of outside of any normal mechanisms that have been put in place up to this point in time.

Chris Mecray - *BlackRock - Analyst*

Okay. Thanks very much.

Operator

Your next question comes from the line of Jonathan Steinmetz of Morgan Stanley. Please proceed, sir.

Jonathan Steinmetz - *Morgan Stanley - Analyst*

Thanks, good morning, everybody.

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Good morning, Jonathan.

Jonathan Steinmetz - *Morgan Stanley - Analyst*

So I just want to push a little further on the steel issue here. Jim, I know you said you don't want to see it in your own P&L, but I think everybody in the whole food chain feels that way. So I guess I'm trying to understand within your guidance, what sort of year on year margin hit do you have at this point from the steel hit? And maybe if you could talk about what you could foresee on that as sort of a bull case scenario so-to-speak and bear case scenario if things get really tough on that in terms of getting recovery.

James D. Donlon III - *ArvinMeritor, Inc. - CFO & EVP*

In our guidance, we had what I would call the normal up and down that we were seeing in the market for various surcharges and alloy changes and what have you. So throughout the year, there's been month to month up and downs, and then the recovery of that going onto our customers with various indexing arrangements. So that's in the guidance. What has not been -- what has been contemplated for our current guidance that we're giving you is that all of these extraordinary ones that are coming through at this point in time will pass through the food chain --us being one of the elements of the food chain, will pass through us to the customers and it will not affect our bottom line.

Jonathan Steinmetz - *Morgan Stanley - Analyst*

Okay. So that if we watch --

James D. Donlon III - *ArvinMeritor, Inc. - CFO & EVP*

We've got a lot of work to do to accomplish that, but that's what's a part of our guidance.

Jonathan Steinmetz - *Morgan Stanley - Analyst*

Okay, so [inaudible] it's difficult to get recovery, then I guess it would be difficult for your guidance to hold.

James D. Donlon III - *ArvinMeritor, Inc. - CFO & EVP*

Yes.

Jonathan Steinmetz - *Morgan Stanley - Analyst*

Okay, and just numerically, it looks like in the first quarter this was about $17 million or so, if I do the LVS and CVS margin hit right, from steel and I guess you have other raw in there, so I don't know how much those were. I'm still trying to understand, though, within -- you have to have some assumption within this guidance that you are giving as to what that margin hit looks like for the full year. You know, if you are able to get these recoveries. So I don't know if you're able to share with us what that margin number would be.

James D. Donlon III - *ArvinMeritor, Inc. - CFO & EVP*

Well, what I would say to you is that number that you've calculated there is what has been there for the steel and the raw material and kind of like the gross increases as they're coming at us; and as Jay indicated in his comments, down in the "Other" line are our various recovery mechanisms that we have, so that the net effect to us is not as severe as the number that you just calculated there. So we've got the gross number and then a recovery so that the net is not as high as 17. We are working to mitigate this going forward and we are committed to making sure that it does not affect our guidance that we've given you for the full year. We have, as Chip said on an earlier question, some amount of cushion for us to work on just slightly, so that we can achieve our full year guidance even as we face these headwinds.

Jonathan Steinmetz - *Morgan Stanley - Analyst*

Okay. All right. Thank you very much.

Operator

Your next question comes from the line of Sarah Thompson of Lehman Brothers. Please proceed, ma'am.

Sarah Thompson - *Lehman Brothers - Analyst*

Yeah, just a quick question. On your free cash flow of negative $75 to $125, what are you assuming your [inaudible] on your [inaudible]?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Sarah, we could barely hear you. I think the question you're asking is in our assumption for free cash flow for the balance of the year?

Sarah Thompson - *Lehman Brothers - Analyst*

How much are you assuming is borrowed under the off balance sheet A/R?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

As we look at it for the balance of the year, we're looking at --- the assumption is that it will be flat.

Sarah Thompson - *Lehman Brothers - Analyst*

Okay. And then one other question. On your EBITDA, the number that you gave in the press release is slightly lower than what's on the slides, about $5 million. Is that just the difference for FX?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

I think that's a fair assumption. It's I think that's what Jim had mentioned in his comments.

Sarah Thompson - *Lehman Brothers - Analyst*

Okay. That's all I had. Thank you.

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Okay, thank you, Sarah.

Operator

Your next question comes from the line of Pat Archambault of Goldman Sachs.

