Federal-Mogul Limited (formerly T&N Limited)

Company Number 163992

Director's report for the year ended 31 December 2009

The director of Federal-Mogul Limited ("the Company") presents his annual report for the year ended 31 December 2009 together with the audited financial statements for the year

Administration and Chapter 11 Proceedings

On 1 October 2001, the Company's then ultimate parent undertaking, Federal-Mogul Corporation and its subsidiaries in the United States voluntarily filed for financial restructuring under Chapter 11 of the US Bankruptcy Code In addition, the majority of Federal-Mogul subsidiaries in the United Kingdom, including the Company, filed jointly for Chapter 11 and Administration under the UK Insolvency Act 1986

On 10 July 2006 the Administrators issued to the creditors their proposals for company voluntary arrangements (CVAs) for the Company and 50 other UK filing subsidiaries These proposals were approved at shareholders' and creditors' meetings held on 7 September 2006 and were confirmed by the UK Court on 11 October 2006 On 1 December 2006, 64 of the UK filing companies, including the Company, exited from UK Administration

On 8 November 2007, the US Bankruptcy Court confirmed Federal-Mogul Corporation's Fourth Amended Joint Plan of Reorganization ("the Plan") and on 14 November 2007 the Plan was affirmed by the US District Court On 27 December 2007, following a 30 day period when objections to the Plan could be raised, the Plan became effective in accordance with its terms (the "Effective Date") and Federal-Mogul Corporation, together with 59 of the UK filing companies, including the Company, emerged from Chapter 11

Significant events

On 7 April 2009 the Company changed its name from T&N Limited to Federal-Mogul Limited

Results and dividends

The profit for the year after tax was £1 9m (2008 profit £3 4m) No dividends are proposed (2008 £nil).

Principal activities and review of the business

The principal activity of the Company continued to be the manufacture and distribution of automotive components for original equipment manufacturers ("OEMs") and aftermarket outlets

The Company considers turnover and operational EBITDA to be its key financial performance indicators Turnover for the year was £161 8m compared with £201 8m in 2008 The most significant factor contributing to the reduction in turnover is an unprecedented downturn in the global automotive industry which caused the OEMs to significantly reduce their global light duty and commercial vehicle production schedules and output EBITDA is a non-GAAP measure defined to exclude impairment charges, restructuring costs, corporation tax expense, interest expense and income, depreciation and amortisation EBITDA for the year was £18 7m compared with £7 2m in 2008 £10 0m of the £11 5m net increase in EBITDA was due to a one-off non-trading transaction that is further described in note 3b

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Federal-Mogul Limited

Company registration number 163992

Director's report for the year ended 31 December 2009 (continued)

Principal risks and uncertainties

The revenue derived from the Company's principal activity is closely linked with global OE automotive sales and production levels Variations in the level of vehicle production would affect not only sales to OE customers but, depending on the reason for the change, could impact demand from aftermarket customers Should the Company fail to respond appropriately to changes in the demand for its products then its results and financial condition could be affected adversely

Research and development

The research and development activities of the Company continue to be directed principally towards the development of new products and to improving the performance and effectiveness of existing products In 2009 expenditure amounted to £4 0m (2008 £4 2m)

Asbestos-related costs

The Company, and a number of its fellow subsidiaries of Federal-Mogul Corporation, are amongst many defendants named in a large number of court actions, both in the United States and the United Kingdom, alleging personal injury resulting from exposure to asbestos or asbestos-containing products

Upon the Plan and CVAs becoming effective an asbestos personal injury trust ("the Trust") was established in the US and the UK Asbestos Trust (the "UK Trust") was established in the UK The terms of the Plan and CVAs limit the assets of the Company that the holder of an Asbestos Claim has recourse to This has the effect of placing a limit on the Company's liability at an amount equal to the value of those assets The assets comprise of the insurance cover under the Hercules Policy which, following a settlement with one of the three reinsurers, has a limit of £471 2m, the Stock Repayment Obligation, £338 0m, and an asset in respect of loans to be provided by the Trusts that will not be required to be repaid, £28 8m Thus the assets have a total value of £838 0m so the liability has been fixed at £838 0m

The terms of the Plan and CVAs are such that the Director considered derecognition of the assets and liabilities is the most appropriate way of reflecting these liabilities and related liabilities and this was reflected in the 2007 accounts

Further information is included in note 19 of the financial statements

Directors and senior executive

The following served as directors of Federal-Mogul Limited during the year

D Bozynski, resigned 27 January 2009
L D Hangran, appointed on 27 January 2009

Federal-Mogul Limited

Company registration number 163992

Director's report for the year ended 31 December 2009 (continued)

Employees and employment policies

The Company has over 1,200 employees located in the UK

It is the Company's policy to provide equal opportunities to all employees The Company provides appropriate training at all levels and is committed to helping employees to develop their full potential by gaining relevant skills and experience

Full and fair consideration is given to applications for employment made by disabled persons Employees who become disabled will be retained in employment wherever possible and, where necessary, appropriate retraining will be provided

The Company places considerable emphasis on regular and effective communications with employees on matters of concern to them The Company involves and consults employees on matters concerning its performance

Creditor payment policy

It is Company policy to

(i) agree the terms of payment when agreeing the terms of the transaction,
(ii) ensure that the supplier is aware of the terms of payment, and
(iii) abide by those terms

Trade creditor days of the Company as at 31 December 2009 were 50 1 days (2008 28 3 days)

Treasury Policies

Financial Instruments

The Company's financial instruments comprise cash at bank, balances with group undertakings and trade debtors and creditors arising from normal operations These financial instruments are used to fund the Company's operations It is Company policy that no trading in financial instruments be undertaken

Interest Rate Risk

There are no bank borrowings so interest rate risk arises only from those intra-group loans which bear interest A number of these loans carry interest at a floating rate since the rate is linked to bank base rate However, no specific action is taken to hedge the corresponding interest rate exposure since there is minimal risk to the Group as a whole

Foreign currency risk

Several intra-group loans are denominated in foreign currencies and a significant element of export sales are invoiced in foreign currencies As a member of a multi-national group, the Company does not hedge currency exposure It is not considered appropriate to do so in connection with intra-group loans or intra-group trading and exposure to risk relating to third party export sales is mitigated by using foreign currency receipts to meet payments to overseas suppliers However, foreign currency is held for only short periods, the general policy being to convert all cash transactions to sterling as soon as possible

Federal-Mogul Limited

Company registration number 163992

Director's report for the year ended 31 December 2009 (continued)

Treasury Policies (continued)

Credit Risk

The Company's objective is to reduce the risk of financial loss due to a counterparty's failure to honour its obligations This is achieved by each operating division being responsible for assessing the credit risk associated with accepting production schedules from customers and for managing shipments and receivables within pre-determined credit limits Similarly, in respect of intra-group loans resulting from Federal-Mogul Group's policy to use cash surpluses in one area of the business to meet funding requirements in another, credit risk is assessed by a central treasury department

Liquidity Risk

The Company aims to mitigate liquidity risk by managing cash generation by its operations Formal approval procedures apply within each operating unit in respect of capital expenditure and cash flow is managed through regular forecasting and management review of operating results at all levels of the company

Donations

The Company made charitable donations amounting to £4,317 (2008 £6,914) in the year The largest single donation was £1,200 made to a hospice, local to one of the UK manufacturing sites Remaining donations were in support of local charities and community projects in the vicinity of the other UK manufacturing sites There were no political donations

Disclosure of information to auditors

In accordance with s 418(2) of the Companies Act 2006 the director

- is not aware of any relevant audit information of which the Company's auditors are unaware, and
- has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

On behalf of the Board

L. D. Hangran
Director
Date: June 11th 2010

Federal-Mogul Limited

Statement of the director's responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FEDERAL-MOGUL LIMITED

We have audited the Company's financial statements for the year ended 31 December 2009 which comprise the Profit & Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 22 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on Financial Statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FEDERAL-MOGUL LIMITED (CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Barry Flynn (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Manchester

21 June, 2010

Federal-Mogul Limited

Profit and loss account for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Total Turnover		161 8	201 8
Cost of sales		(142 7)	(171 6)
Gross profit		19 1	30 2
Other operatıng expenses	3(a)	(23 6)	(40 7)
Other operatıng ıncome	3(b)	16 7	4 9
Operating profit / (loss) on ordinary activities		12 2	(5 6)
Net ınterest receıvable	4	3 4	3 9
Profit / (loss) on ordınary activıtıes before taxation	3	15 6	(1 7)
Tax on profit / (loss) on ordınary actıvıtıes	5	(13 7)	5 1
Profit on ordınary actıvitıes after taxation		1 9	3 4
Profit attrıbutable to shareholders		1 9	3 4

The results above all relate to contınuıng operatıons.

There ıs no materıal dıfference between the result as dısclosed ın the profit and loss account and the result on an unmodıfied hıstorıcal cost basıs for both perıods

Federal-Mogul Limited

Balance sheet as at 31 December 2009

	Notes	2009 £m	2008 £m
Fixed assets			
Tangible assets	9	37 1	39 5
Investments	10	496 9	499 9
		534 0	539 4
Current assets			
Stocks	11	14 2	15 8
Debtors falling due within one year	12	128 5	144 7
Debtors falling due after more than one year	12	4 7	6 4
		133 2	151 1
Cash at bank and in hand		102 3	75 6
		249 7	242 5
Creditors: Amounts falling due within one year	13	(57 5)	(66 7)
Net current assets		192 2	175 8
Total assets less current liabilities		726 2	715 2
Creditors: Amounts falling due after more than one year	14	(497 9)	(488 8)
Net assets		228 3	226 4
Capital and reserves			
Called up share capital	15	222 2	222 2
Share premium account	16	11 0	11 0
Special reserve	16	64 2	64 2
Capital contribution reserve	16	338 0	338 0
Profit and loss account	16	(407 1)	(409 0)
Shareholders' funds - equity		228 3	226 4

The financial statements on pages 8 to 25 were approved by the Board on June 17th 2010 and signed on its behalf by

L D Hangran
Director

Federal-Mogul Limited

Statement of total recognised gains and losses

The Company has no recognised gains or losses other than the profit for the years ended 31 December 2009 and 31 December 2008

Reconciliation of movements in shareholders' funds

For the year ended 31 December	2009 £m	2008 £m
Shareholders' funds at start of year	226 4	223 0
Profit attributable to shareholders	1 9	3 4
Shareholders' funds at end of year	228 3	226 4

Federal-Mogul Limited

Notes to the financial statements for the year ended 31 December 2009

1. Accounting policies

The Company follows applicable UK Accounting Standards and Practice The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain classes of fixed assets.

Deferred tax

The taxation charge is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax with the following exceptions:

- Provision is made for tax on gains arising from the revaluation of fixed assets and gains on disposals of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a binding agreement to dispose of the replacement assets concerned However, no provision has been made where on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold

- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable

- Deferred tax assets are recognised only to the extent that the director considers that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Depreciation and Impairment

Depreciation is provided on cost or the revalued amount, as applicable, to write tangible fixed assets, other than freehold land, down to their estimated residual values on a straight line basis as follows.

- Freehold buildings, 2 5% per annum.
- Leasehold buildings are assumed to have a life equal to the period of the lease, but with a maximum of 40 years
- Plant and machinery, at rates ranging from 7% to 33% per annum

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Tangible fixed assets are stated at cost / valuation less accumulated depreciation and accumulated impairment losses

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currency are recorded at the rate ruling at the date of transaction Any monetary assets or liabilities denominated in foreign currency are retranslated at the year end rate Exchange differences on transactions in foreign currencies are included in the profit and loss account

Grants

Grants related to expenditure on tangible fixed assets are credited to profit over a period approximating to the lives of qualifying assets Grants receivable to date, less the amounts so far credited to profit, are included in creditors

Investments

Fixed asset investments are stated at cost less provision for any impairment

Leasing

Operating lease rentals are charged to the profit and loss account on a straight line basis over the life of the lease

Pensions Costs

The Company has adopted FRS 17 "Retirement Benefits" in the accounts

The Company operates a defined contribution scheme in the form of a stakeholder plan Contributions to this scheme are recognised in the income statement in the period in which they become payable

Further information on pension arrangements is set out in Note 7 to the accounts.

Research and development

Research and development revenue expenditure, including all expenditure on internally generated patents and trademarks, is written off when incurred.

Stocks

Stocks are stated at the lower of original cost and net realisable value on a first-in first-out basis. Cost comprises materials, labour and an allocation of attributable overhead expenses Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation

1. Accounting policies (continued)

Revenue Recognition

Revenue is recognised to the extent that the Company obtains the right to consideration in exchange for its performance Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty The following criteria must also be met before revenue is recognised

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods

Interest income

Revenue is recognised as interest accrues

2. Consolidation and related party disclosures

The Company's ultimate parent undertaking is Icahn Enterprises L P , a company listed on the New York Stock Exchange The Company is included in the consolidated financial statements of Icahn Enterprises L P , which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996) The Company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Icahn Enterprises Group or investees of the Icahn Enterprises Group

The Company and all of its subsidiary undertakings are included in consolidated accounts for a larger group, Federal-Mogul Corporation, drawn up to the same date in the same financial year and those accounts are drawn up in accordance with the provisions of the Seventh Directive (83/349/EEC) or in a manner equivalent to consolidated accounts and consolidated annual reports so drawn up Accordingly the Company, in accordance with the exemption in s 401 of the Companies Act, has not prepared consolidated financial statements The financial statements therefore contain information about Federal-Mogul Limited as an individual company and not as a group

The Company has not presented segmental information required by the Companies Act 2006 as, in the opinion of the director, this disclosure would be seriously prejudicial to the interests of the Company

3. Analysis of results

(a) Other operating expenses	2009 £m	2008 £m
Distribution costs	7 6	8 5
Administrative expenses	16 0	32 2
Other operating expenses	23 6	40 7

Costs of operations charged in arriving at operating profit include £1 0m (2008 £7 2m) in respect of redundancy and rationalisation £nil of these costs (2008 £0 5m) have been charged as costs of sales and £1 0m (2008 £6 7m) as administration expenses

(b) Other operating income

Other operating income includes £10 0m receivable following the assignment in 2009 to the Federal-Mogul Asbestos Personal Injury Trust of certain rights and interests in any surplus assets of the Chester Street and the Chester Street Hercules Funds, funds of the UK Asbestos Trust that were established in 2006 upon the CVAs becoming effective

(c) Profit before taxation is stated after charging/(crediting):	2009 £m	2008 £m
Auditor's remuneration		
- Audit of company financial statements	0 1	0 3
- Audit of UK subsidiary companies	0 1	0 1
- Other fees to auditors – taxation services	0 1	0 9
Research and development	4 0	4 2
Depreciation of tangible fixed assets		
- owned assets	5 5	5 6
Operating lease rentals		
- on plant and machinery	0 9	1 2
- on land and buildings	0 3	0 5
Loss / (profit) on disposal of fixed assets – continuing operations	0 1	-
Loss on foreign exchange movements	1 5	3 0

The auditors of the Company also received fees of £nil (2008 £nil) in connection with the audit of the T&N Retirement Benefits Scheme (1989) In addition the auditors of the Company also received audit fees for auditing the accounts of the Company's overseas subsidiary undertakings of £0 1m (2008 £0 2m)

4. Net interest receivable	2009 £m	2008 £m
Interest payable on group loans	(2 7)	(10 2)
Other interest	-	(0 1)
Exchange loss movement on loans denominated in a foreign currency	(3 4)	(7 1)
	(6 1)	(17 4)
Interest receivable on group loans	2 4	9 5
Interest receivable on deposits	1 6	2 4
Other interest	2 7	0 7
Exchange gain movement on loans denominated in a foreign currency	2 8	8 7
	9 5	21 3
Net interest receivable	3 4	3 9

5. Tax on profit / (loss) on ordinary activities

(a) Analysis of tax charge / (credit) in the period		2009 £m	2008 £m
Current year UK corporation tax at 28% (2008 28 5%) on the profit / (loss) for the period		-	(14 7)
Adjustments in respect of previous periods		(6 8)	(0 5)
Group relief receivable	–prior period	16 6	(1 1)
Advance corporation tax	- current period	-	9 8
	- prior period	3 6	1 2
		13 4	(5 3)
Overseas taxation paid		0 3	0 2
Total current tax (note 5(b))		13 7	(5 1)
Deferred tax (note 17)		-	-
Tax on profit / (loss) on ordinary activities recorded in the profit & loss account		13 7	(5 1)

Advance corporation tax ("ACT") relates to ACT written off / (recoverable) in the year and a reduction in surrendered ACT for which payment has fallen due

Federal-Mogul Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

5. Tax on profit on ordinary activities (continued)

(b) Factors affecting current tax charge / (credit) for period

The tax assessed on the profit / (loss) on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 28% (2008 28 5%) The differences are explained below

