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**Joint Supervisors'
Annual Report to Creditors**

**Federal-Mogul Sealing
Systems (Rochdale) Limited -
Company Voluntary
Arrangement**

5 December 2007

KROLL

THURSDAY



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**FEDERAL-MOGUL SEALING SYSTEMS (ROCHDALE) LIMITED - COMPANY
VOLUNTARY ARRANGEMENT (CVA)**

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**FEDERAL-MOGUL SEALING SYSTEMS (ROCHDALE) LIMITED - COMPANY
VOLUNTARY ARRANGEMENT (CVA)**

1 Introduction

- 1 1 You will recall that I was appointed Joint Supervisor of Federal-Mogul Sealing Systems (Rochdale) Limited (the **Company**)'s CVA, together with my partners, A O'Keefe and S Mackellar, on 11 October 2006
- 1 2 This report is our first annual report and provides an update on the progress of the CVA in accordance with Rule 1 26 of the Insolvency Rules 1986 At Appendix A, we have provided an account of our Receipts and Payments for the year ended 10 October 2007

2 Realisation of Assets

Voluntary Contributions

- 2 1 In accordance with the CVA proposal, at the start of the CVA a reserve was established with a deposit of £2,730,000 This is being used to pay dividends to the creditors of the Company
- 2 2 Interest is being accrued for the benefit of the CVA from the date the CVA became effective Interest received to date totals £103,446

3 Creditors

Preferential Creditors

- 3 1 We can confirm that all preferential creditors' claims have been agreed and paid in full The details of which are given in the table below

Agreed Claims £	
HM Revenue & Customs – PAYE/NIC	115,971
HM Revenue & Customs – VAT	50,833
	166,804

Unsecured Creditors

Trade Creditors

- 3 2 The process of reviewing and agreeing creditor claims is almost complete To date we have agreed 150 claims totalling £1,006,040 We have paid out a total of £570,492 representing a

**FEDERAL-MOGUL SEALING SYSTEMS (ROCHDALE) LIMITED - COMPANY
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dividend of 61p/£ to 143 creditors. In addition, we have recently agreed a further seven creditors claims totalling £70,807 and they will be receiving their dividend payment in the near future. We currently only have four claims that have not been agreed and they total £47,330. We estimate that total claims will be in the region of £1,053,372. Based on current information, we anticipate that a further dividend will be payable to the Company's unsecured creditors of 39p/£, bringing the total dividend to 100p/£. This final dividend will be made early in 2008.

Agency Companies

- 3.3 The Company acted as an agent of T&N Limited (**T&N**). T&N has no trading operations in its own name and conducted its operations through a number of subsidiaries, many of which act as agents of T&N. The agency agreement was not disclosed to external suppliers and other parties dealing with those subsidiaries.
- 3.4 The effect of this agency status is that if where the unsecured creditors of the Company receives a dividend which is below 100p/£, the Supervisor of the Company is entitled to make a claim against T&N for the balance of any such claim. However, as stated above we anticipate that creditors of the Company will receive a dividend of 100p/£, therefore there will be no need for a further claim against T&N to be made. Nevertheless, a copy of the T&N annual report is enclosed for your information.

S75 Pension Creditors

- 3.5 Historically, the Company was a participating employer in the T&N Retirement Benefits Scheme (1989) (**T&N Pension Scheme**). There was a large funding deficit in the T&N Pension Scheme on a winding up basis. When the CVA proposals were mailed to creditors, the T&N Pension Scheme entered an assessment period to determine if it is eligible for entry to the Pension Protection Fund (**PPF**). If it is accepted into the PPF, the Company's employees will receive a minimum guaranteed level of pension.
- 3.6 As the T&N Pension Scheme has a funding deficit on a winding up basis, it has a claim under section 75 of the Pensions Act 1995 against the Company for the amount of that deficit. Since the T&N Pension Scheme is in a PPF assessment period, the law treats the PPF as the creditor in the Company's CVA.
- 3.7 Despite extensive negotiations and a willingness on the part of both the Supervisors and the PPF to reach an agreement on the level of the section 75 liability, there remain two key unresolved issues. These issues significantly impact the potential level of the liability and at the date of this report, a satisfactory agreement has not been reached. In order to progress the matter we have made an application to the High Court for determination of the two key issues. The hearing is due to take place in December 2007.

- 3 8 In accordance with the terms of the CVA proposals, the section 75 claim against the Company was capped at £1,410,000. We can confirm that a claim of £1,325,000 has been received from the PPF and that an interim dividend of £581,940 has been paid representing a dividend payment of 61p/£. This dividend is based on a reduced claim value (72% of the PPF claim), which has been agreed with the PPF for interim dividend purposes only.

The level of the section 75 liability will affect the level of dividend that we can pay to other unsecured creditors. Therefore, until this claim has been agreed, we are unable to confirm that level of any future dividends to the Company's unsecured creditors.