Patrick Archambault - *Goldman Sachs - Analyst*

Hi, good morning.

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Good morning, Pat.

Patrick Archambault - *Goldman Sachs - Analyst*

Just on Slide 11 on the European margin improvement, can you give us a sense, how much of that is due to the price, I guess renegotiations, that you did with some of your customers there which kind of hit right away, and how much of that is due to improved efficiencies and throughput through the capacity additions? And based on that, how much more could that go up in terms of a tail wind, you know, as you get more and more throughput benefits in the remainder of the year?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Actually, when you look at it, I think it's safe to say it's really a combination of the two as you kind of indicated. I don't know that we break it out between the two that way. I think it's fairly representative of what we look at on a go-forward basis. As we indicated, in Europe, I think the next step is when you see the additional capacity coming in the second half of this year with the incremental investment that we've made kind of going forward, I think that will be the next step on that. But I think what you're seeing in there now is fairly reflective of what we had envisioned kind of going forward, both between what we've been able to negotiate as far as commercial terms with our customers and the productivity improvement within the plants.

Patrick Archambault - *Goldman Sachs - Analyst*

Sorry. So just to be clear on that, there will -- there should be an incremental benefit, though, from the capacity additions on top of what we see?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Well, yes. We talked about capacity additions, what that will do. What that will do -- right now, the markets in Europe continue to remain -- the commercial vehicle markets in Europe -- continue to remain very strong because of the continued expansion in Central and Eastern Europe. So the result is there is still some premium costs that result from that; so with this capacity that puts in place, I think you'll see some elimination of that premium costs, whether it's from a freight, overtime, et cetera, in the future will be the improvement we'll see when that capacity comes online.

Patrick Archambault - *Goldman Sachs - Analyst*

And have those additions already been made?

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

The investments have been made but we really don't see -- some of these are long-term investments so don't anticipate to see the benefit of those until the second half of this year.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay.

James D. Donlon III - *ArvinMeritor, Inc. - CFO & EVP*

The new equipment for the most part is not -- is committed and purchased and on the way but not yet installed and operational at the factories.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay. And then finally, just a longer term question, just in terms of the -- can you just update us a little bit on your thoughts on the SCR debate for the Class 8 regulations in 2010, how you guys see that playing out, how you see that impacting potentially the market shares of some of your large customers? As you clearly know, there's a couple that have stated that they're not going to use SCR, at least for the time being, and there's a few that are. And just wanted to get your overall thoughts on how that landscape is shaping up.

Charles G. McClure, Jr. - *ArvinMeritor, Inc. - President, Chairman & CEO*

Yeah, if you take a step back of that, that really gets into this whole question what we envision as we get into the '09 and subsequently 2010 with the next emissions regulation; and within the SCR so much is really going to depend on the customers, look at it both from cost perspective and new technology perspective. And as you indicated, rightfully so, Pat, some of the producers of that equipment are able to do that with different technologies, do that going forward. So as we look at that, I think that more recently there's been indication that those emission targets can be hit with some producers with current technologies just being upgraded. And obviously as we look at that, I think that will change some of the dynamics as you look at the amount of pre-buy in 2009 and subsequent drop-off in 2010, I think what needs to be overlaid on that in addition to the technology side is what's happening in the economy right now because as Jay had indicated, the softness in the commercial vehicle side has remained longer than had originally been anticipated because of the economy. So the answer to your question, I think there's going to be several different drivers that I think there's still some question as to what the magnitude of the impact will be in 2010. But there's no question as you look at the customer mix, there are some customers out there are earlier adopters of new technology. Those will still occur. Those will still use the SCR. Some other ones will take a bit of a wait and see attitude. And that's kind of across the board with customers and obviously with the OEMs. So we continue to watch that, as do others, and do tend to think, as we've indicated, that as you look out, we watch to see what the impact will be to that very pre-buy in 2009, which we've indicated may be muted a bit; and then obviously, what the drop-off will be in 2010 going forward.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay. Thanks a lot. That's all I had.

Operator

This concludes our Q&A session for today. I will now turn the call back over to Mr. Terry Huch for closing remarks.

Terry Huch - *ArvinMeritor, Inc. - Director-IR*

Just like to thank everyone for joining and invite to you follow up with me if you have other questions.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.

[LT1]Speaker started to say 200, but corrected himself to say 2 million.