	2009 £m	2008 £m
Profit / (loss) on ordinary activities before taxation	15 6	(1 7)
Profit / (loss) on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2008 28 5%)	4 3	(0 5)
Effect of		
Expenses not deductible for tax purposes	1 2	0 3
Impact of pension payments deferred to subsequent periods	(14 9)	(18 2)
Decelerated capital allowances	1 5	0 2
Movement in net asbestos costs	(0 4)	(2 7)
Higher taxes on overseas earnings	0 3	0 2
ACT written off	-	9 8
Current year losses not recognised	6 9	-
Group relief surrendered for no consideration	1 4	6 9
Adjustment to prior year group relief surrendered for consideration	16 6	(1 1)
Adjustment to prior year surrendered ACT for which payment has fallen due	3 6	1 2
Adjustment to prior year corporation tax liability	(6 8)	(0 5)
Difference in tax rates in respect of loss carried back from 2008 to 2007	-	(0 7)
Current tax charge / (credit) for period (Note 5(a))	13 7	(5 1)

In 2009 tax relief arises in respect of £50 0m (2008 £50 2m) of the £201m contribution to a defined benefit pension scheme in 2006 – see note 5(c) for further details Tax relief also arises in respect of £2 7m (2008 £13 0m) in respect of payments made by the Supervisors to meet liabilities arising under S 75 of the Pension Act 1995 – see note 5(c) for further details

(c) Factors that may affect future tax charges

Total tax losses of approximately £220 0m (2008 £183 0m) are carried forward for utilisation against future profits These losses will only be recognised as a deferred tax asset when such utilisation is foreseeable

In 2007 asbestos related personal injury liabilities and related recoverables have been derecognised following the Plan, as further explained in note 19 Tax relief for payments in respect of asbestos liabilities derecognised following the Plan is expected to arise in the year of payment Amounts recoverable under relevant asbestos insurance assets derecognised following the Plan are expected to be taxed in the years in which sums are received

The Company made contributions to a defined benefit pension scheme of £200 8m in 2006 The Company is required to spread its claim for tax relief in respect of this sum in equal instalments over four years commencing in 2006

Under the terms of the CVA in 2006, the Company set aside funds in bank accounts over which the Supervisors have control which are used to make payments to holders of relevant CVA claims, in respect of asbestos liabilities which are to be settled out of funds in the CVA reserves under the terms of the CVA, tax relief is expected to arise in the years in which the Supervisors make payments

5 Tax on profit on ordinary activities (continued)

(c) Factors that may affect future tax charges (continued)

In 2006 the Company set aside in the CVA reserves £65 3m under the terms of the CVA to meet liabilities arising under Section 75 of the Pension Act 1995 Tax relief in respect of this sum is expected to arise in the years in which the Supervisors make payments

Note 19 makes reference to the Stock Repayment Obligation of £338m which has been assigned to the Company in 2007 by way of capital contribution The SRO asset has subsequently been derecognised following the Plan The Company may avail itself of the benefit of the SRO to meet established asbestos personal injury claims To the extent that it does so the capital contribution will be released to profit and loss account reserves and the amounts so released will be taxable in the year of release

The Company's potential deferred tax assets take account of an estimate of the potential future tax relief that is expected to arise in the Company from payment of derecognised creditors The Company's potential deferred tax liabilities take account of an estimate of the potential future taxable profits that are expected to arise in the Company from receipts in respect of derecognised assets and from releases from the capital contribution to the profit and loss account reserves

The potential tax benefits arising from net asbestos and pension payments and from funds in the CVA reserves will only be recognised when those benefits are foreseeable

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, associates or joint ventures

No deferred tax has been provided for tax that may become payable if revalued assets are disposed of at their revalued amounts

Advance corporation tax of £33 1m (2008 £18 8m), none of which is recognised in the accounts, is available to carry forward against future UK tax liabilities

6 Employees

Monthly average number of employees	2009	2008
Manufacturing	792	1,048
Selling and Marketing	32	43
Research and Development	57	68
Administrative	259	305
	1,140	1,464

Employment costs	2009 £m	2008 £m
Wages and salaries	32 5	40 8
Social security costs	3 5	4 9
Net pension charge (Note 7)	2 7	2 7
Redundancy payments	0 8	3 6
	39 5	52 0

7 Pensions commitments

	2009 £m	2008 £m
Defined contribution scheme	2 7	2 7

The Company operates a defined contribution scheme in the form of a stakeholder plan

In 2009 costs were £2 7m (2008 £2 7m) As at 31 December 2009 outstanding employer contributions of £0 3m (2008 £0 1m) were included in Creditors – Amounts falling due within one year

In 2009 there are no other significant post-employment benefits

8. Director's emoluments

The director of the Company has not received any emoluments in respect of his services as a director of the Company (2008 £nil)

The director was not a member of the Company's defined contribution pension scheme in 2009 or 2008

9. Tangible fixed assets	Land and buildings	Plant and machinery	Total
Cost or valuation	£m	£m	£m
At 1 January 2009	18 6	159 4	178 0
Additions	0 1	3 6	3 7
Disposals	(0 4)	(8 1)	(8 5)
Transfers to Group companies	-	(1 1)	(1 1)
At 31 December 2009	18 3	153 8	172 1
Depreciation	£m	£m	£m
At 1 January 2009	7 5	131 0	138 5
Disposals	(0 4)	(7 6)	(8 0)
Transfers to Group companies	-	(1 0)	(1 0)
Charge for the year	0 4	5 1	5 5
At 31 December 2009	7 5	127 5	135 0
Net book value			
At 31 December 2009	10 8	26 3	37 1
At 31 December 2008	11 1	28 4	39 5

Included in the cost of fixed assets are plant and machinery in the course of construction of £2 3m (2008 £2 1m) Assets in the course of construction are not depreciated

Net book value of land and buildings	2009 £m	2008 £m
Freehold land – not depreciated	3 6	3 6
Freehold buildings	7 1	7 3
Short leasehold	0 1	0 2
	10 8	11 1

Net book value of tangible fixed assets based On historic cost	Land and buildings £m	Plant and machinery £m	Total £m
Cost (or ascribed value)	10 8	153 8	164 6
Depreciation	(3 8)	(127 5)	(131 3)
Net book value based on historic cost			
At 31 December 2009	7 0	26 3	33 3
At 31 December 2008	7 1	28 4	35 5

Federal-Mogul Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

10. Fixed asset investments

	Subsidiary Undertakings Shares £m	Subsidiary Undertakings Loans £m	Total £m
Cost			
At 1 January 2009	618 4	3 7	622 1
Dissolution of subsidiaries	(7 3)	(2 7)	(10 0)
Repayments	-	(0 7)	(0 7)
Currency translation	-	(0 1)	(0 1)
At 31 December 2009	611 1	0 2	611 3
Provisions			
At 1 January 2009	(119 3)	(2 9)	(122 2)
Dissolution of subsidiaries	5 0	2 7	7 7
Reduction in year	-	0 1	0 1
At 31 December 2009	(114 3)	(0 1)	(114 4)
Net book value			
At 31 December 2009	496 8	0 1	496 9
At 31 December 2008	499 1	0 8	499 9

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are disclosed below Advantage has been taken of the exemption in S231(5) of the Companies Act whereby, due to the large number of undertakings in respect of which the Company would be required to make disclosure, disclosure has only been made in respect of those undertakings whose results or financial position principally affect the financial statements

Name of Company	Country of incorporation if outside Great Britain	Holding	Proportion of voting rights and shares held %	For the year ending (*)	Aggregate amount of capital and reserves at the end of its most recent financial year £m	Profit or (loss) for the year £m	Nature of Business
AE Limited		Ordinary shares	64 94	31 12 09	42 6	0 1	Holding company
Federal-Mogul Friction Products a s	Czech Republic	Registered shares	100	31 12 08	101 0	12 7	Automotive friction materials
Federal-Mogul Export Services Limited		Ordinary shares	100	31 12 09	4 1	-	Export sales company
FDML Holdings Limited #		Ordinary shares	100	31 12 09	430 5	56 4	Holding company

* Financial information taken from the audited financial statements

On 11 February 2009 T&N Holdings Limited changed its name to FDML Holdings Limited

10. Fixed asset investments (continued)

In accordance with FRS11, the director has compared the carrying value of investments to their value in use to the Company and recorded an impairment charge for any individual investments that he considered impaired

The value in use has been derived from discounted cash flow projections using a nominal discount rate of 11 5% (2008 12 5%) on a pre-tax basis Long-term growth rates consistent with each applicable global industry sector, ranging from 1 6% to 3%, have been assumed for all years

The Company's principal subsidiaries, associated undertakings and trade investments are listed in note 20

11. Stocks

	2009 £m	2008 £m
Raw materials	2 4	2 6
Work in progress	1 4	1 6
Finished goods	10 4	11 6
	14 2	15 8

The difference between purchase price or production cost of stocks and their replacement cost is not material

12. Debtors

Debtors falling due within one year	2009 £m	2008 £m
Trade debtors	23 6	25 1
Amounts owed by fellow subsidiaries	97 4	109 5
Taxation – United Kingdom corporation tax	-	2 1
Prepayments and accrued income	0 6	1 3
Other debtors	6 9	6 7
	128 5	144 7
Debtors falling due after more than one year		
Amounts owed by fellow subsidiaries	1 5	-
Other debtors	3 2	6 4
	4 7	6 4

13. Creditors – Amounts falling due within one year

	2009 £m	2008 £m
Trade creditors	10 3	7 8
Amounts owed to fellow subsidiaries	33 9	40 2
Payroll and other taxes, including social security	1 3	1 4
Taxation – United Kingdom corporation tax	1 1	-
Accruals, deferred income and other creditors	10 9	17 3
	57 5	66 7

14. Creditors – Amounts falling due after more than one year

	2009 £m	2008 £m
Amounts owed to fellow subsidiaries	497 9	488 8
	497 9	488 8

15. Called up share capital

Ordinary shares of 40p each	Authorised No. of shares	Authorised £m	Issued and fully paid No of shares	Issued and fully paid £m
At 1 January 2009	725,000,000	290 0	555,358,973	222 2
At 31 December 2009	725,000,000	290 0	555,358,973	222 2

Federal-Mogul Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

16. Reserves

	Share premium Account £m	Special Reserve £m	Capital contribution reserve £m	Profit and loss account £m
At 1 January 2009	11 0	64 2	338 0	(409 0)
Profit attributable to shareholders	-	-	-	1 9
At 31 December 2009	11 0	64 2	338 0	(407 1)

The special reserve was established in 1997 on a reduction in capital and is not distributable

In 2005 a non-returnable capital contribution of £13 2m was received from Federal-Mogul Corporation This amount is distributable in future periods, subject to part 23 of the Companies Act 2006

In accordance with the terms of Federal-Mogul Corporation's Fourth Amended Joint Plan of Reorganization ("the Plan") the U S Asbestos Trust ("the Trust") subscribed for 57 5% of the Reorganized Federal-Mogul Class B Common Stock for the subscription price of £338,000,000, such sum being left outstanding as a debt owing by the Trust to Reorganized Federal-Mogul

On 27 December 2007 Reorganized Federal-Mogul assigned and transferred to the Company by way of capital contribution all of its right, title and interest in and to such debt, the "Stock Repayment Obligation" (SRO)

This amount was included as a capital reserve as it was not realised at that time A transfer is made between the Capital Contribution Reserve and the Profit and Loss Account as the amounts are realised by reduction of the SRO during the year A reduction in the SRO occurs either by setting off against the liability in respect of an Asbestos Claim an equivalent amount of the SRO, or by the Trust paying the whole or part of the SRO to the Company for the purpose of enabling the Company to satisfy the liability in respect of an Asbestos Claim There have been no such transactions during the year

17. Deferred Taxation

Deferred tax provided	**2009 £m**	**2008 £m**
Accelerated capital allowances	-	2 9
Asbestos related costs	-	(2 3)
Other timing differences	-	(0 6)
Provision for deferred tax	-	-

	Asbestos related costs £m	Other timing differences £m	Total £m
At 1 January 2009	(2 3)	2 3	-
Adjustments in respect of previous periods	2 3	(2 3)	-
At 31 December 2009	-	-	-

Unprovided assets	**2009 £m**	**2008 £m**
Decelerated capital allowances	(1 4)	-
Asbestos related costs	(6 9)	(5 1)
Pensions	(0 3)	(15 2)
Other timing differences	(0 3)	-
Losses	(61 5)	(51 3)
	(70 4)	(71 6)

Federal-Mogul Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

18. Commitments and contingent liabilities	2009 £m	2008 £m
Future capital expenditure – contracts placed	0 8	0 8
Operating leases - payment commitments for 2009		
On leases of land and buildings expiring		
- within one year	0 1	-
- between two and five years	-	-
- in more than five years	0 2	0 2
	0 3	0 2
On leases of plant and machinery expiring		
- within one year	0 2	0 3
- between two and five years	0 3	0 4
	0 5	0 7

Contingent liabilities also exist in respect of cross-guarantees given by the Company and its UK subsidiaries to support some of the Group's UK banking facilities amounting to £nil (2008 £nil)

19. Asbestos-related personal injury litigation

Background

The Company, and a number of its fellow subsidiaries of Federal-Mogul Corporation, are amongst many defendants named in a large number of court actions, both in the United States and the United Kingdom, alleging personal injury resulting from exposure to asbestos or asbestos-containing products

In 1996, the Company purchased a £500m layer of insurance (the "Hercules Policy") to cover asbestos-related disease claims against the T&N Group, which will be triggered should the aggregate cost of asbestos personal injury claims made or brought against the Company or any of its subsidiaries listed in Schedule B to the Hercules Policy after 12 01 GMT on 1 July 1996, where the asbestos-related exposure consists at least in part of exposure to asbestos, asbestos products, asbestos fibres or asbestos dust mined, manufactured, sold, installed or distributed prior to that date, exceed £690m (the Company and such subsidiaries are referred to as "Hercules-Protected Entities")

In December 2001 one of the three reinsurers, who each had a third share of the policy, challenged the validity of its reinsurance contract with the Company As a result of this lawsuit a claim was also made against the broker that assisted in procuring the policy Under the terms of a settlement (the "Settlement") reached by the parties, it was agreed that the reinsurer and the broker would be liable, in total, for 82 75% of the one third share of the reinsurance policy, the Company effectively bearing the remaining 17 25% of the one third share (or approximately £28 75 million) Therefore the total effective coverage provided by all three reinsurers (including the broker) is 94 25% (the "Repayment Percentage") The Bankruptcy Court approved the settlement in November 2006

Impact of the Chapter 11 Filing and UK Administration Orders

On 1 October 2001, the Company's then ultimate parent undertaking, Federal-Mogul Corporation, and its subsidiaries in the United States voluntarily filed for financial restructuring under Chapter 11 of the US Bankruptcy Code In addition, the majority of Federal-Mogul subsidiaries in the United Kingdom, including the Company, filed for Chapter 11 and petitioned for and were granted an administration order under the UK Insolvency Act 1986 Federal-Mogul Corporation, together with its US and UK affiliates that commenced bankruptcy proceedings in the United States, including those that commenced administration proceedings in the United Kingdom, are referred to collectively as the "Debtors" The proceedings were commenced in response to a sharply increasing number of asbestos-related claims and their demand on the Debtors' cash flows and liquidity

19. Asbestos-related personal injury litigation (continued)

Impact of the Chapter 11 Filing and UK Administration Orders (continued)

On 10 July 2006 the administrators issued to the creditors their proposals for company voluntary arrangements ("CVAs") for the Company and 50 other UK subsidiaries (together, the "CVA Companies") The CVAs enabled the CVA Companies to agree formally a composition or scheme of arrangement with their creditors determining how their debts should be paid and in what proportions such debts would be settled These proposals were approved at shareholders' and creditors' meetings of the CVA Companies held on 7 September 2006 and became effective on 11 October 2006 (the "Effective Date of the CVAs") On 1 December 2006, the Company, and a further 63 of the UK companies, exited from UK administration

On the Effective Date of the CVAs, a UK Asbestos Trust (the "UK Trust") was established pursuant to the UK Asbestos Trust Deed Claims made under the terms of the CVAs (which include asbestos personal injury claims against any CVA Company where the alleged exposure occurred within the UK or Australia and certain other claims) are required to be asserted through the agency of the UK Trust and are referred to as "CVA Asbestos Claims" The holder of a CVA Asbestos Claim (as defined in the CVAs) is given under the CVAs a claim against the UK Trust equivalent to the CVA Asbestos Claim that he holds against the CVA Company, this is referred to as a "Trust Claim" The holder of a Trust Claim will not receive the full value of his Trust Claim out of the trust funds forming the UK Asbestos Trust but instead will receive a dividend based on the total claim at a level to be set from time to time by the UK Asbestos Trustee Asbestos personal injury claims against Debtors which did not fall within the definition of "CVA Asbestos Claims" were left to be dealt with by the US plan of reorganization

