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Federal-Mogul Corporation

On April 21, 2003 Federal-Mogul Corporation submitted its plan of Reorganization Disclosure Statement with the court and announced that it expects to emerge from bankruptcy by the later half of 2004. Federal-Mogul filed for Chapter 11 protection on October 1, 2001 after succumbing to mounting asbestos lawsuits.

Federal-Mogul is a global supplier of automotive components serving the world's original equipment manufacturers as well as the aftermarket. Federal-Mogul, founded in 1899, is located in Southfield, Michigan. The company employs 47,000 and has 130 manufacturing facilities in 24 countries. Sales for 2003 totaled $5.54 billion. The company's Chairman and CEO is Frank Macher and the president and COO is Chip McClure.[1]

Plan of Reorganization

"An official hearing date on the proposed Disclosure Statement has been set for April 13 & 14 of 2004. A fourth amended disclosure statement is expected prior the April hearing. The plan will only become effective after a vote of various classes of creditors and the approval of the bankruptcy court. The plan provides:

Creation of a 524 (g) trust for the benefit of present and future asbestos personal injury claimants, which will assume all of the company's obligations to those claimants;

The creation of new common shares for the reorganized company that will be distributed to the trust (50.1%) and to the note holders (49.9%)

The access by the trust to insurance coverage of the company.

[1] Source: Federal-Mogul Corporation, Website (www. Federal-Mogul.com)

Important disclosures page 7

One or more distributions to U.S. and U.K. trade creditors of which the percentage ratio has not been determined.

The restructuring of approximately $1.6 billion in claims of the pre-petition senior secured lenders into a combination of 6.5-year maturity senior secured term loans and 11-year maturity junior secured pik notes.

Federal-Mogul will also be filing a United Kingdom Scheme of Arrangements to keep the U.K. administration process in parallel with the U.S. bankruptcy process."[2]

"There are essentially seven different streams of asbestos liability affecting Federal-Mogul, each arising from a Federal-Mogul acquisition of a discrete company with it's own unique role in the manufacture, distribution and sale of asbestos containing materials." Some of these claims arise from Federal-Mogul's 1998 purchase of an English company called T&N plc. Also in 1998 Federal-Mogul acquired certain of the businesses of Coopers Industries, Inc. One of those acquisitions was Moog Automotives, Inc known as Wagner Electric Corporation. The past acquisitions of Fel-Pro Inc. and Vellamoid also contributed to an overwhelming asbestos litigation liability.[3]

Quarterly Financial Results

"Federal-Mogul reported a first-quarter 2003 net loss of $34 million, compared to a net loss of $1.4 billion in the first quarter of 2002. Excluding charges for restructuring activities, asset impairments, losses from divestitures, Chapter 11 and administrative-related expenses and the cumulative effect of a change in accounting, Federal-Mogul reported earnings from operations of $7 million in the first quarter 2003, compared to breakeven results from operations in the first quarter 2002.

First quarter 2003 sales were $1.4 billion, up 4.75% percent compared to $1.35 billion in 2002. Excluding the impact of foreign exchange and divestitures, first quarter 2003 sales was down two percent. Operating cash flows for the first quarter of 2003 were $33 million compared to $32 million in 2002."[4]

"Second quarter 2003 sales were $1.45 billion, up less than 1 percent from $1.44 billion. Excluding the effect of foreign exchange and divestitures, second quarter 2003 sales was down five percent. Federal-Mogul reported a second quarter net loss of $5 million, compared to net earnings of $16 million in the second quarter of 2002. Operating cash flows for the second quarter were $168 million, compared to $75 million for the 2nd quarter 2002. Year to date cash flow form operating activities was $201 million compared to $107 million for the same period in 2002."[5]

"In the third quarter 2003, Federal-Mogul posted sales of $1.35 billion, compared to $1.34 billion in 2002. Excluding the impact of divestitures in 2002 of $47 million and

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[2] Source: Federal-Mogul Corporation, press release 4/22/03
[3] Source: Federal-Mogul, Website (www.Federal-Mogul.com), reference material-asbestos primer
[4] Source: Federal-Mogul press release 4/22/03
[5] Source: Federal-Mogul press release 7/29/03

the effect of foreign exchange of $66 million in the third quarter 2003, sales decreased by 1 percent. Federal-Mogul reported a third quarter pretax loss of $17 million, compared to a pretax loss of $64 million in the third quarter of 2002. Excluding the effects of Chapter 11 and administration related reorganization expenses and business divestitures Federal-Mogul reported a $39 million improvement in pretax results from operations in the third quarter 2003. Operating cash flow for the third quarter 2003 was $68 million, compared to $82 million in the third quarter 2002. Year-to-date cash flow from operating activities was $269 million, compared to $189 million for the same period in 2002."[6]

"Federal-Mogul reported fourth quarter 2003 sales from continuing operations of $1.4 billion, an increase of $174 million compared to sales from continuing operations of $1.23 billion for the same period in 2002. Sales from continuing operations were favorably impacted by $93 million of foreign currency translation. Federal-Mogul reported a net loss from continuing operation of $121 million during the fourth quarter of 2003, compared to a net loss from continuing operations of $89 million for the same period in 2002. The company continued to generate positive cash from operating activities during the fourth quarter of 2003, providing $50 million for the period.

