



MEMBER NASD/SIPC/MSRB

Federal-Mogul Corporation

Federal-Mogul Corporation submitted on April 21, 2003 its plan of Reorganization Disclosure Statement with the court, and has announced that it expects to emerge from bankruptcy by the middle 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 worlds original equipment manufacturers and the aftermarket. Federal-Mogul, founded in 1899, is located in Southfield, Michigan and employs 47,000 with 130 manufacturing facilities in 24 countries; sales in 2002 were \$5.4 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 not yet been announced by the Court. The plan will only become effective after a vote of various classes of creditors with the approval of the court. The plan provides for:

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;

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

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

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 its own unique role in the manufacture, distribution and sale of asbestos containing materials.”*3 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.

“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 \$1,410 million, up 4.75% percent compared to \$1,346 million in 2002. Excluding the impact of foreign exchange and divestitures, first quarter 2003 sales were 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 \$1,445 million, up less than 1 percent from \$1,442 million. Excluding the effect of foreign exchange and divestitures, second quarter 2003 sales were down five percent. Federal-Mogul reported a second quarter net loss of \$5 million, compared to net earning of \$16 million in the second quarter of 2002. Operating cash flows for the second quarter were \$ 168 million, compared to \$75 million for 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

*2 Source: Federal-Mogul Corporation, press release 4/22/03

*3 Source: Federal-Mogul, Website ([www.Federal -Mogul.com](http://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

“In the third quarter 2003, Federal-Mogul posted sales of \$1.346 billion, compared to \$1.345 billion in 2002. Excluding the impact of divestitures in 2002 of \$47 million and 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 to \$10 million. 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

Cordially,

Stephen Vlahos

FEDERAL MOGUL (FDMLQ) *7

Federal Mogul EBITDA Calculation

ANNUALLY

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003 YTD</u>
Net Sales	6013.70	5457.00	5422.40	4200.9

Adjusted EBITDA*8	1007.90	565.90	487	386
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QUARTERLY

	<u>2002Q1</u>	<u>2002Q2</u>	<u>2002Q3</u>	<u>2002Q4</u>
EBITDA	120.20	152	110.70	104.10
	<u>2003Q1</u>	<u>2003Q2</u>	<u>2003Q3</u>	
	125.6	144.6	115.8	

OTHER RECENT NON-RECURRING EXPENSES

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003 YTD</u>
Restructuring	135.70	38.00	43.30	28
Chapter 11 Reorganization Expenses	0.00	57.30	107.40	85.4
Asset Adjustment	75.40	545.10	70.20	4.5
Asbestos Charges	184.40	0.00	0.00	0.00

Morgan Stanley reports the ratio of 2002 EBITDA to enterprise value, for original equipment supplier and aftermarket supplier comparables, reported average EBITDA to enterprise value ratios as 4.6 and 7.7, respectively.

*7 Source Federal Mogul Corporation public filings

*8 Adjusted EBITDA includes one-time extraordinary items due to bankruptcy filing and asbestos litigation

Bond Indebtedness

239.8	Notes due 2004 – 7.5 % issued in 1998	12/31/01 10-K
391.9	Notes due 2006 – 7.75 % issued in 1998	12/31/01 10-K
394.0	Notes due 2006 – 7.375% issued in 1999	12/31/01 10-K
562.2	Notes due 2009 – 7.5 % issued in 1999	12/31/01 10-K
340.4	Notes due 2010 - 7.875% issued in 1998	12/31/01 10-K
84.0	Med.-term notes – due between '02 and '05, avg. rate of 8.8 % issued in '94 and '95	12/31/0110-K
103.3	Senior notes – due in 2007, rate of 8.8 %, Issued in 1997	12/31/01 10-K
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2,115.6	Total Bond Indebtedness	

Liabilities subject to compromise*9

June 30, 2003

Debt	\$3,987.3
Asbestos liabilities	1,571.4
Company-obligated mandatorily redeemable securities	211.0
Accounts payable	201.10
Interest payable	43.0
Environmental liabilities	27.4
Other liabilities	<u>20.5</u>
Subtotal	6,061.7
Intercompany payables to Affiliates	<u>3,129.3</u>
Liabilities subject to compromise	<u>\$9,191.0</u>

*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. 12 from 10Q, Qtr ended June 30, 2003.