On 8 November 2007, the US Bankruptcy Court confirmed Federal-Mogul Corporation's Fourth Amended Joint Plan of Reorganization ("the Plan") In early 2007, the Debtors and other Plan Proponents had solicited votes to accept or reject the Plan through a process approved by the US Bankruptcy Court The Plan Proponents comprised the overwhelming majority of significant stakeholders in the Chapter 11 Cases, including representatives of the holders of current and future asbestos-related personal injury claims against the Debtors On 15 June, 2007, the results of the Plan voting process with the US Bankruptcy Court showed that all classes of claims against and equity interests in the Debtors voted to accept the Plan by margins in excess of the US Bankruptcy Code requirements All classes of asbestos personal injury claims voted to accept the Plan by margins in excess of those required for the imposition of an asbestos trust and channeling injunction pursuant to section 524(g) of the Bankruptcy Code, which allows a Debtor to establish a funded trust to assume liability for all existing and future asbestos personal liability claims against it The legal representative for future asbestos personal injury claimants also supported approval of the Plan The Plan provides for distributions of cash and/or securities to be made to holders of pre-Petition date (i e before 1 October 2001) claims against the Debtors as well as certain claims that arose during the period that the Debtors were in Chapter 11 On 14 November 2007, the Plan was affirmed by the US District Court On 27 December 2007, following the expiration of a 30 day period when objections to the Plan could be raised, the Plan became effective in accordance with its terms (the "Effective Date of the Plan") and Federal-Mogul Corporation together with 59 of the UK filing companies, including the Company, emerged from their proceedings under Chapter 11 of the US Bankruptcy Code

On the Effective Date of the Plan, an asbestos personal injury trust ("the US Trust") was established pursuant to Section 524(g) of the US Bankruptcy Code Claims made under the terms of the Plan against any Debtor that was a Hercules-Protected Entity are required to be asserted through the agency of the US Trust and are referred to as "Debtor HPE Asbestos Claims" The definition of "Debtor HPE Asbestos Claim" excludes any CVA Asbestos Claim (so that UK and Australian claims are not included) The holder of a Debtor HPE Asbestos Claim (as defined in the Plan) is given under the Plan a claim against the US Trust equivalent to the Asbestos Personal Injury Claim that he holds against the Hercules-Protected Entity, this is referred to in the Plan as a "Trust Claim" The holder of a Trust Claim will not receive the full value of his Trust Claim out of the trust funds forming the US Asbestos Trust, but instead will receive a dividend based on the total claim at a level set from time to time by the US Asbestos Trustees CVA Asbestos Claims against CVA Companies continue to be dealt with by the CVAs

Federal-Mogul Limited

19. Asbestos-related personal injury litigation (continued)

Assumption of liabilities by the US Trust

Pursuant to and subject to the terms specified in the Plan, the US Trust assumed all liability for asbestos personal injury claims against the Reorganized Hercules-Protected Entities in excess of both (i) the Hercules Retention (being the remaining amount of the limit of £690 million as defined by the Hercules Policy) and the Hercules Coverage (being the £500 million insurance coverage provided under the Hercules Policy, subject to the Settlement) and (ii) all other sums as are attributable to or otherwise represent the Hercules Recoveries (being amounts recovered under the Hercules Policy) to the extent such amounts exceed the Hercules Coverage

Under the terms of the Plan, upon the Hercules Policy Expiry Date (as defined in the Plan), the US Trust will assume liability for all remaining Asbestos Personal Injury Claims (other than those covered by employer's liability insurance) The "Hercules Policy Expiry Date" includes the date on which the Hercules Policy ceases to have effect whether by commutation or settlement

Under the terms of the Plan, the US Trust subscribed for 57 5% of the Reorganized Federal-Mogul Class B Common Stock for the subscription price of £338m (being an amount approximately equal to the remaining Hercules Retention under the Hercules Policy), such sum being left outstanding as a debt owing by the US Trust to Reorganized Federal-Mogul Immediately following this subscription Reorganized Federal-Mogul assigned and transferred to the Company by way of capital contribution all of its right, title and interest in such debt, known as the "Stock Repayment Obligation", thereby ensuring that established Debtor HPE Asbestos Claims can be paid by being offset against the Stock Repayment Obligation

The Stock Repayment Obligation shall be payable by offset, in whole or in part, upon notice by either the Company to the US Trust or by the US Trust to the Company in exercise of the option to offset provided for under the terms of the Plan, or shall be payable, in whole or in part, upon notice by the US Trust to the Company in exercise of the option to make payment provided for under the terms of the Plan To the extent that it has not been paid at any earlier date the Stock Repayment Obligation shall be payable 20 years after the Effective Date of the Plan

Derecognition of Asset and Liability

The Director has considered the terms of the Plan and the CVAs and discussed these with the Company's advisers

Whilst the terms of the Plan and the CVAs do not result in the legal release of the liabilities up to the amounts of the Hercules Retention and the Hercules Coverage, they provide that, in relation to the liabilities for asbestos personal injury claims, the Company will not incur net cash outflows In addition the US Trust and/or UK Trust should bear all risks due to circumstances such as the insolvency or liquidation of any insurance carrier or the broker, the inability to substantiate claims under the Hercules Policy, reduced liquidity of the US Trust and/or UK Trust, or reduced levels or complete exhaustion of assets available to the US Trust and/or UK Trust to settle asbestos personal injury claims The recourse of the US Trust and the UK Trust in respect of asbestos personal injury claims is limited by reference to certain of the Company's assets, being essentially the Stock Repayment Obligation and the proceeds of the Hercules Policy The assets concerned will be utilised by the US Trust and the UK Trust to settle the liabilities arising with no prospect of any residual benefit to the Company, and thus the Company will not have access to or benefit from these assets which do not represent future economic benefits that are controlled by the Company Therefore the Director considered that derecognition of the assets and liabilities was the most appropriate way of reflecting these transactions There has been no movement in respect of these balances during the year (see the following table)

	Insurance Recoverable and US Trust Loan Asset £m	Stock Repayment Obligation £m	Asbestos Related Provision £m	Net Asset / (Liability) Position £m
Balances as at 31 12 08	500 0	338 0	(838 0)	0 0
Balances as at 31 12 09	500 0	338 0	(838 0)	0 0

20 Principal subsidiary and associated undertakings and trade investments at 31 December 2009

Holding Companies	
FDML Holdings Ltd (formerly known as T&N Holdings Limited) +	UK
Federal-Mogul UK Investments Ltd (formerly known as T&N Investments Limited)	UK
Powertrain	
Federal-Mogul Bradford Ltd	UK
Federal-Mogul Piston Segman (50%)#	Turkey
Federal-Mogul Izmit (44 1%)#	Turkey
Dongsuh Industrial Company Ltd (50%)#	South Korea
Anqing TP Goetze Piston Ring Company Ltd (35 7%)#	China
Friction Products	
Federal-Mogul Friction Products Ltd	UK
Federal-Mogul Friction Products a s +	Czech Republic
Federal-Mogul Friction Products SA	Spain
K-B Autosys Co Ltd (33 61%)	South Korea
Federal-Mogul Friction Products Company	China
Federal-Mogul Friction Products (Thailand) Ltd	Thailand
Engine Parts Aftermarket	
Federal-Mogul Aftermarket UK Ltd	UK
Sealing Products	
Federal-Mogul Sealing Systems Ltd	UK
Federal-Mogul Sealing Systems Company	China
Camshafts	
Federal-Mogul Camshaft Castings Ltd	UK
Powder Metal Products	
Federal-Mogul Sintered Products Ltd	UK
Systems Protection	
Federal-Mogul Japan KK	Japan

Apart from FDML Holdings Limited and Federal-Mogul UK Investments Limited, the UK companies operate as branches of Federal-Mogul Limited All the above companies traded during the year

Unless otherwise shown, investments in overseas companies are held by subsidiaries of FDML Holdings Limited The companies are incorporated and operate principally in the countries indicated Equity investments are wholly owned, unless otherwise shown, and consist of ordinary shares

Associated undertakings
* Trade investments
+ Held directly by Federal-Mogul Limited

21 Related Party Transactions

The Company has taken advantage of the exemption in FRS8 (amended 2008) Related Party Disclosures not to disclose related party transactions with wholly owned subsidiaries

There are no other material related party transactions

22. Corporate information

Head Office and Registered Office
Manchester International Office Centre
Styal Road
Manchester
M22 5TN

Company registration number 163992

Ultimate parent company

The Company's immediate parent company is Federal-Mogul Global Growth Limited, a company registered in England and Wales The ultimate parent company and controlling party is Icahn Enterprises L P registered in the USA The group accounts of Icahn Enterprises L P are the largest group accounts in which the Company is included Accounts of this company may be obtained from Icahn Enterprises L P , 767 Fifth Avenue, Suite 4700, New York, NY10153, USA The group accounts of Federal-Mogul Corporation Inc are the smallest group accounts in which the Company is included Accounts of this company may be obtained from Federal-Mogul Investor Relations, 26555 Northwestern Highway, Southfield, MI 48034-2146, USA

THESE PARTNERSHIP
ACCOUNTS FORM
PART OF THE ACCOUNTS
OF COMPANY
No. 163992

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FORM 10-K

FEDERAL MOGUL CORP - FDML

Filed: February 23, 2010 (period: December 31, 2009)

Annual report which provides a comprehensive overview of the company for the past year

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D C 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009.

Commission File Number: 001-34029

FEDERAL-MOGUL CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-8350090 (IRS Employer I D No.)
26555 Northwestern Highway Southfield, Michigan (Address of principal executive offices)	48033 (Zip code)

Registrant's telephone number including area code: (248) 354-7700

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock par value $0 01 per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act.

Title of Class

Warrants to purchase Common Stock, par value $0 01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232 405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229 405) is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company See definition of "large accelerated filer, accelerated filer and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one)

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $235 million as of June 30, 2009 based on the reported last sale price as reported on the NASDAQ Global Select Market on that date

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court Yes ☒ No ☐

The Registrant had 98,904,500 shares of common stock outstanding as of February 19, 2010

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for its 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report

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FORWARD-LOOKING STATEMENTS

Certain statements contained or incorporated in this Annual Report on Form 10-K which are not statements of historical fact constitute "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act")

Forward-looking statements give current expectations or forecasts of future events Words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "seek," "may" and other words and terms of similar meaning in connection with discussions of future operating or financial performance signify forward-looking statements Federal-Mogul Corporation (the "Company") also, from time to time, may provide oral or written forward-looking statements in other materials released to the public Such statements are made in good faith by the Company pursuant to the "Safe Harbor" provisions of the Reform Act

Any or all forward-looking statements included in this report or in any other public statements may ultimately be incorrect Forward-looking statements may involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance, experience or achievements of the Company to differ materially from any future results, performance, experience or achievements expressed or implied by such forward-looking statements The Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise

Listed below are some of the factors that could potentially cause actual results to differ materially from historical and expected future results Other factors besides these listed here could also materially affect the Company's business

- Variations in current and anticipated future production volumes, financial condition, or operational circumstances of the Company's significant customers, particularly the world's original equipment manufacturers of commercial and passenger vehicles

- The Company's ability to generate cost savings or manufacturing efficiencies to offset or exceed contractually or competitively required price reductions or price reductions to obtain new business

- The Company's ability to obtain cash adequate to fund its needs, including availability of borrowings under its various credit facilities

- Fluctuations in the price and availability of raw materials and other supplies used in the manufacturing and distribution of the Company's products

- Material shortages, transportation system delays, or other difficulties in markets where the Company purchases supplies for the manufacturing of its products

- Significant work stoppages, disputes, or any other difficulties in labor markets where the Company obtains materials necessary for the manufacturing of its products or where its products are manufactured, distributed or sold

- Increased development of fuel cell, hybrid-electric or other alternative energy technologies

- Changes in actuarial assumptions, interest costs and discount rates, and fluctuations in the global securities markets which directly impact the valuation of assets and liabilities associated with the Company's pension and other postemployment benefit plans

- Various worldwide economic, political and social factors, changes in economic conditions, currency fluctuations and devaluations, credit risks in emerging markets, or political instability in foreign countries where the Company has significant manufacturing operations, customers or suppliers

- Legal actions and claims of undetermined merit and amount involving, among other things, product liability, warranty, recalls of products manufactured or sold by the Company, and environmental and safety issues involving the Company's products or facilities

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- New or expanded litigation activity regarding alleged asbestos claims against foreign subsidiaries of the Company for which the liability has not been permanently channeled to a trust pursuant to section 524(g) of the United States Bankruptcy Code and/or addressed by the provisions of the Company Voluntary Arrangements approved in the United Kingdom

- Legislative activities of governments, agencies, and similar organizations, both in the United States and in other countries that may affect the operations of the Company

- Physical damage to or loss of, significant manufacturing or distribution property plant and equipment due to fire, weather or other factors beyond the Company s control

- Possible terrorist attacks or acts of aggression or war, that could exacerbate other risks such as slowed vehicle production or the availability of supplies for the manufacturing of the Company s products

- The Company's ability to effectively transition its information system infrastructure and functions to newer generation systems

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PART I

As used in this Annual Report, the terms "Predecessor Company" and "Predecessor" refer to Federal-Mogul Corporation prior to emergence from Chapter 11 proceedings The terms the "Company," "Federal-Mogul," "Successor Company" and "Successor" refer to Federal-Mogul subsequent to completion of Chapter 11 proceedings in December 2007.

ITEM 1 BUSINESS

Business Overview

Federal-Mogul Corporation is a leading global supplier of powertrain and safety technologies, serving the world s foremost original equipment manufacturers of automotive, light commercial, heavy-duty, agricultural, marine, rail, off-road and industrial vehicles, as well as the worldwide aftermarket The Company's leading technology and innovation, lean manufacturing expertise, as well as marketing and distribution deliver world-class products, brands and services with quality excellence at a competitive cost Federal-Mogul is focused on its sustainable global profitable growth strategy, creating value and satisfaction for its customers, shareholders and employees Federal-Mogul has established a global presence and conducts its operations through various manufacturing, distribution and technical centers that are wholly-owned subsidiaries or partially-owned joint ventures, organized into five primary reporting segments Powertrain Energy, Powertrain Sealing and Bearings, Vehicle Safety and Protection, Global Aftermarket, and Corporate The Company consolidated its reporting segments from six to five during the first quarter of 2009, eliminating the Automotive Products segment Prior year reporting segment amounts have been reclassified to conform to the new reporting segment structure Federal-Mogul offers its customers a diverse array of market-leading products for OEM and replacement parts ('aftermarket) applications, including pistons, piston rings, piston pins, cylinder liners, valve seats and guides, ignition products, dynamic seals, bonded piston seals, combustion and exhaust gaskets, static gaskets and seals, rigid heat shields, engine bearings, industrial bearings, bushings and washers, transmission components, brake disc pads, brake linings, brake blocks, element resistant systems protection sleeving products, acoustic shielding, flexible heat shields, brake system components, chassis products, wipers, fuel pumps and lighting

History and Development

The Company, during December 2007, completed its financial restructuring under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") On December 27, 2007 (the "Effective Date"), the Fourth Amended Joint Plan of Reorganization for Debtors and Debtors-in-Possession (as Modified) (the Plan') became effective and, in accordance with the Plan, the Predecessor Company merged with and into New Federal-Mogul Corporation Pursuant to the merger (i) the separate corporate existence of the Predecessor Company ceased, (ii) New Federal-Mogul Corporation became the surviving corporation and continues to be governed by the laws of the State of Delaware, and (iii) New Federal-Mogul Corporation was renamed "Federal-Mogul Corporation " For further information on the reorganization upon emergence from Chapter 11 proceedings, see Note 2 to the Consolidated Financial Statements, included in Item 8 of this report

The Federal-Mogul Business

In accordance with accounting principles generally accepted in the United States ("U S GAAP'), the Company was required to adopt fresh-start reporting effective upon emergence from bankruptcy on the Effective Date The Company evaluated the activity between the Effective Date and December 31, 2007 and, based upon the immateriality of such activity, concluded that the use of an accounting convenience date of December 31, 2007 was appropriate As such, fresh-start reporting has been applied as of that date As a result of fresh-start reporting, financial statements of the Successor Company are not comparable to the financial statements of the Predecessor Company For further information on fresh-start reporting, see Note 3 to the Consolidated Financial Statements, included in Item 8 of this report

Federal-Mogul has operations in 33 countries and, accordingly, all of the Company s reporting segments derive sales from both domestic and international markets The attendant risks of the Company's international operations are primarily related to currency fluctuations, changes in local economic and political conditions, and changes in laws and regulations

The following tables set forth net property, plant and equipment ("PP&E") and net sales by geographic region as a percentage of total net PP&E and total net sales, respectively

	Successor				Predecessor
	Net PP&E		Net Sales		
	December 31		Year Ended December 31		
	2009	2008	2009	2008	2007
United States	30%	33%	40%	38%	40%
Canada	—	—	2%	2%	2%
Total United States and Canada	30%	33%	42%	40%	42%
Germany	23%	23%	17%	20%	19%
France	5%	6%	8%	8%	8%
United Kingdom	4%	4%	4%	5%	6%
Italy	5%	5%	5%	5%	4%
Switzerland	—	—	4%	4%	5%
Other Europe	9%	9%	4%	4%	5%
Total Europe	46%	47%	42%	46%	46%
Asia	14%	13%	8%	6%	5%
Mexico	5%	4%	4%	4%	4%
South America	3%	2%	3%	3%	2%
Other	2%	1%	1%	1%	1%
Total Rest of World	24%	20%	16%	14%	12%
	100%	100%	100%	100%	100%

