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## **Federal – Mogul**

### Update on Bankruptcy \*1

On June 4, 2004, the Third Amended Joint Plan of Reorganization and Disclosure Statement for Federal-Mogul was filed with the Bankruptcy Court. The Disclosure Statement to be used in soliciting votes to accept or reject the Plan was approved by the Bankruptcy Court and a hearing to determine whether the Bankruptcy Court should approve the Plan was set for December 9, 2004. This confirmation hearing was canceled pending an evaluation hearing of the companies' asbestos claims in the UK.

### Plan of Reorganization\*2

The Plan provides that asbestos personal injury claimants, both present and future, will be permanently channeled to a trust or series of trusts established pursuant to Section 524(g) of the Bankruptcy Code. The Plan provides that 50.1% of newly authorized and issued common stock of reorganized Federal-Mogul will be distributed to the asbestos trusts, and 49.9% of the newly authorized and issued common stock will be distributed pro rata to noteholders. If the classes of holders of common and preferred stock of Federal-Mogul vote in favor of the plan, the holders of currently outstanding common and preferred stock of Federal-Mogul will receive warrants that may be used to purchase shares of reorganized Federal-Mogul at a predetermined exercise price.

Unsecured creditors, including trade creditors, of Federal-Mogul are projected to receive cash distributions under the Plan equal to 35% of their allowed claims, payable in three annual installments, provided that the aggregate of all allowed unsecured claims against U.S. debtors does not exceed \$258 million.

### U.K. – The Last 10 Yards! \*3

There are two possible types of U.K. Schemes of Arrangement. The first is under Section 425 of the Companies Act of 1985, which may involve a Scheme for the reconstruction of the Company. If a majority in number representing three-fourths of the creditors agrees to the compromise or arrangement, it is binding if sanctioned by the High Court. Section 425 may be invoked where there is an Administration Order in force in relation to the Company. The other possible type of Scheme arises under Section 1 of the Insolvency Act of 1986 in relation to Company Voluntary Arrangements ("CVAs"). If a majority representing three-fourths of the creditors agrees to the compromise or arrangement set out in the CVA proposal, it will be approved.

Important Disclosure on page 3

The Plan Proponents have prepared forms of Schemes of Arrangement and CVAs to be submitted for the U.K. debtors in the U.K. restructuring proceedings. These forms of Schemes of Arrangement and CVAs parallel the provisions of the Plan to the fullest extent possible under English and Scottish insolvency law. Under English and Scottish law, the Administrators are the only persons with authority to recommend and submit Schemes of Arrangement and/or CVAs. The Administrators have not yet agreed to recommend the Schemes of Arrangement and CVAs that parallel the Plan. The plan proponents are working toward an agreement with the Administrators.

If an agreement cannot be achieved, then one or more of the following will occur: (a) the U.K. debtors and the Plan Proponents will ask the High Court to approve the Plan with respect to the U.K. debtors as a matter of comity; or (b) Federal-Mogul may bid for those businesses of the U.K. debtors that are valuable to Federal-Mogul and its customers and any actual or deemed transfer of assets to Federal-Mogul in connection therewith shall be entitled to the benefits of the injunction pursuant to Section 524(g) of the Bankruptcy Code. If Federal-Mogul is not the successful bidder, the injunction pursuant to Section 524(g) of Bankruptcy Code shall not apply to the transfer of any assets to any entity other than Federal-Mogul or its designee. The Company believes that in the event the assets of the U.K. debtors are marked for public sale, Federal-Mogul ultimately will be the successful bidder. Any remaining assets would be liquidated. Federal-Mogul believes that such a non-consensual process with the Administrators is not in the best interest of the creditors of the U.K. debtors, including pension creditors, and employees.

Determining the assets and liabilities of the U.K. debtor is necessary at this point to proceed forward. The pension trustees allege that their claims can only be estimated after a Scheme of Arrangement or voluntary arrangement is promoted or liquidation occurs. We believe the asbestos estimation hearings will create a fair playing field. The asbestos claimants, banks, creditors, trustees, Administrators and other parties arguments, should find answers somewhere in the middle with the courts, determining where the liabilities and assets are fairly assessed.

### **Recommendation**

On March 1, 2004 we recommended that investors purchase the debt of Federal-Mogul at 26. Our original target price was 35 and was raised to 40 in our report dated July 15, 2004. We expect our target price of 40 to be reached within the next six months. **We continue to recommend purchase of the debt of Federal-Mogul at the current price in the low 30's.**

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**Analyst Certification Requirement**

- This communication accurately reflects the analyst's personal views about the company.
- The analyst has not and will not receive compensation with respect to the issuance of this report

**RISKS**

- The company is currently operating under Chapter 11 bankruptcy protection. The ability of the company to exit from bankruptcy is uncertain, as is the timing of the filing of a plan of reorganization.
- Estimates for the ultimate recovery value of the securities discussed may not be realized.
- Spencer Clarke LLC has not sought legal opinions regarding any topics in this report.
- Special risks are associated with hostilities, acts of war, or terrorist attacks.
- See SEC filings for additional potential risks.
- Combined risk factors make our estimates statistically unreliable.

**Ratings Systems Explanation**

**Buy:** We generally expect "BUY" rated investments returns to be  $\geq +20\%$  from date of the original recommendation

**Neutral:** We generally expect "NEUTRAL" rated investments returns to deviate  $-20\% \leq CMV < +20\%$  from date of the original recommendation

**Sell:** We generally expect "SELL" rated investments returns to be  $> -20\%$  from date of the original recommendation

CMV: Current Market Value

**Spencer Clarke LLC**

Ratings Distribution as of 2/10/05

Number of Companies      Percent of Total

Buy	2	100
Neutral	0	0
Sell	0	0
Total	2	100

Companies for which Spencer Clarke LLC has performed Investment Banking services in last 12 month as of 2/10/05

Number of Companies      Percent of Total

Buy	0	100
Neutra	0	0
Sell	0	0
Total	0	100