Non-Asbestos Personal Injury Claims

- 3 9 To date one potential claim has been received in respect of Non-Asbestos Personal Injury claims with an estimated claim value of £25,000. I believe that this claim will eventually be handled by the Company's insurers.

4 Supervisors' Remuneration

- 4 1 The CVA Proposals stated that a Remuneration Reserve shall be established in order to pay the Supervisors' remuneration. This Reserve is separate from the funds available to the creditors and has no impact on the level of dividends that are ultimately available for the Company's creditors. The CVA provides that our remuneration will be based upon the time costs of the Supervisors' and their staff in executing the CVA.
- 4 2 The Joint Supervisors' time costs as at 10 October 2007 total £68,873. This represents 396.5 hours at an average rate of £174 per hour. To date, £67,307 plus VAT has been drawn on account of these fees. As stated above, these fees have been drawn from the Remuneration Reserve and are therefore not reflected on the Receipts and Payments account attached at Appendix A. Attached as Appendix B is a Time Analysis in accordance with the provisions of Statement of Insolvency Practice 9 (SIP9), which provides details of the activity costs incurred by staff grade to date.
- 4 3 Please note that when time has been incurred in tasks which relate to a number of Federal-Mogul Group companies which are in CVA, it has not been possible to allocate this time to individual companies and accordingly it has been charged to T&N Limited rather than the individual company. As part of the CVA proposals for all of the T&N companies, a central fee reserve has been set up and the effect of this is that fees drawn will not impact on the level of dividend to the creditors of T&N Limited or the individual company.
- 4 4 Attached, as Appendix C is additional information in relation to our policy on staffing, the use of sub-contractors and re-charging of disbursements.

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4 5 As detailed above, it is anticipated that a further dividend will be made early in 2008 to the agreed unsecured creditors of the Company, bringing the total dividend to 100p/£ We would hope to be in a position to bring the CVA to a close shortly after its second anniversary

Should you require further information, please do not hesitate to contact Stuart Parnham of this office

Yours faithfully

A handwritten signature in black ink, appearing to read 'J J Gleave', with a long horizontal stroke extending to the right.

J J Gleave
Joint Supervisor

Enc

**FEDERAL-MOGUL SEALING SYSTEMS (ROCHDALE) LIMITED - COMPANY
VOLUNTARY ARRANGEMENT (CVA)**

**Receipts and Payments Account for the Period from 11 October 2006
to 10 October 2007**

Appendix A

Voluntary Arrangement of Federal-Mogul Sealing Systems (Rochdale) Limited

	£	£
ASSET REALISATIONS		
Transfer from Administration	2,730,000 00	
Bank Interest Gross	<u>103,446 21</u>	2,833,446 21
COST OF REALISATIONS		
Bank Charges	<u>151 76</u>	(151 76)
PREFERENTIAL CREDITORS		
HMRC - VAT	50,833 33	
HMRC - PAYE/NIC	<u>115,971 06</u>	(166,804 39)
UNSECURED CREDITORS		
Trade & Expense Creditors	570,492 35	
S75 Pension Dividend	<u>581,940 00</u>	(1,152,432 35)
		<u><u>1,514,057 71</u></u>
REPRESENTED BY		
Floating Current A/c		713 85
Floating Dividend A/c		1,146 97
Money Market Account		1,512,196 89
		<u><u>1,514,057.71</u></u>

In accordance with the requirements of Statement of Insolvency Practice 7, I should advise that the Supervisors' fees have been paid from a separate Remuneration Reserve
Fees drawn to date total £67,307 plus VAT