The following table sets forth net sales by reporting segment as a percentage of total net sales

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
Net sales by reporting segment			
Powertrain Energy	27%	31%	30%
Powertrain Sealing and Bearings	15%	17%	17%
Vehicle Safety and Protection	14%	14%	14%
Global Aftermarket	44%	38%	39%
	100%	100%	100%

The Company derives significant sales from both the original equipment ("OE") market and the aftermarket The Company seeks to participate in both of these markets by leveraging its OE product engineering and development capability, manufacturing excellence, and expertise to manage a broad and deep range of replacement parts to service the aftermarket Federal-Mogul is the OE technology market share leader in several product categories The Company believes that it is uniquely positioned to offer premium brands, OE replacement and entry level products for all global aftermarket customers Therefore, the Company can be first to the aftermarket with new products, service expertise and customer support As of December 31, 2009, the Company had current OE products included on more than 300 global vehicle platforms and more than 700 global powertrains used in light, medium and heavy-duty vehicles This broad range of vehicle and powertrain applications reinforces the Company's belief in its unique market position

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Strategy

The Company's strategy is designed to create sustainable global profitable growth by leveraging existing and developing new competitive advantages This strategy consists of the following primary elements

- Provide value-added products to customers in all markets served through leading technology and innovation,
- Develop products to enable increased fuel economy and reduce vehicle emissions, plus enable the use of alternative energies,
- Utilize the Company's leading technology resources to develop advanced and innovative products, processes and manufacturing capabilities,
- Offer leading technology and innovation in visibility, vehicle control and stability to help vehicle makers meet safety and performance specifications critical for customer satisfaction,
- Extend the Company's global reach to support its OEM customers, furthering its relationships with leading Asian OEMs and strengthening market share with U S and European OEMs,
- Assess acquisition and investment opportunities that provide product line expansion, technological advancements, geographic positioning, penetration of emerging markets (including the "BRIC" markets of Brazil, Russia, India and China) and market share growth,
- Leverage the strength of the Company's global aftermarket leading brand positions, product portfolio and range, marketing and selling expertise, and distribution and logistics capabilities, and
- Aggressively pursue cost competitiveness in all business segments by continuing to drive productivity in existing operations, consolidating and relocating manufacturing operations to best cost countries, utilizing the Company s strategic joint ventures and alliances and rationalizing business resources and infrastructure

The Company's strategy is to develop and deliver leading technology and innovation which results in market share expansion in the OE market and aftermarket The Company assesses individual opportunities to execute its strategy based upon estimated sales and margin growth, cost reduction potential, internal investment returns, and other criteria, and makes investment decisions on a case-by-case basis Opportunities meeting or exceeding benchmark return criteria may be undertaken through research and development activities, acquisitions, joint ventures and other strategic alliances, or restructuring activities as further discussed below

Research and Development The Company maintains technical centers throughout the world designed to

- provide solutions for customers and bring new, innovative products to market
- integrate the Company's leading technologies into advanced products and processes,
- provide engineering support for all of the Company's manufacturing sites, and
- provide technological expertise in engineering and design development

Federal-Mogul's research and development activities are conducted at the Company's research and development locations Within the United States, these centers are located in Plymouth, Michigan Toledo, Ohio, Skokie Illinois, Ann Arbor Michigan, and Exton, Pennsylvania Internationally, the Company's research and development centers are located in Burscheid, Germany Nuremberg, Germany, Wiesbaden, Germany, Bad Camberg, Germany, Chapel, United Kingdom, Crepy, France, Shanghai, China and Yokohama, Japan

Each of the Company's business units is engaged in engineering, research and development efforts working closely with customers to develop custom solutions to meet their needs Total expenditures for research and development activities, including product engineering and validation costs, were $140 million, $173 million and $178 million for the years ended December 31, 2009, 2008 and 2007, respectively As a percentage of OE sales, research and development expenditures were 4 7%, 4 1% and 4 2% for the years ended December 31, 2009, 2008 and 2007, respectively

Joint Ventures and Other Strategic Alliances. The Company forms joint ventures and strategic alliances to gain share in emerging markets facilitate the exchange of technical information and development of new products, extend current product offerings, provide best cost manufacturing operations, and broaden its customer base The Company believes that certain of its joint ventures have provided, and will continue to provide, opportunities to expand business relationships with Asian and other OEMs operating in BRIC growth markets The Company is currently involved in 32 joint ventures located in 13 different countries throughout the world, including China, India, Korea, Russia and Turkey Of these joint ventures, the Company maintains a controlling interest in 18 entities and accordingly, the financial results of these entities are included in the Consolidated Financial Statements of the Company and its Predecessor The Company has a non-controlling interest in 14 of its joint ventures, of which 8 are accounted for under the equity method and 6 are accounted for under the cost method The Company does not hold a controlling interest in an entity based on exposure to economic risks and potential rewards (variable interests) for which the Company is the primary beneficiary Further, the Company s joint ventures are businesses established and maintained in connection with its operating strategy and are not special purpose entities

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Net sales for consolidated joint ventures were approximately 7% of consolidated net sales for the year ended December 31, 2009 The Company s investment in non-consolidated joint ventures totaled $238 million as of December 31, 2009, and the equity in earnings of such affiliates was $16 million for the year ended December 31, 2009

Restructuring Activities The Company and its Predecessor, as part of the sustainable global profitable growth strategy, has undertaken various restructuring activities to streamline its operations, consolidate and take advantage of available capacity and resources and ultimately achieve cost reductions These restructuring activities include efforts to integrate and rationalize businesses and to relocate manufacturing operations to best cost countries Such activities have resulted in the redeployment of human and capital resources to the Company s core businesses

An unprecedented downturn in the global automotive industry and global financial markets led the Company to announce, in September and December 2008, certain restructuring actions, herein referred to as "Restructuring 2009," designed to improve operating performance and respond to increasingly challenging conditions in the global automotive market It was anticipated that this plan would reduce the Company's global workforce by approximately 8,600 positions when compared with the workforce as of September 30, 2008 During 2009 and 2008, the Company has recorded $31 million and $127 million, respectively, in net restructuring expenses associated with Restructuring 2009, and expects to incur additional restructuring expenses up to $6 million through 2010 Because the significant majority of the costs expected to be incurred in relation to Restructuring 2009 are related to severance expenses, such activities are expected to yield future annual savings at least equal to the costs incurred

The Predecessor Company announced, in January 2006, a global restructuring plan ("Restructuring 2006") as part of its sustainable global profitable growth strategy During 2007, the Predecessor Company incurred expenses of $39 million under this program During 2008, the Successor Company incurred expenses of $5 million in connection with the Restructuring 2006 program The Restructuring 2006 program was completed as of December 31, 2008 Payments associated with this program are expected to continue into 2010

The Company's restructuring activities are further discussed in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 4 to the Consolidated Financial Statements, included in Item 8 of this report

The Company's Products

The following provides an overview of products manufactured and distributed by the Company's reporting segments

Powertrain Energy Powertrain Energy products are used in automotive, light truck, heavy-duty, industrial, marine agricultural, power generation and small air-cooled engine applications The primary products of this segment include pistons, piston rings piston pins, cylinder liners, valve seats and guides, and ignition products These products are offered under the Federal-Mogul®, AE®, Champion®, Goetze® and Nural® brand names These products are either sold as individual products or offered to automotive manufacturers as assembled modules This modular assembly product offering adds value to the customer by simplifying the assembly process, lowering costs and reducing vehicle development time Powertrain Energy operates 38 manufacturing facilities in 15 countries, serving a large number of major automotive, heavy-duty and industrial customers worldwide Powertrain Energy derived 20% of its 2009 OE sales in the United States and Canada, 63% in Europe, and 17% in the rest of the world ("Rest of World")

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The following provides a description of the various products manufactured by Powertrain Energy

Product	Description
Pistons	The main task of the piston is to compress the air and fuel mixture in advance of ignition Following combustion, the piston relays the combustion energy into mechanical energy In this process, substantial pressures are exerted on the piston, imposing high demands on it in terms of rigidity and temperature resistance
Piston Rings	The three main tasks of piston rings in internal combustion engines include (1) sealing the combustion chamber, (2) supporting heat transfer from the piston to the cylinder wall, and (3) regulating lubrication and oil consumption
Piston Pins	Piston pins attach the piston to the end of the connecting rod, allowing the piston to pivot in each cycle of the engine and following the revolution of the crankshaft
Cylinder Liners	Cylinder liners, or sleeves, work in tandem with the piston and ring, forming the chamber in which the thermal energy of the combustion process is converted into mechanical energy
Valve Seats and Guides	Federal-Mogul designs and manufactures a wide variety of powdered metal inserts used in engines and general industrial applications, which are specially designed to meet particular customer requirements
Ignition	Ignition products include spark plugs, glow plugs, ignition coils and accessories

Powertrain Sealing and Bearings Federal-Mogul is one of the world's leading sealing solutions and bearings providers Comprehensive design capability and an extensive product portfolio enable effective delivery of complete sealing packages and a full range of bearings, bushings, and thrust washers for engine, transmission and driveline systems to a broad array of customers Federal-Mogul offers a portfolio of world-class brand names, including Federal-Mogul®, Deva® Fel-Pro®, FP Diesel®, Glyco®, Metafram®, Metagliss®, National®, Payen®, Poral® and Sintertech® The group serves a number of different industries including automotive, truck commercial equipment (construction, agricultural, power generation, marine and rail), industrial, recreation and consumer power equipment Product offerings include dynamic seals, bonded piston seals, combustion and exhaust gaskets, static gaskets and seals, rigid heat shields, engine bearings, industrial bearings bushings and washers sintered engine and transmission components, and metallic filters During 2007, the Company also introduced a line of lead-free bearings for automotive engines, designed to enable automakers to meet increasingly stringent legislation prohibiting the use of lead in automobiles destined for sale in certain markets Powertrain Sealing and Bearings operates 31 manufacturing facilities in 12 countries Powertrain Sealing and Bearings derived 33% of its 2009 OE sales in the United States and Canada, 54% in Europe, and 13% in Rest of World

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The following provides a description of the various products manufactured by Powertrain Sealing and Bearings

Product	Description
Dynamic Seals	Dynamic seals are used between a housing or body structure and rotating or moving shafts to contain lubricants, fluids and pressure inside the housing, while keeping out dust and other contaminates There are numerous areas of application including engine crankshaft, transmission driveshaft, pinion and axle, and wheel seals
Bonded Piston Seals	Bonded piston seals use hydraulic pressure in transmissions to facilitate gearshift These products are used in automatic, dual clutch transmissions and continuously variable transmissions
Combustion and Exhaust Gaskets	Combustion and exhaust gaskets are used between two surfaces to contain gas and pressure produced from combustion These gaskets are primarily used on internal combustion engine applications including cylinder head, exhaust manifold, exhaust takedown, exhaust gas recirculation and turbocharger gaskets
Static Gaskets and Seals	Static gaskets and seals create a barrier between two surfaces to contain fluids, pressure and gases while keeping out dust and other contaminants There are numerous areas of application including engine covers, oil pans, intake manifolds, transmission covers and differential covers
Rigid Heat Shields	Rigid heat shields are designed to provide a heat and sound barrier to emitting components These products cover a full range of application on a vehicle from engine to tailpipe
Engine Bearings	Engine bearings ensure low friction rotation and guidance of the connecting rod and the crankshaft to facilitate the transmission of full combustion power from the piston They operate principally under hydrodynamic lubrication conditions Bronze bearings are used in highly loaded compression engines (diesel or gasoline turbocharged) A full range of lead free solutions has been successfully developed These products cover a complete range of electroplated and Sputter coated bearings These extremely high performance materials support the down sizing of the engines and consequent CO^2 reduction Aluminum engine bearings are lead free and are primarily used in naturally aspirated gasoline engines These materials have exceptionally good sliding properties when combined with cast iron crankshafts
Industrial Bearings	Sold under the Deva®, Glycodur®, Metafram® and Metagliss® brands, industrial bearings are primarily dedicated to applications operating in mixed or low lubrication conditions Applications are mainly diverse industrial motors or converters and include wind turbines and hydroelectric power generation equipment
Bushings and Washers	Bushings and washers are used in engines and transmissions to ensure low friction rotation or oscillation of shafts They are made of bronze, aluminum or polymer material
Sintered Engine and Transmission Components	Federal-Mogul designs and manufactures a wide variety of powdered metal inserts used in engines and transmissions, which are specially designed to meet particular customer requirements
Metallic Filters	Used in several industries (chemical, nuclear, water and air treatment, and food and beverage) these filters are specially designed to meet particular customer requirements

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Vehicle Safety and Protection Federal-Mogul supplies friction, systems protection, chassis, wipers, fuel and lighting products The Company is one of the world's largest suppliers of friction materials These products are used in the automotive, motorcycle, heavy-duty, commercial/industrial, aerospace, railway and consumer products markets The primary products of this segment include brake disc pads, brake linings, brake blocks, element resistant systems protection sleeving products, flexible heat shields, brake system components, chassis products, windshield wipers, fuel pumps and lighting products Federal-Mogul offers a portfolio of world-class brand names, including Federal-Mogul® Abex®, Anco® Bentley-Harris®, Beral®, Champion®, Ferodo®, Moog®, ThermoQuiet® and Wagner® Federal-Mogul supplies friction products to most major customers in the light vehicle, commercial vehicle and aerospace sectors and is also a leading company in the aftermarket Vehicle Safety and Protection operates 35 manufacturing facilities in 15 countries, and derived 27% of its 2009 OE sales in the United States and Canada, 55% in Europe, and 18% in Rest of World

The following provides a description of the various products manufactured by Vehicle Safety and Protection

Product	Description
Light Vehicle Disc Pads	A light vehicle disc pad assembly consists of • friction material, which dissipates forward momentum by converting energy into heat, • underlayer, which is a layer of different friction material placed between the backplate and friction material to improve strength, provide a thermal barrier, corrosion resistance, noise performance or a combination of these characteristics, • backplate, to support and locate the friction material in the caliper, and • shim, which is a rubber/metal laminate developed to suppress noise
Commercial Vehicle Disc Pads	Commercial vehicle disc brake pads are a growing segment of the friction market, superseding drum brakes on trucks busses, tractor units and trailers The basic construction of a commercial vehicle disc pad is the same as a light vehicle disc pad
Railway Disc Pads	Railway disc pads are produced in single pad or paired pad format Federal-Mogul produces sintered metal pads for railway applications
Light Vehicle Drum Brake Linings	Drum brake linings are friction material affixed to a brake shoe and fitted on the rear service brake, rear parking brake and/or transmission brake application
Commercial Vehicle Full Length Linings	Full length linings are the commercial vehicle equivalent of light vehicle drum brake linings
Commercial Vehicle Half Blocks	Half blocks are segments of friction material made to be riveted onto drum brake shoes They are used on heavier vehicle applications where discs are not used
Railway Brake Blocks	Railway brake blocks work by acting on the circumference of the wheel They are lighter and quieter in operation than cast iron blocks However, friction performance is designed to replicate that of cast iron blocks
Element Resistant Sleeving	Element resistant sleeving products provide protection of wires, hoses, sensors, and mechanical components and assemblies from heat electro-magnetic interference, dirt, vibration and moisture Element resistant sleeving products include • automotive wire harnesses and hoses, • abrasion protection and wire management of cable assemblies, • dielectric protection of electrical leads, • thermal and mechanical protection of hose assemblies, and • acoustic insulating and sound-dampening materials

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Product	Description
Flexible Heat Shields	Flexible heat shields are designed to provide heat barrier and thermal management
Chassis	Chassis parts include ball joints, tie rod ends, sway bar links, idler arms, and pitman arms These components affect vehicle steering and vehicle ride quality
Wipers	Windshield wiper parts include conventional and profile style wiper blades, blade refills and wiper arms
Fuel Pumps	Components in the fuel delivery system include mechanical fuel pumps, electric pump sets and modular design applications
Lighting	Automotive lighting products include power and lighting systems, and interior and exterior lighting components

Global Aftermarket Global Aftermarket sells products manufactured within the above reporting segments and purchased from outside suppliers to the independent automotive, heavy-duty and commercial/industrial replacement markets Through global market insight, supply chain expertise and world-wide brand and product line management, aftermarket customers worldwide benefit from the Company's extensive OE technology and manufacturing expertise Federal-Mogul markets a broad portfolio of leading brands that are designed to solve a problem, facilitate installation and improve safety, durability and vehicle performance This portfolio is organized into product categories that provide comprehensive vehicle solutions Global Aftermarket operates 21 distribution facilities in 14 countries, serving a diverse base of distributors, retail parts stores and mass merchants around the world Global Aftermarket derived 64% of its 2009 sales in the United States and Canada, 21% in Europe and 15% in Rest of World

The following provides a description of the various products and solutions" along with the brands distributed by Global Aftermarket