FEDERAL-MOGUL CORPORATION
BALANCE SHEETS

(Millions of Dollars)

	(Unaudited)	
	September 30	December 31
	2003	2002
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Assets		
Cash and equivalents	\$ 472.8	\$ 395.1
Accounts receivable	978.2	954.0
Inventories	801.9	800.1
Prepaid expenses and other current assets	223.4	209.9
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Total current assets	2,476.3	2,359.1
Property, plant and equipment, net	2,323.3	2,273.0
Goodwill and indefinite-lived intangible assets	1,592.9	1,565.2
Definite-lived intangible assets, net	347.5	351.6
Asbestos-related insurance recoverable	801.3	780.6
Prepaid pension costs	294.2	361.5
Other noncurrent assets	216.8	222.3
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Total Assets	\$ 8,052.3	\$ 7,913.3
Liabilities and Shareholders' Deficit		
Short-term debt, including current portion of long-term debt	\$ 14.3	\$ 346.1
Accounts payable	340.4	318.9
Accrued compensation	236.8	242.1
Restructuring reserves	63.9	90.8
Accrued income taxes	52.5	43.1
Other accrued liabilities	362.8	363.4
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Total current liabilities	1,070.7	1,404.4
Liabilities subject to compromise	6,063.1	6,053.2
Long-term debt	321.8	14.3
Postemployment benefits	1,589.7	1,541.2
Deferred income taxes	61.0	52.4
Other accrued liabilities	211.5	205.7
Minority interest in consolidated subsidiaries	48.6	45.7
Shareholders' deficit:		
Series C ESOP preferred stock	28.0	28.0
Common stock	435.6	435.6
Additional paid-in capital	2,060.5	2,060.5
Accumulated deficit	(2,812.7)	(2,743.9)
Accumulated other comprehensive loss	(1,025.5)	(1,183.7)
Other	—	(0.1)
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Total Shareholders' Deficit	(1,314.1)	(1,403.6)
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Total Liabilities and Shareholders' Deficit	\$ 8,052.3	\$ 7,913.3
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Investment Summary

We recommend that clients that wish to own Federal-Mogul avoid its common stock currently trading at .29 cents. The restructured Federal-Mogul should provide risk orientated investors an opportunity for price appreciation. Investors who hold Federal-Mogul bonds should expect a recovery in the form of common stock. The old Federal-Mogul stock will be cancelled. The current price of Federal-Mogul debt trades at approximately 16 cents on the dollar. The exchange of Federal-Mogul debt for equity at these prices should offer investors an attractive speculative investment with a 12 to 18 month time horizon. There are many obstacles yet to be overcome before the emergence of Federal-Mogul from the bankruptcy process. As the specifics unfold the price of the bonds of Federal-Mogul should begin to reflect more accurately the amount of equity that will be distributed.

Stephen P. Vlahos

Disclosures

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ANALYST STOCK RATINGS

- Buy** The stock should outperform its industry or peer group by 20% or greater within a 12-18 month time frame.
- Sell** The stock is expected to under-perform its industry or peer group by 20% or Greater within a 12-18 month time frame, or where fundamentals of a company Have deteriorated significantly and the stock is expected to materially depreciate.
- Hold** The stock does not have enough upside or downside potential to rate a Buy or Sell. The stock is either fairly valued or has too much uncertainty to have a Buy Or sell rating

Distribution of Gilford Securities ratings

Category	Coverage	IB Services*
Buy	67%	0%
Hold	33%	10%
Sell	0%	0%

* Percentage of companies within this category for whom Gilford Securities has provided investment banking (IB) Services within the last 12 months.