**FEDERAL-MOGUL SEALING SYSTEMS (ROCHDALE) LIMITED - COMPANY
VOLUNTARY ARRANGEMENT (CVA)**

Time Analysis for the Period from 11 October 2006 to 10 October 2007

Appendix B

Federal-Mogul Sealing Systems (Rochdale) Limited

FM14ASM

SIP 9

	Employee Grade				Total Hours	(£'s)	
	Partner/ Director	Senior Associate	Associate/ Analyst	Junior Analysts/Support		Total Cost	Average Rate p/h
Administration and Planning							
Strategy and Control	10 8	6 3	7 6	2 9	27 6	8,972 00	325
Bank and Creditor Reporting	-	0 5	0 4	-	0 9	270 50	301
Creditors Committee	-	-	-	-	-	0 00	-
Statutory Duties	-	0 5	0 4	0 4	1 3	308 50	237
Job Administration	0 3	2 0	1 8	31 8	35 9	4,764 50	133
Cash Accounting and Time Records	1 2	3 2	2 4	9 0	15 8	3,521 00	223
Travel and Waiting Time	-	-	-	-	-	0 00	-
Case Closure	-	-	-	-	-	0 00	-
Internal Documentation and IT	-	0 2	-	1 7	1 9	257 50	136
Investigations							
D Reports	-	-	-	-	-	0 00	-
Other Investigations	-	-	-	1 4	1 4	175 00	125
Internal Documentation	-	-	-	-	-	0 00	-
Realisation of Assets - Fixed Charge							
Initial Actions and Valuations	-	-	-	-	-	0 00	-
Sale of Assets	-	-	-	-	-	0 00	-
Insurance	-	-	-	-	-	0 00	-
Litigation	-	-	-	-	-	0 00	-
Internal and External Documentation	-	-	-	-	-	0 00	-
Realisation of Assets - Debtors							
Debt Collection	-	-	-	-	-	0 00	-
Debtors Litigation	-	-	-	-	-	0 00	-
Crown Debtors	-	-	-	-	-	0 00	-
Internal and External Documentation	-	-	-	-	-	0 00	-
Realisation of Assets - Floating Charge							
Initial Actions and Valuations	-	-	-	-	-	0 00	-
Sale of Assets	-	-	-	-	-	0 00	-
Insurance	-	-	-	-	-	0 00	-
Retention of Title	-	-	-	-	-	0 00	-
Hire Purchase / Leased Assets	-	-	-	-	-	0 00	-
Litigation	-	-	-	-	-	0 00	-
Internal and External Communications	-	-	-	-	-	0 00	-
Trading							
Initial Actions	-	-	-	-	-	0 00	-
Cash Accounting	-	-	-	-	-	0 00	-
Ongoing Trading Activities	-	-	-	-	-	0 00	-
Internal and External Communications	-	-	-	-	-	0 00	-
Creditors							
Creditor Dealings	-	4 4	17 5	64 0	85 9	13,100 00	153
Creditor claims	5 1	32 3	37 6	148 4	223 4	37,049 00	166
Litigation	-	-	-	-	-	0 00	-
Shareholders / Bankrupts	-	-	-	-	-	0 00	-
Internal Documentation	-	1 1	-	1 3	2 4	455 00	190
Employees	-	-	-	-	-	0 00	-
Employee Communications	-	-	-	-	-	0 00	-
Totals	17 4	50 5	67 7	260 9	396 5	68,873 00	174

**Additional Information in Relation to Supervisors' Fees Pursuant to
Statement of Insolvency Practice 9**

Appendix C

1 Policy

Detailed below is Kroll's policy in relation to

- staff allocation and the use of sub-contractors,
- professional advisors, and
- disbursements

1.1 Staff Allocation and the use of Sub-contractors

Our general approach to resourcing our assignments is to allocate staff with the skills and experience to meet the specific requirements of the case

The constitution of the case team will usually consist of a Partner, Senior Associate, Associate and Analyst. The exact constitution of the case team will depend on the anticipated size and complexity of the assignment and on larger, more complex cases, several Associates/Analysts may be allocated to meet the demands of the case

With regard to support staff, we would advise that time spent by cashiers in relation to specific tasks on an assignment is charged. Only if there is a large block of time incurred by a member of the secretarial team, eg, report compilation and distribution, do we seek to charge and recover our time in this regard

We have not utilised the services of any sub-contractors in this case

Professional Advisors

On this assignment we have used the professional advisors listed below. We have also indicated alongside, the basis of our fee arrangement with them, which is subject to review on a regular basis

Name of Professional Advisor	Basis of Fee Arrangement
DWS (legal advice)	Hourly rate and disbursements

Our choice was based on our perception of their experience and ability to perform this type of work, the complexity and nature of the assignment and the basis of our fee arrangement with them

1.2 Disbursements

Category 1 disbursements The type of disbursements that may be charged as a Category 1 disbursement to a case generally comprise of external supplies of incidental services specifically identifiable to the case, such as postage, case advertising, invoiced travel and external printing, room hire and document storage Also chargeable will be any properly reimbursed expenses incurred by personnel in connection with the case

2 Charge-out Rates

With effect from 1 January 2007, certain job titles within our organisation have been re-classified and the new grade titles are shown within the table below These changes do not affect the rates our staff are being charged out at with the exception of staff previously classified as Administrators This grade has now been re-classified to Analyst and as a consequence, the charge out rate as from 1 January 2007 for this level of staff has been increased by an average of £45 per hour

A schedule of Kroll charge-out rates effective from 1 January 2007 is detailed below

	(Per hour) £
Partner/Director	
Partner 1	475
Partner 2	425
Director	395
Senior Associate	
Senior Associate 1	350
Senior Associate 2	325
Associate/Analyst	
Associate	270
Analyst	240
Junior Analyst and Support Staff	
Junior Analyst	125
Senior Treasury Associate	185
Treasury Associate	125
Treasury Analyst	75
Support	75