Category	Product Lines	Brand Names
Engine Solutions	Engine Parts Fuel Delivery Products	AE®, Carter®, FP Diesel®, Glyco®, Goetze®, Nural®, Sealed Power®
Sealing Solutions	Gaskets Seals	Fel-Pro®, Goetze®, National®, Payen®
Steering Solutions	Chassis Driveline Hub Assemblies	MOOG®, National®, Precision®
Braking Solutions	Disc Pads Hydraulic Parts Linings Rotors	Abex®, Beral®, Ferodo®, Necto®, ThermoQuiet®, Wagner®
Service Solutions	Filters Lighting Performance Additives Ignition Products Wipers	ANCO®, Champion®, Wagner®

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Reporting Segment Financial Information. Approximately 56% of the Company's 2009 net sales were to the OE market and approximately 44% were to the aftermarket The following tables summarize net sales cost of products sold, gross margin and total assets for each reporting segment For additional information related to the Company's reporting segments, refer to Note 22 to the Consolidated Financial Statements included in Item 8 of this report

Net sales by reporting segment were

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Powertrain Energy	$ 1,413	$ 2,090	$ 2,063
Powertrain Sealing and Bearings	819	1,154	1,156
Vehicle Safety and Protection	772	985	1,016
Global Aftermarket	2,326	2,637	2 679
	$ 5 330	$ 6 866	$ 6,914

Cost of products sold by reporting segment was

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Powertrain Energy	$ 1,284	$ 1,786	$ 1,774
Powertrain Sealing and Bearings	801	1,090	1,102
Vehicle Safety and Protection	602	768	782
Global Aftermarket	1,851	2,107	2,068
Corporate	—	(9)	3
	$ 4,538	$ 5,742	$ 5,729

Gross margin by reporting segment was

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Powertrain Energy	$ 129	$ 304	$ 289
Powertrain Sealing and Bearings	18	64	54
Vehicle Safety and Protection	170	217	234
Global Aftermarket	475	530	611
Corporate	—	9	(3)
	$ 792	$ 1,124	$ 1,185

Total assets by reporting segment were

	December 31	
	2009	2008
	(Millions of Dollars)	
Powertrain Energy	$ 1,696	$ 1,641
Powertrain Sealing and Bearings	830	851
Vehicle Safety and Protection	1,626	1,698
Global Aftermarket	1,970	2 007
Corporate	1 005	1 039
	$ 7,127	$ 7 236

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The Company's Industry

The automotive vehicle market sector and energy, industrial and transport market sector are comprised of two primary markets the OE and OES market (collectively referred to as the 'OE' market) in which the Company's products are used in the manufacture of new products and for manufacturer service replacement parts, and the aftermarket in which the Company s products are used as replacement parts for current production and previous models through the independent aftermarket or other service distribution channels

The OE Market Demand for automotive parts in the OE market is generally a function of the number of new vehicles produced which is driven by macro-economic factors such as interest rates fuel prices, consumer confidence employment trends, regulatory requirements and trade agreements Although OE demand is tied to planned vehicle production, parts suppliers also have the opportunity to grow through increasing their product content per vehicle, by increasing market share with existing customers, and by expanding into new or emerging markets Companies with a global presence leading technology and innovation, and advanced product engineering, manufacturing and customer support capabilities are best positioned to take advantage of these opportunities

There are currently several significant trends that are impacting the OE market, including the following

- Reduced Global Production – During the second half of 2008 and throughout 2009, an unprecedented downturn in the global automotive industry caused the OEMs to significantly reduce their global light duty and commercial vehicle production schedules and output In total, the number of vehicles produced during 2009 was 12 5 million in the Americas, 18 5 million in Europe, the Middle East and Africa (' EMEA"), and 29 9 million in Asia, compared to 2008 vehicle production of 16 4 million, 22 4 million and 27 2 million in the Americas, EMEA and Asia respectively With global OE production decreasing at a significant pace, the demand for parts, including products produced by the Company, has decreased during 2009, with only moderate increases expected during 2010

- Automotive Supply Consolidation – Consolidation within the automotive supply base is expected to continue as the entire industry evolves and as the industry responds to the global reduction in production volumes Suppliers will seek opportunities to achieve synergies in their operations through consolidation, while striving to acquire complementary businesses to improve global competitiveness or to strategically enhance a product offering to global customers

- Globalization of Automotive Industry – OEMs are increasingly designing global platforms where the basic design of the vehicle is performed in one location, but the vehicle is produced and sold in numerous geographic markets to realize significant economies of scale by limiting variations across product designs and geographic regions While developed markets in North America and Europe continue to remain important to OEMs, increased focus is being placed upon expanded design development and production within emerging markets for growth opportunities, especially in the BRIC markets of Brazil Russia, India and China As a result, suppliers must be prepared to provide product and technical resources in support of their customers within these emerging markets Furthermore, OEMs are moving their operations to best cost geographies outside the U S and western European markets and, accordingly, OEMs are increasingly requiring suppliers to provide parts on a global basis Finally, the Asian OEMs continue to expand their reach and market share in relation to traditional domestic manufacturers As this trend is expected to continue into the foreseeable future, suppliers must be geographically and technically positioned to meet the needs of the Asian OEMs

- Focus on Fuel Economy, Reduced Emissions and Alternative Energy Sources – Increased fuel economy and decreased vehicle emissions are of great importance to OEMs as legislators and customers continue to demand more efficient and cleaner operating vehicles Increasingly stringent fuel economy standards and environmental regulations are driving OEMs to focus on new technologies including downsized, higher output and turbocharged gasoline engines, diesel and turbocharged diesel, bio-mass and hybrid diesel applications and hybrid, electric and alternative energy engines As a result, the number of powertrain configurations will increase in response to the proliferation of commercially available energy sources Suppliers offering solutions to OEMs related to numerous vehicle fuel and powertrain configurations possess a distinct competitive advantage, which is driving accelerated new product development cycles

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- Focus on Vehicle Safety – Vehicle safety continues to receive industry attention by OEMs as customers and legislators view safety as a fundamental driver in consumer purchasing decisions Accordingly OEMs are seeking suppliers with new technologies, capabilities and products that have the ability to advance vehicle safety Suppliers that are able to enhance vehicle safety through innovative products and technologies have a distinct competitive advantage

- Pricing Pressures – OEMs provide extensive pricing incentives and financing alternatives to consumers in order to generate sales of new vehicles and retain or gain market share These actions have placed pressures on the OEMs profits and, in turn, the OEMs expect certain recovery from their supply base In order to retain current business as well as to be competitively positioned for future new business opportunities, suppliers must continually identify and implement product innovation and cost reduction activities to fund customer annual price concession expectations

- Raw Material Cost Fluctuations – In recent periods, there have been significant fluctuations in global prices of aluminum, copper, lead, nickel, platinum, resins steel, other base raw materials and energy To the extent that cost increases are not passed on to customers, suppliers must continue to identify leading design and innovative technological solutions and material substitution options in order to retain a competitive advantage

- Energy, Industrial and Transport Markets – In the energy, industrial and transport markets, customers continue to develop alternatives to historic infrastructure This includes high efficiency wind turbines, power generators and other power conversion devices Suppliers with the capability to utilize automotive expertise to service these and other related markets have a competitive advantage

The Aftermarket Business Global Aftermarket products for current production and previous models are sold directly to a wide range of distributors, retail parts stores and mass merchants who distribute these products to professional service providers and do-it-yourself" consumers Demand for aftermarket products is driven by many factors, including the durability of OE parts, the number of vehicles in operation, the average age of the vehicle fleet and vehicle usage Although the number of vehicles on the road and different models available continue to increase, the aftermarket has experienced softness due to increases in average useful lives of automotive parts resulting from continued technological advancements and resulting improvements in durability

Some of the significant trends, both positive and negative, that are impacting the aftermarket business include the following

- Rate of Global OEM Production – Until recently global OEM output has outpaced the volume of old vehicles taken out of service year over year The current drop in OEM production has reversed this trend thereby extending the average age of vehicles on the road Should the average age of the vehicle fleet continue to rise over the long term, this increase in vehicles requiring maintenance and repair will increase the demand for aftermarket replacement parts

- Size of the Dealer Network – As a result of the drop in OEM vehicle production and the current economic downturn there has been a contraction of the U S dealer network and therefore a reduction in the availability of dealers offering post-warranty repair work This should increase the demand for replacement parts through the independent aftermarket

- Changes in Consumer Behavior – The aftermarket is impacted by changes in economic conditions, volatility in fuel prices, and expanding focus on environmental and energy conservation For example, the number of consumers with the ability to purchase new vehicles has been reduced due to adverse economic conditions and this may increase demand for repairs in order to keep older vehicles road-worthy In relation to fuel prices rising fuel prices cause consumers to drive less or defer vehicle repairs, whereas falling fuel prices free up residual income for consumers to make vehicle repairs

- Extended Automotive Part Product Life and New Car Warranties – The average useful lives of automotive parts, both OE and aftermarket, have been steadily increasing due to innovations in product technology and manufacturing Longer product lives and improved durability allow vehicle owners to replace parts on their vehicles less frequently

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- Globalization of Automotive Industry – OEMs are increasingly focused on emerging markets for growth This increased OEM focus on emerging geographic regions will ultimately drive the need for replacement parts for vehicles produced and in service, which the Company believes provides longer-term growth opportunities for its aftermarket business in these regions

- Vehicle Complexity – Today's vehicles are more complex in design, features, and integration of mechanical and electrical products Ever increasing complexity adversely impacts the demand for replacement parts through the traditional independent aftermarket, as vehicle owners are less capable of performing repairs on their own vehicles

The Company's Customers

The Company supplies OEMs with a wide variety of technologically innovative parts, essentially all of which are manufactured by the Company The Company's OE customers consist of automotive and heavy-duty vehicle manufacturers as well as agricultural, off-highway, marine, railroad, aerospace, high performance and industrial application manufacturers The Company has well-established relationships with substantially all major American, European and Asian automotive OEMs

Federal-Mogul's aftermarket customers include independent warehouse distributors who redistribute products to local parts suppliers, distributors of heavy-duty vehicular parts, engine rebuilders, retail parts stores and mass merchants The breadth of Federal-Mogul's product lines, the strength of its leading brand names, marketing expertise, sizable sales force, and its distribution and logistics capability, are central to the success of the Company's Global Aftermarket operations

No individual customer accounted for more than 5% of the Company's sales during 2009

The Company's Competition

The global vehicular parts business is highly competitive The Company competes with many independent manufacturers and distributors of component parts globally In general, competition for sales is based on price, product quality, technology, delivery, customer service and the breadth of products offered by a given supplier The Company is meeting these competitive challenges by developing world-class technologies, efficiently integrating its manufacturing and distribution operations, expanding its product coverage within its core businesses, restructuring its operations and transferring production to best cost countries, and utilizing its worldwide technical centers to develop and provide value-added solutions to its customers A summary of the Company s primary independent competitors by reporting segment is set forth below

- Powertrain Energy – Primary competitors include Aisin Art Metal, BinZou, Bleistahl, Dong Yang, GKN, Hitachi-Automotive, Kolbenschmidt, Mahle, NPR, Riken, STI and Sumitomo

- Powertrain Sealing and Bearings – Primary competitors include Daido, Dana/Reinz Elring Klinger, Freudenberg, GKN, Kolbenschmidt, Mahle, Miba, NOK and Pall

- Vehicle Safety and Protection – Primary competitors include Affinia, Akebono, Bosch, Delfinger, Delphi, Galfer, General Electric, Honeywell, Nishimbo, Stanley, TMD, Trico and Valeo

- Global Aftermarket – Primary competitors include Affinia, Bosch, Contitech, Delphi, Denso, Honeywell, Mahle, TMD, Trico, TRW and Valeo

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The Company's Backlog

For OEM customers, the Company generally receives purchase orders for specific products supplied for particular vehicles These supply relationships typically extend over the life of the related vehicle, subject to interim design and technical specification revisions, and do not require the customer to purchase a minimum quantity In addition to customary commercial terms and conditions, purchase orders generally provide for annual price reductions based upon expected productivity improvements and other factors Customers typically retain the right to terminate purchase orders, but the Company generally cannot terminate purchase orders OEM order fulfillment is typically manufactured in response to customer purchase order releases, and the Company ships directly from a manufacturing location to the customer for use in vehicle production and assembly Accordingly, the Company s manufacturing locations do not typically maintain significant finished goods inventory, but rather produce from on-hand raw materials and work-in-process inventory within relatively short manufacturing cycles A significant risk to the Company is lower than expected vehicle production by one or more of its OEM customers or termination of the business based upon perceived or actual shortfalls in delivery, quality or value

For its Global Aftermarket customers, the Company generally establishes product line arrangements that encompass all parts offered within a particular product line These are typically open-ended arrangements that are subject to termination by either the Company or the customer at any time Pricing is market responsive and subject to adjustment based upon competitive pressures, material costs and other commercial factors Global Aftermarket order fulfillment is largely performed from finished goods inventory stocked in the Company s worldwide distribution network Inventory stocking levels in the Company s distribution centers are established based upon historical and anticipated future customer demand

Although customer programs typically extend to future periods, and although there is an expectation that the Company will supply certain levels of OE production and aftermarket shipments over such periods, the Company believes that outstanding purchase orders and product line arrangements do not constitute firm orders Firm orders are limited to specific and authorized customer purchase order releases placed with its manufacturing and distribution centers for actual production and order fulfillment Firm orders are typically fulfilled as promptly as possible after receipt from the conversion of available raw materials and work-in-process inventory for OEM orders and from current on-hand finished goods inventory for aftermarket orders The dollar amount of such purchase order releases on hand and not processed at any point in time is not believed to be significant based upon the timeframe involved

The Company's Raw Materials and Suppliers

The Company purchases various raw materials and component parts for use in its manufacturing processes, including ferrous and non-ferrous metals, non-metallic raw materials stampings, castings and forgings The Company also purchases parts manufactured by other manufacturers for sale in the aftermarket The Company has not experienced any significant shortages of raw materials, components or finished parts and normally does not carry inventories of raw materials or finished parts in excess of those reasonably required to meet its production and shipping schedules In 2009 no outside supplier of the Company provided products that accounted for more than 2% of the Company s annual purchases

The Company achieved material and services cost savings of approximately $104 million during 2009 The Company achieved this impact through negotiated price reductions, resourcing activities, technical projects, contractual price escalators and market fluctuations Through its global purchasing function, the Company continues to work with its suppliers to reduce its global material costs

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Icahn Sourcing LLC

Icahn Sourcing LLC ("Icahn Sourcing") is an entity formed and controlled by Carl C Icahn, the Chairman of the Company's Board, in order to leverage the potential buying power of a group of entities with which Mr Icahn either owns or otherwise has a relationship in negotiating with a wide range of suppliers of goods, services, and tangible and intangible property The Company is a member of the buying group and, as such, is afforded the opportunity to purchase goods, services and property from vendors with whom Icahn Sourcing has negotiated rates and terms Icahn Sourcing does not guarantee that the Company will purchase any goods, services or property from any such vendors, and the Company is under no obligation to do so The Company does not pay Icahn Sourcing any fees or other amounts with respect to the buying group arrangement and Icahn Sourcing neither sells to nor buys from any member of the buying group The Company has purchased a variety of goods and services as a member of the buying group at prices and on terms that it believes are more favorable than those which would be achieved on a stand-alone basis

Seasonality of the Company's Business

The Company s business is moderately seasonal because many North American customers typically close assembly plants for two weeks in July for model year changeovers, and for an additional week during the December holiday season Customers in Europe historically shut down vehicle production during portions of July and August and one week in December Shut-down periods in the Asia Pacific region generally vary by country The aftermarket experiences seasonal fluctuations in sales due to demands caused by weather and driving patterns Historically, the Company's sales and operating profits have been the strongest in the second quarter For additional information, refer to the Company's quarterly financial results contained in Note 24 to the Consolidated Financial Statements, included in Item 8 of this report

The Company's Employee Relations

The Company had approximately 39,000 employees as of December 31, 2009

Various unions represent approximately 37% of the Company's U S hourly employees and approximately 70% of the Company's non-U S hourly employees With the exception of two facilities in the U S , most of the Company's unionized manufacturing facilities have their own contracts with their own expiration dates and, as a result, no contract expiration date affects more than one facility

An unprecedented downturn in the global automotive industry and global financial markets led the Company to announce, in September and December 2008, certain restructuring actions, herein referred to as 'Restructuring 2009," designed to improve operating performance and respond to increasingly challenging conditions in the global automotive market It was anticipated that this plan would reduce the Company s global workforce by approximately 8,600 positions when compared with the workforce as of September 30, 2008 In January 2006, the Predecessor Company commenced a restructuring plan that included a significant reduction in the Company s workforce The majority of this reduction was achieved through plant closures during 2006 and 2007 The Company has worked and will continue to work with global customers, local works councils, unions, management, and employees at those locations affected by the restructuring program to maintain productive employee relations and minimize any disruptions resulting from these restructuring programs

Impact of Environmental Regulations on the Company

The Company's operations, consistent with those of the manufacturing sector in general, are subject to numerous existing and proposed laws and governmental regulations designed to protect the environment, particularly regarding plant wastes and emissions and solid waste disposal Capital expenditures for property, plant and equipment for environmental control activities did not have a material impact on the Company's financial position or cash flows in 2009 and are not expected to have a material impact on the Company's financial position or cash flows in 2010