Financial Results for the Twelve Months Ended December 31, 2003

Federal-Mogul reported sales from continuing operations for the 12 months ended December 31, 2003 of $5.6 billion, an increase of $362 million versus $5.2 billion for the same period in 2002. Sales from continuing operations were favorably impacted by $352 million of foreign currency translation and by favorable sales volumes, which more than offset customer price reductions. Gross margin increased by $66 million or 6.5 percent during 2003. Gross margin was favorably impacted by $63 million of foreign currency translation.

The Company reported a net loss from continuing operations of $186 million during 2003, compared to a net loss from continuing operations of $201 million in 2002. Included in the Company's net loss from continuing operations for 2003 are asset impairments of $106 million, which were recorded to adjust the carrying value of certain intangible and tangible assets to their estimated fair values because of reductions in projected future asset recoverability. The Company's 2003 net loss from continuing operations was further impacted by an asbestos charge of $39 million.[7]

[6] Source: Federal-Mogul Corporation, press release 10/21/03
[7] Source: Federal-mogul press release 2/18/04

Analysis, Projections, and Estimates

For investors with a 12-month time horizon we recommend purchasing existing outstanding debt (trading at $26) and avoid the common stock (trading at $.44 per share). The exchange of Federal-Mogul debt for equity at these prices should offer investors an attractive speculative investment. Our 12 month price target is $35.

The price target has been derived from projections of a general improvement in valuation based on variables including EV/EBITDA and comparable multiples (see details below). EBITDA for the 2003 fiscal year was $540 million versus approximately $490 million in 2002. Our belief is that EBITDA growth should continue throughout the next two fiscal years (2004 and 2005) due to 1) cost cutting by management; 2) a continued pick up in the economy and 3) further growth in the popularity of the after-parts market. Based on these assumptions and projections, Federal-Mogul's valuation should rise as the company's Enterprise Value to EBITDA ratio increases and the company emerges from Chapter 11 Bankruptcy protection later this year.

Based on the data presented below, the average EV/EBITDA for companies in the automotive parts industry is 5.9x and for 2004 respectively (range 4.4x to 7.1x for 2004).

Name	Ticker	EV/EBITDA Multiple (2004)
Johnson Controls	JCI	7.1
Superior Ind	SUP	7.0
Spartan Motors	SPAR	6.7
Dana Corp	DCN	6.3
Autoliv Inc	ALV	6.1
Borg Warner	BWA	6.0
Collins & Aikman	CKC	5.8
Tower Auto	TWR	5.8
Dura Automotive	DRRA	5.6
ArvinMeritor	ARM	5.6
Lear Corp	LEA	5.3
American Axel	AXL	4.9
Tenneco Automotive	TEN	4.4
Industry Average		**5.9**

Cordially,

Stephen Vlahos

Federal Mogul (FDMLQ)[8]

Federal Mogul Financial Data

Annual Net Sales

(Millions US$)

2000	2001	2002	2003
6013.70	5457.00	5184.30	5546.00

Quarterly EBITDA

(Millions US$)

	Q1	Q2	Q3	Q4
2002	$120.2	$152.4	$110.7	$104.1
2003	$125.6	$144.6	$115.8	$154.0

Other Recent Non-Recurring Expenses

(Millions US$)

	2000	2001	2002	2003
Restructuring	$135.70	$38.00	$40.50	$34.20
Chapter 11 Reorganization Expenses	$0	$57.30	$107.40	$97.10
Asset Adjustment	$75.40	$545.10	$62.90	$106.00
Asbestos Charges	$184.40	$0	$0	$38.90

[8] Source Federal Corporation public filings

Bond Indebtedness

239.90	Notes due 2004 – 7.5% issued in 1998	12/31/01 10-k
391.90	Notes due 2006 – 7.75% issued in 1998	12/31/01 10-k
394.00	Notes due 2006 – 7.375% issued in 1999	12/31/01 10-k
562.20	Notes due 2009 – 7.5% issued in 1999	12/31/01 10-k
340.40	Notes due 2010 – 7.875% issued in 1998	12/31/01 10-k
84.00	Med.-term notes – due between '02 & '05, Avg. rate of 8.8% issued in '94 & '95	12/31/01 10-k
103.30	Senior notes – due in 2007, rate of 8.8%, issued in 1997	12/31/01 10-k
2,115.60	Total Bond Indebtedness	

Liabilities subject to compromise [9]

	September 30 2003
Debt	\$3,990.40
Asbestos liabilities	\$1,571.20
Company-obligated mandatory redeemable securities	\$211.00
Accounts payable	\$199.80
Interest payable	\$43.00
Environmental liabilities	\$27.30
Other liabilities	\$20.40
Subtotal	\$6,063.10
Intercompany payables to Affiliates	\$3,128.10
Liabilities subject to compromise	\$9.191.20

[9] Refers to debtor's liabilities incurred prior to the commencement of the Restructuring Proceedings. These amounts represent the company's estimate of known or potential pre-petition claims and are subject to future adjustments, Pg. 11 from 10Q, Qtr ended September 30,2003.

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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 United SEC filings for additional potential risks.

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 03/01/04

	Number of Companies	Percent of Total
Buy	2	100
Hold	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 03/01/04)

	Number of Companies	Percent of Total
Buy	0	100
Hold	0	100
Sell	0	100
Total	0	100