The Company's Intellectual Property

The Company holds in excess of 4,200 patents and patent applications on a worldwide basis, of which 943 have been filed in the United States Of the approximately 4 200 patents and patent applications approximately 30% are in production use and/or are licensed to third parties and the remaining 70% are being considered for future production use or provide a strategic technological benefit to the Company

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The Company does not materially rely on any single patent, nor will the expiration of any single patent materially affect the Company's business The Company s current patents expire over various periods into the year 2033 The Company is actively introducing and patenting new technology to replace formerly patented technology before the expiration of the existing patents In the aggregate, the Company's worldwide patent portfolio is materially important to its business because it enables the Company to achieve technological differentiation from its competitors

The Company also maintains more than 5 800 active trademark registrations and applications worldwide In excess of 90% of these trademark registrations and applications are in commercial use by the Company or are licensed to third parties

Interests Held by an Entity Controlled by Mr Carl C Icahn

An entity indirectly owned and controlled by Mr Icahn filed a Schedule 13D and amendments therein with the Securities and Exchange Commission indicating that such entity has a beneficial interest of approximately 76% of the Company s outstanding shares of common stock As a result, Mr Icahn has the indirect ability to nominate and elect all of the directors on the Company's Board of Directors, other than the Chief Executive Officer, and other than Neil Subin (through at least December 27, 2009) Under applicable law and the Company's certificate of incorporation and by-laws, certain actions cannot be taken without the approval of holders of a majority of the Company's voting stock including, without limitation, mergers, the sale of substantially all of the Company's assets, and amendments to its certificate of incorporation and by-laws So long as Mr Icahn continues to control a majority of the Company's outstanding capital stock, he will continue to have these governance rights and the ability to control the Company

The Company's Web Site and Access to Filed Reports

The Company maintains an internet Web site at *www federalmogul com* The contents of the Company s Web site are not incorporated by reference in this report The Company provides access to its annual and periodic reports filed with the SEC free of charge through this Web site The Company's Integrity Policy is also available on its Web site The SEC maintains a Web site at *www SEC gov* where reports, proxy and information statements, and other information about the Company may be obtained Paper copies of annual and periodic reports filed with the SEC may be obtained free of charge by contacting the Company's headquarters at the address located within the SEC Filings or under Investor Relations on the Company's Web site

ITEM 1.A. RISK FACTORS

An investment in Federal-Mogul involves various risks The risks discussed below are not the only ones faced by the Company Please also read the cautionary note regarding "Forward-Looking Statements" beginning on page 2

Adverse conditions in the automotive market adversely affect demand for the Company's products and exposes the Company to credit risks of its customers. The revenues of the Company's operations are closely tied to global OE automobile sales, production levels, and independent aftermarket parts replacement activity The OE market is characterized by short-term volatility, with overall expected long-term growth in global vehicle sales and production Automotive production in the local markets served by the Company can be affected by macro-economic factors such as interest rates, fuel prices, consumer confidence, employment trends, regulatory and legislative oversight requirements and trade agreements A variation in the level of automobile production would affect not only sales to OE customers but, depending on the reasons for the change, could impact demand from aftermarket customers The Company s results of operations and financial condition could be adversely affected if the Company fails to respond in a timely and appropriate manner to changes in the demand for its products

Relative to the global automotive industry, the financial stability of the United States automotive industry has been deteriorating Several companies have announced significant restructuring activities to eliminate excess capacity, reduce costs, and achieve other benefits normally associated with restructuring activities Continued declines in the automotive production levels of Federal-Mogul's major OE customers, particularly with respect to platforms for which Federal-Mogul is a significant supplier, could materially reduce sales and harm Federal-Mogul s profitability

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Accounts receivable potentially subject the Company to concentrations of credit risk The Company's customer base includes virtually every significant global automotive manufacturer, numerous Tier 1 automotive suppliers, and a large number of distributors and installers of automotive aftermarket parts

The financial distress of Federal-Mogul's OE customers and within the supply base could significantly affect its operating performance During 2009, many of the Company's OE customers continued to lower production levels due to a reduction in end-customer demand Several other global automotive manufacturers are also experiencing operating and profitability issues as well as labor concerns In this environment, it is difficult to forecast future OE customer production schedules, the potential for labor disputes, or the success or sustainability of any strategies undertaken by any of Federal-Mogul's customers in response to the current industry environment This environment may also put additional pricing pressure on suppliers to reduce the cost of products, which would reduce Federal-Mogul's margins In addition, cuts in production schedules are also sometimes announced by Federal-Mogul's OE customers with little advance notice, making it difficult for Federal-Mogul to respond with corresponding cost reductions

Federal-Mogul's supply base has also been adversely affected by industry conditions Lower production levels for OEMs and increases in certain raw material, commodity and energy costs have resulted in severe financial distress among many companies within the automotive supply base Several large suppliers and customers have filed for bankruptcy protection or ceased operations Unfavorable industry conditions have also resulted in financial distress within Federal-Mogul's supply base and an increase in commercial disputes and the risk of supply disruption In addition, the adverse industry environment has required Federal-Mogul to provide financial support to distressed suppliers or take other measures to ensure uninterrupted production While Federal-Mogul has taken certain actions to mitigate these factors, Federal-Mogul has offset only a portion of their overall impact on its operating results The continuation or worsening of these industry conditions would adversely affect Federal-Mogul's profitability, operating results and cash flow

The Company's operations in foreign countries exposes the Company to risks related to economic and political conditions, currency fluctuations and import/export restrictions. The Company has manufacturing and distribution facilities in many countries International operations are subject to certain risks including

- exposure to local economic conditions,
- exposure to local political conditions (including the risk of seizure of assets by foreign governments),
- currency exchange rate fluctuations (including, but not limited to, material exchange rate fluctuations, such as devaluations) and currency controls, and
- export and import restrictions

The likelihood of such occurrences and their potential effect on the Company are unpredictable and vary from country to country

Certain of the Company's operating entities report their financial condition and results of operations in currencies other than the U S dollar (including, but not limited to, Brazilian real, British pound, Chinese yuan renminbi, Czech crown, euro, Indian rupee, Mexican peso, Polish zloty, Russian ruble and Venezuelan bolivar) In reporting its consolidated statements of operations, the Company translates the reported results of these entities into U S dollars at the applicable exchange rates As a result, fluctuations in the dollar against foreign currencies will affect the value at which the results of these entities are included within Federal-Mogul's consolidated results

The Company is exposed to a risk of gain or loss from changes in foreign exchange rates whenever the Company, or one of its foreign subsidiaries, enters into a purchase or sales agreement in a currency other than its functional currency While the Company reduces such exposure by matching most revenues and costs within the same currency, changes in exchange rates could impact the Company's financial condition or results of operations

The Company has substantial indebtedness, which could restrict the Company's business activities and could subject the Company to significant interest rate risk As of December 31, 2009, the Company had approximately $2 9 billion of outstanding indebtedness The Company is permitted by the terms of its debt instruments to incur substantial additional indebtedness, subject to the restrictions therein The Company's inability to generate sufficient cash flow to satisfy its debt obligations, or to refinance its debt obligations on commercially reasonable terms, would have a material adverse effect on the Company's business, financial condition and results of operations

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The Company's indebtedness could

- limit the Company s ability to borrow money for working capital, capital expenditures, debt service requirements or other corporate purposes,
- require the Company to dedicate a substantial portion of its cash flow to payments on indebtedness, which would reduce the amount of cash flow available to fund working capital, capital expenditures, product development and other corporate requirements,
- increase the Company s vulnerability to general adverse economic and industry conditions, and
- limit the Company's ability to respond to business opportunities

A significant portion of the Company s indebtedness accrues interest at variable rates To the extent market interest rates rise, the cost of the Company's debt would increase, adversely affecting the Company's financial condition, results of operations, and cash flows

The Company is subject to possible insolvency of financial counterparties The Company engages in numerous financial transactions and contracts including insurance policies, letters of credit, credit line agreements, financial derivatives (including interest rate swaps), and investment management agreements involving various counterparties The Company is subject to the risk that one or more of these counterparties may become insolvent and therefore be unable to discharge its obligations under such contracts

The automotive industry is highly competitive and the Company's success depends upon its ability to compete effectively in the market The Company operates in an extremely competitive industry, driven by global vehicle production volumes and part replacement trends Business is typically awarded to the supplier offering the most favorable combination of cost, quality, technology and service In addition, customers continue to require periodic price reductions that require the Company to continually assess, redefine and improve its operations, products and manufacturing capabilities to maintain and improve profitability The Company's management continues to develop and execute initiatives to meet the challenges of the industry and to achieve its strategy, however, there can be no assurance that the Company will be able to compete effectively in the automotive market

If the Company loses any of its executive officers or key employees, the Company's operations and ability to manage the day-to-day aspects of its business may be materially adversely affected The Company s future performance substantially depends on its ability to retain and motivate executive officers and key employees, both individually and as a group If the Company loses any of its executive officers or key employees, which have many years of experience with the Company and within the automotive industry and other manufacturing industries, or is unable to recruit qualified personnel, the Company s ability to manage the day-to-day aspects of its business may be materially adversely affected The loss of the services of one or more executive officers or key employees, who also have strong personal ties with customers and suppliers, could have a material adverse effect on the Company's business, financial condition and results of operations

The employment agreement of José Maria Alapont, the Company's President and Chief Executive Officer since March 1, 2005, expires on March 23, 2010 Accordingly, no assurances can be given that Mr Alapont will not retire and will remain as President and Chief Executive Officer of the Company upon expiration of his employment agreement The loss of Mr Alapont's services could have a material adverse effect on the Company's business, financial condition and results of operations

The Company does not currently maintain "key person" life insurance

The Company's pension obligations and other post employment benefits could adversely impact the Company's operating margins and cash flows. The automotive industry, like other industries, continues to be impacted by the rising cost of providing pension and other post employment benefits In addition, the Company sponsors certain defined benefit plans worldwide that are underfunded and will require cash payments If the performance of the assets in the pension plans does not meet the Company s expectations, or other actuarial assumptions are modified, the Company's required contributions may be higher than it expects See Note 15 to the Consolidated Financial Statements, included in Item 8 of this report

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The price of the Company's common stock is subject to volatility: Various factors could cause the market price of the Company's common stock to fluctuate substantially including general financial market changes, changes in governmental regulation, significant automotive industry announcements or developments, the introduction of new products or technologies by the Company or its competitors, and changes in other conditions or trends in the automotive industry Other factors that could cause the Company's stock price to fluctuate could be actual or anticipated variations in the Company s or its competitors' quarterly or annual financial results, financial results failing to meet expectations of analysts or investors, changes in securities analysts' estimates of the Company's future performance or of that of the Company s competitors and the general health of the automotive industry

Mr Carl C Icahn exerts significant influence over the Company and his interests may conflict with the interest of the Company's other stockholders Mr Carl C Icahn indirectly controls approximately 76% of the voting power of the Company s capital stock and, by virtue of such stock ownership, is able to control or exert substantial influence over the Company, including

- the election of directors,
- business strategy and policies,
- mergers or other business combinations,
- acquisition or disposition of assets,
- future issuances of common stock or other securities,
- incurrence of debt or obtaining other sources of financing, and
- the payment of dividends on the Company s common stock

The existence of a controlling stockholder may have the effect of making it difficult for, or may discourage or delay, a third party from seeking to acquire a majority of the Company's outstanding common stock, which may adversely affect the market price of the stock

Mr Icahn's interests may not always be consistent with the Company s interests or with the interests of the Company's other stockholders Mr Carl C Icahn and entities controlled by him may also pursue acquisitions or business opportunities that may or may not be complementary to the Company s business To the extent that conflicts of interest may arise between the Company and Mr Icahn and his affiliates, those conflicts may be resolved in a manner adverse to the Company or its other shareholders

The Company's stock price may decline due to sales of shares by Mr. Carl C Icahn. Sales of substantial amounts of the Company's common stock, or the perception that these sales may occur, may adversely affect the price of the Company's common stock and impede its ability to raise capital through the issuance of equity securities in the future Mr Icahn is contractually entitled, subject to certain exceptions, to exercise rights under a registration rights agreement to cause the Company to register his shares under the Securities Act By exercising his registration rights and selling a large number of shares Mr Icahn could cause the price of the Company's common stock to decline No other shareholder has registration rights

The Company may pursue acquisitions or joint ventures that involve inherent risks, any of which may cause the Company not to realize anticipated benefits, and the Company may have difficulty integrating the operations of any companies that may be acquired, which may adversely affect the Company's results of operations: In the past, the Company has grown through acquisitions, and may engage in acquisitions in the future as part of the Company's sustainable global profitable growth strategy The full benefits of these acquisitions, however, require integration of manufacturing, administrative, financial, sales, and marketing approaches and personnel If the Company is unable to successfully integrate its acquisitions, it may not realize the benefits of the acquisitions, the financial results may be negatively affected, or additional cash may be required to integrate such operations

In the future, the Company may not be able to successfully identify suitable acquisition or joint venture opportunities or complete any particular acquisition, combination, joint venture or other transaction on acceptable terms The Company s identification of suitable acquisition candidates and joint venture opportunities and the integration of acquired business operations involves risks inherent in assessing the values, strengths, weaknesses, risks and profitability of these opportunities This includes the effects on the Company's business, diversion of management's attention and risks associated with unanticipated problems or unforeseen liabilities, and may require significant financial resources that would otherwise be used for the ongoing development of the Company's business

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The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures These difficulties could be further increased to the extent the Company pursues acquisition or joint venture opportunities internationally The Company may not be effective in retaining key employees or customers of the combined businesses The Company may face integration issues pertaining to the internal controls and operations functions of the acquired companies and also may not realize cost efficiencies or synergies that were anticipated when selecting the acquisition candidates The Company may experience managerial or other conflicts with its joint venture partners Any of these items could adversely affect the Company's results of operations

The Company s failure to identify suitable acquisition or joint venture opportunities may restrict the Company s ability to grow its business If the Company is successful in pursuing future acquisitions or joint ventures, the Company may be required to expend significant funds, incur additional debt and/or issue additional securities, which may materially adversely affect results of operations If the Company spends significant funds or incurs additional debt, the Company's ability to obtain financing for working capital or other purposes could decline and the Company may be more vulnerable to economic downturns and competitive pressures

The Company's restructuring activities may not result in the anticipated synergies and cost savings. The Company expects to continue to incur restructuring expenses and related costs of through 2010 in connection with the Company s sustainable global profitable growth strategy It is possible that such costs could vary from initially projected amounts or that achieving the expected synergies and cost savings will require additional costs or charges to earnings in future periods It is also possible that the expected synergies may not be achieved Any costs or charges could adversely impact the business results of operations, liquidity and financial condition

Certain disruptions in supply of and changes in the competitive environment for raw materials could adversely affect the Company's operating margins and cash flows. The Company purchases a broad range of materials, components and finished parts The Company also uses a significant amount of energy, both electricity and natural gas, in the production of its products A significant disruption in the supply of these materials, supplies and energy or the failure of a supplier with whom the Company has established a single source supply relationship could decrease production and shipping levels, materially increase operating costs and materially adversely affect profit margins Shortages of materials or interruptions in transportation systems, labor strikes, work stoppages, or other interruptions to or difficulties in the employment of labor or transportation in the markets where the Company purchases material, components and supplies for the production of products or where the products are produced, distributed or sold, whether as a result of labor strife, war, further acts of terrorism or otherwise, in each case may adversely affect profitability

In recent periods there have been significant fluctuations in the prices of aluminum, copper, lead, nickel, platinum, resins, steel, other base metals and energy which have had and may continue to have an unfavorable impact on the Company s business Any continued fluctuations in the price or availability of energy and materials may have an adverse effect on the Company's results of operations or financial condition To address increased costs associated with these market forces, a number of the Company s suppliers have implemented surcharges on existing fixed price contracts Without the surcharge, some suppliers claim they will be unable to provide adequate supply Competitive and marketing pressures may limit the Company s ability to pass some of the supply and material cost increases on to the Company's customers and may prevent the Company from doing so in the future Furthermore, the Company's customers are generally not obligated to accept price increases that the Company may desire to pass along to them This inability to pass on price increases to customers when material prices increase rapidly or to significantly higher than historic levels could adversely affect the Company s operating margins and cash flow, possibly resulting in lower operating income and profitability

The Company's hedging activities to address commodity price fluctuations may not be successful in offsetting future increases in those costs or may reduce or eliminate the benefits of any decreases in those costs· In order to mitigate short-term variation in operating results due to the aforementioned commodity price fluctuations, the Company hedges a portion of near-term exposure to certain raw materials used in production processes, primarily natural gas, copper, nickel, lead, platinum, high-grade aluminum and aluminum alloy The results of the Company's hedging practice could be positive, neutral or negative in any period depending on price changes in the hedged exposures

The Company s hedging activities are not designed to mitigate long-term commodity price fluctuations and, therefore, will not protect from long-term commodity price increases The Company's future hedging positions may not correlate to actual energy or raw materials costs, which would cause acceleration in the recognition of unrealized gains and losses on hedging positions in operating results

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The Company is subject to a variety of environmental, health and safety laws and regulations and the cost of complying, or the Company's failure to comply with such requirements may have a material adverse effect on its business, financial condition and results of operations The Company is subject to a variety of federal, state and local environmental laws and regulations relating to the release or discharge of materials into the environment, the management, use, processing, handling, storage, transport or disposal of hazardous waste materials, or otherwise relating to the protection of public and employee health, safety and the environment These laws and regulations expose the Company to liability for the environmental condition of its current facilities, and also may expose the Company to liability for the conduct of others or for the Company's actions that were in compliance with all applicable laws at the time these actions were taken These laws and regulations also may expose the Company to liability for claims of personal injury or property damage related to alleged exposure to hazardous or toxic materials in foreign countries where such liability has not been resolved through the Company's 524(g) Trust, as defined in Part III of this Annual Report Despite the Company s intention to be in compliance with all such laws and regulations, the Company cannot guarantee that it will at all times be in compliance with all such requirements The cost of complying with these requirements may also increase substantially in future years If the Company violates or fails to comply with these requirements, the Company could be fined or otherwise sanctioned by regulators These requirements are complex, change frequently and may become more stringent over time, which could have a material adverse effect on the Company s business

The Company's failure to maintain and comply with environmental permits that the Company is required to maintain could result in fines or penalties or other sanctions and have a material adverse effect on the Company's operations or results Future events, such as new environmental regulations or changes in or modified interpretations of existing laws and regulations or enforcement policies, newly discovered information or further investigation or evaluation of the potential health hazards of products or business activities, may give rise to additional compliance and other costs that could have a material adverse effect on the Company's business, financial conditions and operations

The Company is involved from time to time in legal proceedings and commercial or contractual disputes, which could have an adverse impact on the Company's profitability and consolidated financial position: The Company is involved in legal proceedings and commercial or contractual disputes that, from time to time, are significant These are typically claims that arise in the normal course of business including, without limitation, commercial or contractual disputes, including disputes with suppliers, intellectual property matters, personal injury claims, environmental issues, tax matters and employment matters No assurances can be given that such proceedings and claims will not have a material adverse impact on the Company's profitability and consolidated financial position

If the Company is unable to protect its intellectual property and prevent its improper use by third parties, the Company's ability to compete in the market may be harmed: Various patent, copyright, trade secret and trademark laws afford only limited protection and may not prevent the Company's competitors from duplicating the Company's products or gaining access to its proprietary information and technology These means also may not permit the Company to gain or maintain a competitive advantage

Any of the Company s patents may be challenged, invalidated, circumvented or rendered unenforceable The Company cannot guarantee that it will be successful should one or more of its patents be challenged for any reason If the Company's patent claims are rendered invalid or unenforceable, or narrowed in scope, the patent coverage afforded to the Company s products could be impaired, which could significantly impede the Company s ability to market its products, negatively affect its competitive position and materially adversely affect its business and results of operations

The Company s pending or future patent applications may not result in an issued patent Additionally newly issued patents may not provide meaningful protection against competitors or against competitive technologies The United States federal courts may invalidate the Company's patents or find them unenforceable Competitors may also be able to design around the Company's patents Other parties may develop and obtain patent protection for more effective technologies, designs or methods If these developments were to occur, it could have an adverse effect on the Company's sales If the Company's intellectual property rights are not adequately protected, the Company may not be able to commercialize its technologies, products or services and the Company s competitors could commercialize the Company's technologies, which could result in a decrease in the Company's sales and market share and could materially adversely affect the Company s business, financial condition and results of operations

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The Company's products could infringe the intellectual property rights of others, which may lead to litigation that could itself be costly, could result in the payment of substantial damages or royalties, and could prevent the Company from using technology that is essential to its products The Company cannot guarantee that its products, manufacturing processes or other methods do not infringe the patents or other intellectual property rights of third parties Infringement and other intellectual property claims and proceedings brought against the Company, whether successful or not, could result in substantial costs and harm the Company's reputation Such claims and proceedings can also distract and divert management and key personnel from other tasks important to the success of its business In addition, intellectual property litigation or claims could force the Company to do one or more of the following

- cease selling or using of any products that incorporate the asserted intellectual property, which would adversely affect the Company's revenue,
- pay substantial damages for past use of the asserted intellectual property,
- obtain a license from the holder of the asserted intellectual property, which license may not be available on reasonable terms, if at all, and
- redesign or rename, in the case of trademark claims, products to avoid infringing the intellectual property rights of third parties, which may not be possible and could be costly and time-consuming if it is possible to do

In the event of an adverse determination in an intellectual property suit or proceeding, or the Company's failure to license essential technology, the Company s sales could be harmed and its costs could increase, which could materially adversely affect the Company's business, financial condition and results of operations

The Company may be exposed to certain regulatory and financial risks related to climate change Climate change is receiving ever increasing attention worldwide Many scientists, legislators and others attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions There are a number of pending legislative and regulatory proposals to address greenhouse gas emissions For example, in June 2009, the U S House of Representatives passed the American Clean Energy and Security Act that would phase-in significant reductions in greenhouse gas emissions if enacted into law The U S Senate is considering a different bill, and it is uncertain whether, when and in what form a federal mandatory carbon dioxide emissions reduction program may be adopted Similarly, certain countries in which the Company operates have adopted the Kyoto Protocol, and this and other international initiatives under consideration could affect our international operations These actions could increase costs associated with the Company s operations, including costs for raw materials and transportation Because it is uncertain what laws will be enacted, the Company cannot predict the potential impact of such laws on its future consolidated financial condition, results of operations or cash flows

ITEM 1 B UNRESOLVED STAFF COMMENTS

Not Applicable

ITEM 2 PROPERTIES

Federal-Mogul's world headquarters is located in Southfield, Michigan, which is a leased facility The Company had 175 manufacturing facilities, technical centers, distribution centers, and sales and administration office facilities worldwide at December 31, 2009 Approximately 44% of the facilities are leased, the majority of which are distribution centers, and sales and administration offices The Company owns the remainder of the facilities

Type of Facility	North America	Europe	Rest of World	Total
Manufacturing facilities	39	43	22	104
Technical centers	9	7	2	18
Distribution centers	9	8	4	21
Sales and administration offices	9	8	15	32
	66	66	43	175

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The facilities range in size from approximately 100 square feet to 1 1 million square feet Management believes that substantially all of the Company's facilities are in good condition and that it has sufficient capacity to meet its current and expected manufacturing and distribution needs

ITEM 3 LEGAL PROCEEDINGS

The Company has been involved in various litigation matters regarding asbestos liabilities, environmental matters and other matters as described below

Resolution of Asbestos Liabilities

As described in greater detail in Note 2 to the Consolidated Financial Statements, included in Item 8 of this report, all asbestos-related personal injury claims against the Debtors will be addressed by the U S Asbestos Trust or the U K Asbestos Trust in accordance with the terms of the Debtors confirmed Plan and the Company Voluntary Arrangements ('CVAs'), and such claims will be treated and paid in accordance with the terms of the Plan, the CVAs, and their related documents All asbestos property damage claims against the Debtors have been compromised and resolved through the Plan and the CVAs Accordingly, the Debtors have not recorded an asbestos liability as of December 31, 2009 or 2008

Environmental Matters

The Company is a defendant in lawsuits filed, or the recipient of administrative orders issued, in various jurisdictions pursuant to the Federal Comprehensive Environmental Response Compensation and Liability Act of 1980 ('CERCLA) or other similar national, provincial or state environmental laws These laws require responsible parties to pay for remediating contamination resulting from hazardous substances that were discharged into the environment by them, by prior owners or occupants of their property, or by others to whom they sent such substances for treatment or other disposition The Company has been notified by the United States Environmental Protection Agency, other national environmental agencies, and various provincial and state agencies that it may be a potentially responsible party ("PRP") under such laws for the cost of remediating hazardous substances pursuant to CERCLA and other national and state or provincial environmental laws PRP designation typically requires the funding of site investigations and subsequent remedial activities

Many of the sites that are likely to be the costliest to remediate are often current or former commercial waste disposal facilities to which numerous companies sent wastes Despite the joint and several liability which might be imposed on the Company under CERCLA and some of the other laws pertaining to these sites, the Company's share of the total waste sent to these sites has generally been small Therefore, the Company believes its exposure for liability at these sites is limited

The Company has also identified certain other present and former properties at which it may be responsible for cleaning up or addressing environmental contamination, in some cases as a result of contractual commitments The Company is actively seeking to resolve these actual and potential statutory regulatory, and contractual obligations Although difficult to quantify based on the complexity of the issues, the Company has accrued amounts corresponding to its best estimate of the costs associated with such regulatory and contractual obligations on the basis of available information from site investigations and best professional judgment of consultants

Total environmental liabilities were $22 million and $26 million at December 31, 2009 and 2008, respectively Management believes that such accruals will be adequate to cover the Company's estimated liability for its exposure in respect to such matters On the Effective Date, $26 million in environmental liabilities subject to compromise were settled in accordance with the Plan In the event that such liabilities were to significantly exceed the amounts recorded by the Company, the Company's results of operations and financial condition could be materially affected At December 31, 2009, management estimates that reasonably possible material additional losses above and beyond management's best estimate of required remediation costs, as recorded, approximate $45 million

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Other Matters

The Company is involved in other legal actions and claims, directly and through its subsidiaries that arise in the normal course of business Management does not believe that the outcomes of these other actions or claims are likely to have a material adverse effect on the Company s financial position, operating results, or cash flows

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders in the fourth quarter of fiscal year 2009

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EXECUTIVE OFFICERS OF THE COMPANY

José Maria Alapont
Age 59

Jose Maria Alapont has been president, chief executive officer, and a director of the Company since March 2005 Mr Alapont served as chairman of the board of directors of the Company from June 2005 to December 2007 Mr Alapont has more than 35 years of global leadership experience in both vehicle manufacturers and suppliers, with business and operations responsibilities in the Americas, Europe Middle East & Africa and Asia Pacific regions From 2003 to 2005 Mr Alapont was the chief executive officer and a member of the board of directors of IVECO, the commercial vehicle company of the Fiat Group From 1997 to 2003, Mr Alapont served in various key executive positions at Delphi Corporation, a global automotive supplier He began at Delphi as executive director of international operations for Delphi energy and engine management systems In 1998, he became responsible for Delphi energy and chassis systems international operations In 1999, Mr Alapont was named a vice president of Delphi Corporation and president of Delphi Europe, Middle East and Africa, and became a member of the Delphi strategy board, the company's top policy-making group In 2003, Mr Alapont was promoted to president of Delphi's international operations, and vice president of sales and marketing From 1990 to 1997, Mr Alapont served in several executive roles and was a member of the strategy board at Valeo, a global automotive supplier He started at Valeo as managing director of engine cooling systems, Spain In 1991, Mr Alapont was named executive director of Valeo s worldwide heavy-duty engine cooling operations In 1992, he was promoted to group vice president of Valeo's worldwide clutch and transmission components division He was named group vice president of the company s worldwide lighting systems division in 1996 Mr Alapont began and developed his automotive career from 1974 to 1989 at Ford Motor Company and, over the course of 15 years, worked in different management and executive positions at Ford of Europe He started in 1974 as an engineer at Ford of Spain, becoming engine laboratory supervisor and later became engine plant production manager In 1984, he was appointed manager of powertrain quality at Ford of Europe He later became manager of powertrain supplier quality assurance in 1987 at Ford of Europe Mr Alapont earned degrees in industrial engineering from the Technical School of Valencia in Spain and in philology from the University of Valencia in Spain

William S Bowers
Age 57

Mr Bowers has served as senior vice president, sales and marketing, and a member of the strategy board of the Company since 2006 Prior to joining the Company, Mr Bowers spent nearly 30 years at General Motors Corporation and Delphi Corporation, most recently as executive director of sales, marketing and planning for the energy and chassis division from 2002-2006 Previously, he was based in Tokyo, Japan, as the Asia-Pacific regional director for Delphi s energy and chassis systems from 1998-2002 Mr Bowers worked as commercial and technical director for Delphi Automotive Systems, Singapore, from 1995-1998, and as chief engineer from 1992-1995 Previously he was engineering group manager, divisional program manager, powertrain systems development engineer, and control systems engineer at General Motors Corporation

David A Bozynski
Age 55

Mr Bozynski has served as vice president and treasurer of the Company since 1996 Prior to joining the Company in 1996, Mr Bozynski had a 21-year career with Unisys, where his last appointment was vice president and assistant treasurer Previously, he served as vice president, line of business finance, responsible for the finance function of Unisys four commercial lines of business Mr Bozynski also served as vice president, corporate business analysis

Jean Brunol Age 57	Mr Brunol has served as senior vice president, business and operations strategy, and a member of the strategy board of the Company since 2005 Prior to joining the Company, from January 2004 to April 2005, Mr Brunol was senior vice president, product and business strategy, international operations at IVECO, the commercial vehicle company of the Fiat Group Previously, Mr Brunol was business partner and executive advisor for private equity funds and independent companies He also served as president of tube operations at Thomson from 2000-2002, and was chief executive officer of SAFT ALCATEL Battery & Power Systems Company from 1997 to 2000 Mr Brunol was product director, transmissions, and executive vice president, electronics, at Valeo between 1992 and 1997 He began his career at Thomson, where he served in several leadership positions from 1981 to 1992 Mr Brunol also served at the French National Council for Scientific Research (CNRS) from 1976 to 1981
James (Jay) Burkhart Age 52	Mr Burkhart has served as senior vice president, Global Aftermarket, and a member of the strategy board of the Company since 2007 Previously, he served as vice president of global marketing, Aftermarket Products and Services since 2004 Mr Burkhart joined the Company in 1998 with the acquisition of Cooper Automotive and was most recently vice president of global marketing for Aftermarket Products & Services Prior to joining Cooper, he was vice president of marketing worldwide, for Tenneco Automotive
Gerard Chochoy Age 56	Mr Chochoy has served as senior vice president, Powertrain Sealing and Bearings and a member of the strategy board of the Company since 2007 He joined the Company as senior vice president, global development in March 2007 Previously from 2003 to 2007, Mr Chochoy was executive vice president of the automotive seating group at Faurecia, based in Paris From November 2000 to July 2003, he was executive vice president of operations at NEC Computer International, and general manager of the Packard Bell brand Mr Chochoy served 12 years at Valeo, most recently group vice president of wiper systems from February 1995 to October 2000
René L F Dalleur Age 56	Mr Dalleur has served as senior vice president, Customer Satisfaction, Global Engineering and Manufacturing of the Company since April 2009 Previously, he was senior vice president, Vehicle Safety and Protection, from April 2007 He has been a member of the Strategy Board since May 2005 He served as senior vice president, Vehicle Safety and Performance, from May 2005 to April 2007 He served as senior vice president, global friction products, since 2001, and was named vice president of sealing systems, ignition and wipers, Europe in 2000 Prior to joining the Company in 1998 with the acquisition of Cooper Industries, Mr Dalleur held various positions in engineering, purchasing, and plant and general management in the automotive and aerospace industries
Steven K Gaut Age 48	Mr Gaut has served as vice president, corporate communications and government relations, and a member of the strategy board of the Company since April 2008 Prior to joining the Company in April 2008, he was director of communications and marketing services for the Europe Middle East and Africa region and global powertrain division for Delphi Corporation, based in Paris, France From 2003 to 2008, Mr Gaut served in roles of increasing responsibility in communications, sales, marketing and planning at Delphi Corporation while based in Europe Prior to relocating to Europe he served as corporate director of media relations for Delphi Corporation Prior to joining Delphi Corporation in 1995, Mr Gaut served in various communications and human resources roles at General Motors Corporation

Alston German Age 45	Mr German has served as Vice President and Chief Information Officer, and a member of the strategy board of the Company since December 2008 Previously, he was IS director, global SAP Mr German joined the Company in 1994 and has served as senior information systems consultant, valve train and transmission IS director, business unit IS director and corporate IS director, Asia Pacific Region Prior to joining the Company, Mr German progressed through various positions, including information technology manager, powertrain division, with a United Kingdom-based automotive supplier
Pascal Goachet Age 59	Mr Goachet has served as senior vice president, human resources and organization, and a member of the strategy board of the Company since July 2006 Previously, he was named director of human resources, EMEA and Asia-Pacific in May 2005 Prior to joining the Company, Mr Goachet was a staff member of the French Ministry of Labor in 2005 He served as vice president of corporate human resources, NEC Computers International, a subsidiary of NEC Japan from 2000 to 2005, and divisional director, human resources, Group Lafarge, Special Materials Division from July 1996 to December 2000 In addition, Mr Goachet has held various human resources leadership positions at Air France Group in 1996, at Valeo Group from 1990 to 1995, and at the Matra Group from 1980 to 1990 Previously, he was a cabinet member of the French Ministry of Justice In December 2007, the Government of France appointed Mr Goachet as a Foreign Trade Advisor of the Republic of France Additionally he was inducted into the French Legion of Honor in 2004
Alan Haughie Age 46	Mr Haughie has served as vice president, controller and chief accounting officer of the Company since 2005 Previously, he served as director, corporate finance since 2000, and prior to that, worked as controller in the Company's aftermarket business located in Manchester, United Kingdom, from 1999 to 2000 Prior to joining the Company in 1994, Haughie worked for Ernst & Young in the U K in various audit roles
Ramzi Hermiz Age 44	Mr Hermiz has served as senior vice president, Vehicle Safety and Protection since 2009, and a member of the strategy board of the Company since 2005 Previously, he was senior vice president aftermarket products and services from 2007 to 2009 and senior vice president of sealing systems from 2005 to 2007 Mr Hermiz has served as director of purchasing, director pull systems and inventory, vice president, global supply-chain management, and vice president of the Company's European Aftermarket operation He joined the Company in 1998 with the acquisition of Fel-Pro, Inc Prior to joining Fel-Pro in 1990, Mr Hermiz was manager, purchasing and quality assurance for Triangle Home Products, a manufacturer of residential lighting and other products He began his career as a design and product engineer for Keldu Technologies, a consulting firm serving the heavy-duty construction industry
Rainer Jueckstock Age 50	Mr Jueckstock has served as senior vice president, Powertrain Energy, and a member of the strategy board of the Company since April 2005 Previously, he was senior vice president global powertrain Mr Jueckstock joined the Company in 1990, and has served as senior vice president, powertrain operations, senior vice president, pistons, rings and liners, vice president, rings and liners, operations director, piston rings, Europe, and managing director of the Friedberg, Germany, operation He also was sales director for rings and liners, Europe, finance controller in Burscheid, Germany, and finance manager in Dresden, Germany

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Jeff Kaminski Age 48	Mr Kaminski has served as senior vice president and chief financial officer since 2008, and a member of the strategy board of the Company since 2005 Previously he was senior vice president, global purchasing Prior to that, he was vice president of global supply chain management Mr Kaminski also was vice president, finance, global powertrain systems, and served in several finance and operations positions, including finance director, sealing systems, managing director of the Company's Aftermarket subsidiary based in Australia, and international controller for the Aftermarket group based in Southfield, Michigan During 2001, he served briefly as vice president, finance, GDX Automotive Prior to joining the Company in 1989, Mr Kaminski was manager of financial reporting at R P Scherer Corporation He began his career in public accounting at Deloitte and Touche LLP
Robert L Katz Age 47	Mr Katz has served as senior vice president and general counsel since May 2007 He was appointed Secretary of the Company in December 2007 Mr Katz joined the Company as vice president and general counsel in January 2007 and became a member of the strategy board of the Company Prior to joining the Company, Mr Katz was general counsel-EMEA and EMEA regional compliance officer for Delphi Corporation s Europe, Middle East and Africa (EMEA) operations headquartered in Paris, France since January 1999 From 1996 to 1998, Mr Katz served as assistant general counsel for General Motors (Europe) AG, at its European headquarters in Zurich, Switzerland Mr Katz was previously an associate at Milbank, Tweed, Hadley & McCloy, an international law firm, from 1986 to 1995, where he worked in the M&A and General Corporate Group, in both New York, New York and London, England
Markus Wermers Age 45	Mr Wermers has served as senior vice president, global purchasing and a member of the strategy board of the Company since April 2008 From November 2004 to March 2008, Mr Wermers was vice president, sales and marketing, Europe, Middle East and Africa region, after having served as vice president, sales and marketing, for the Company's powertrain business unit Mr Wermers joined Federal-Mogul in 1991, where he held various positions of increasing responsibility, including sales director, Sealing Systems, sales director, pistons, rings and liners, sales director, Ford, and applications engineer and key account manager in Germany

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PART II

ITEM 5 MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's stock is listed on the NASDAQ Global Stock Market

There were approximately 80 stockholders of record of Common Stock as of February 19, 2010 including multiple beneficial holders at depositories, banks and brokers listed as a single holder of record in the street name of each respective depository, bank or broker High and low sales prices for the Company s common stock for each quarter in 2008 and 2009 as follows

	2009		2008	
Quarter	**High**	**Low**	**High**	**Low**
First	$ 7 76	$ 2 15	$ 27 00	$ 18 00
Second	$ 12 62	$ 6 25	$ 21 20	$ 14 91
Third	$ 14 99	$ 8 23	$ 17 29	$ 11 94
Fourth	$ 17 80	$ 10 68	$ 12 80	$ 3 12

For additional information with respect to the Company's common stock, refer to Note 19 to Consolidated Financial Statements, included in Item 8 of this report

The Company did not pay any dividends in 2008 or 2009 The Company has certain restrictions under its Exit Facilities from paying dividends in the future

The following graph compares the cumulative total stockholder return during the period from January 1, 2009 to December 31, 2009 of the Company s Common Stock to the S&P 500 Stock Index The graph assumes that $100 was invested on January 1, 2009 in each of the Company's Common Stock, the stocks comprising the S&P 500 Index and the stocks comprising the peer group The peer group is comprised on the following companies ArvinMeritor, BorgWarner, Dana, Magna, Tenneco and TRW This performance graph shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed soliciting material or filed under such Acts

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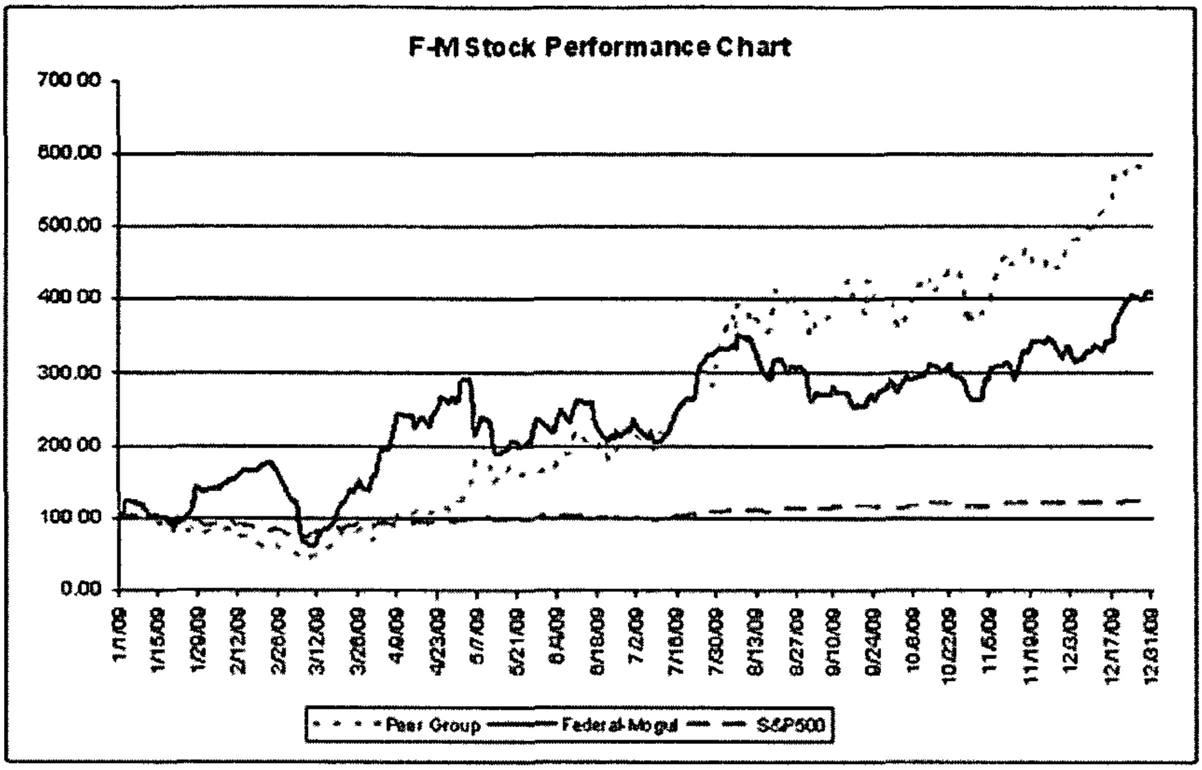

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ITEM 6 SELECTED FINANCIAL DATA

The following table presents information from the Consolidated Financial Statements as of or for the five years ended December 31, 2009 This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Financial Statements and Supplemental Data "

In accordance with U S GAAP, the Company was required to adopt fresh-start reporting effective upon emergence from bankruptcy on the Effective Date The Company evaluated the activity between the Effective Date and December 31, 2007 and, based upon the immateriality of such activity, concluded that the use of an accounting convenience date of December 31, 2007 was appropriate As such, fresh-start reporting has been applied as of that date As a result of fresh-start reporting, financial statements of the Successor Company are not comparable to the financial statements of the Predecessor Company For further information on fresh-start reporting, see Note 3 to the Consolidated Financial Statements included in Item 8 of this report

	Successor	Predecessor			
	Year Ended December 31				
	2009	2008	2007	2006	2005
	(Millions of Dollars, Except Per Share Amounts)				
Consolidated Statement of Operations Data					
Net sales	$ 5,330	$ 6,866	$ 6 914	$ 6,326	$ 6,286
Costs and expenses	(5 344)	(6,673)	(6,718)	(6,242)	(6,223)
Restructuring expense net	(32)	(132)	(48)	(66)	(30)
Adjustment of assets to fair value	(17)	(451)	(61)	(46)	(122)
Amortization expense	(49)	(76)	(19)	(18)	(18)
Chapter 11 and U K Administration related reorganization expenses, net	(3)	(17)	(81)	(95)	(138)
Settlement of U K pension plans	—	—	—	(500)	—
Gain on settlement of liabilities subject to compromise	—	—	761	—	—
Fresh-start reporting adjustments	—	—	956	—	—
Other income, net	43	37	36	28	46
Income tax benefit (expense), net	39	(19)	(332)	64	(132)
Net (loss) income	(33)	(465)	1,408	(549)	(331)
Less net (income) loss attributable to noncontrolling interests	(12)	(3)	4	(1)	(3)
Net (loss) income attributable to Federal-Mogul	**$ (45)**	**$ (468)**	**$ 1,412**	**$ (550)**	**$ (334)**
Common Share Summary					
Net (loss) income per share – basic	$ (0 46)	$ (4 69)	$ 15 74	$ (6 15)	$ (3 75)
Net (loss) income per share – diluted	$ (0 46)	$ (4 69)	$ 15 46	$ (6 15)	$ (3 75)
Weighted average shares outstanding – basic (in millions)	98 9	99 7	89 7	89 4	89 1
Weighted average shares outstanding – diluted (in millions)	99 3	100 0	91 3	91 3	91 3
Dividends declared per common share	$ —	$ —	$ —	$ —	$ —
Other Financial Information					
Net cash provided from (used by) operating activities	$ 328	$ 627	$ 35	$ (422)	$ 318
Expenditures for property, plant, equipment	176	320	310	237	190
Depreciation and amortization expense	327	349	354	329	344

	Successor		Predecessor		
	As of December 31				
	2009	2008	2007	2006	2005
	(Millions of Dollars)				
Consolidated Balance Sheet Data					
Total assets	$ 7,127	$ 7,236	$ 7,866	$ 7 179	$ 7,735
Short-term debt	97	102	118	482	607
Long-term debt	2,760	2,768	2 518	27	8
Liabilities subject to compromise	—	—	—	5,813	5,989
Federal-Mogul shareholders' equity (deficit)	1,023	951	2,124	(1,748)	(2,433)

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ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Federal-Mogul Corporation is a leading global supplier of a broad range of components, accessories and systems to the automotive, small engine heavy-duty, marine, railroad, agricultural, off-road, aerospace and energy, industrial and transport markets, including customers in both the original equipment manufacturers (OEM) market and the replacement market (aftermarket) The Company s customers include the world s largest automotive OEMs and major distributors and retailers in the independent aftermarket During 2009, the Company derived 56% of its sales from the OE market and 44% from the aftermarket Geographically, the Company derived 40% of its 2009 sales in the United States and 60% internationally The Company has operations in established markets including Canada, France, Germany, Italy, Japan Spain the United Kingdom and the United States, and emerging markets including Argentina, Brazil, China, Czech Republic, Hungary, India, Korea, Mexico, Poland, Russia, South Africa, Thailand, Turkey and Venezuela The attendant risks of the Company's international operations are primarily related to currency fluctuations, changes in local economic and political conditions, and changes in laws and regulations

The predecessor to Federal-Mogul Corporation, (the 'Predecessor Company' or the 'Predecessor') and all of its then-existing wholly-owned United States subsidiaries ("U S Subsidiaries") filed voluntary petitions on October 1 2001 for reorganization under Chapter 11 of Title 11 of the United States Code (the 'Bankruptcy Code') with the United States Bankruptcy Court for the District of Delaware (the 'Bankruptcy Court') On October 1, 2001, certain of the Predecessor Company s United Kingdom subsidiaries (together with the U S Subsidiaries, the 'Debtors') filed voluntary petitions for reorganization under the Bankruptcy Code with the Bankruptcy Court On November 8, 2007, the Bankruptcy Court entered an Order (the "Confirmation Order") confirming the Fourth Amended Joint Plan of Reorganization for Debtors and Debtors-in-Possession (as Modified) (the Plan") and entered Findings of Fact and Conclusions of Law regarding the Plan (the Findings of Fact and Conclusions of Law") On November 14, 2007, the United States District Court for the District of Delaware entered an order affirming the Confirmation Order and adopting the Findings of Fact and Conclusions of Law On December 27, 2007, the Plan became effective in accordance with its terms (the "Effective Date") On the Effective Date, the Predecessor Company merged with and into New Federal-Mogul Corporation whereupon (i) the separate corporate existence of the Predecessor Company ceased, (ii) New Federal-Mogul Corporation became the surviving corporation and continues to be governed by the laws of the State of Delaware and (iii) New Federal-Mogul Corporation was renamed Federal-Mogul Corporation' (also referred to as 'Federal-Mogul, the 'Company" the 'Successor Company or the 'Successor")

The Company operates in an extremely competitive industry, driven by global vehicle production volumes and part replacement trends Business is typically awarded to the supplier offering the most favorable combination of cost, quality, technology and service Customers continue to require periodic cost reductions that require the Company to continually assess, redefine, and improve its operations, products, and manufacturing capabilities to maintain and improve profitability Management continues to develop and execute initiatives to meet the challenges of the industry and to achieve its strategy for sustainable global profitable growth, including the following ongoing initiatives

- Global Organization – Recognizing the ever-increasing globalization of the automotive industry, the Company organized its primary business units on a global basis – Powertrain Energy, Powertrain Sealing and Bearings, Vehicle Safety and Protection, and Global Aftermarket This allows each business to take advantage of best practices in product development, technology and innovation, manufacturing capability and capacity Furthermore, the Company continues to develop and implement standardized processes and consolidated systems to further the direction and performance of the business

- Lean Manufacturing and Productivity – Management implemented a series of initiatives targeted at leveraging the Company s global scale and reducing total enterprise costs These initiatives included implementation of standard manufacturing methods across business segments to achieve operational efficiencies and decrease production costs, implementation of a global purchasing function focused on the reduction of global material costs, headcount reduction programs to reduce selling, general and administrative costs, and optimized capital expenditure processes to ensure capital funds are directed at the most strategically appropriate investments with the highest rates of return

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- Best-Cost Production – The Company has established and expanded manufacturing operations in best-cost countries in an effort to meet the cost pressures inherent in the industry and increase profitability The Company has manufacturing operations or joint venture alliances in Brazil, China, Czech Republic, Hungary, India, Korea, Mexico, Poland, Russia, Thailand and Turkey

- Global Distribution Optimization – The Company continued its efforts to optimize its aftermarket distribution network in order to improve both the efficiency of operations and customer order fulfillment and delivery performance including initiatives to streamline its American and European aftermarket operations, and expand its aftermarket operations in Asia

- Global Delivery Performance – In addition to the distribution network consolidation efforts, the Company upgraded many of its remaining distribution centers with state-of-the-art warehouse management systems Furthermore, the Company has renewed its focus on internal logistics and execution of inventory 'pull' systems throughout its manufacturing operations and suppliers to ensure prompt and accurate replenishment of its distribution network

- Expand Asia Pacific Presence – The Company has invested in manufacturing operations, both wholly-owned and joint venture relationships, in the Asia Pacific region and maintains three technical centers in Shanghai, China, Bangalore, India, and Yokohama, Japan to support the Company s efforts in this region The Company intends to use these operations and technical centers to strengthen its current, as well as to develop new, customer relationships in this important region

- Customer Valued Technology – The Company has significant engineering and technical resources throughout its businesses focused on creating value for customers with innovative solutions for both product applications and manufacturing processes

Critical Accounting Policies

The accompanying Consolidated Financial Statements, included in Item 8 of this report, have been prepared in conformity with U S GAAP and, accordingly, the Company s accounting policies have been disclosed in Note 1 to the Consolidated Financial Statements The Company considers accounting estimates to be critical accounting policies when

- the estimates involve matters that are highly uncertain at the time the accounting estimate is made, and

- different estimates or changes to estimates could have a material impact on the reported financial position, changes in financial position, or results of operations

When more than one accounting principle, or the method of its application is generally accepted, management selects the principle or method that it considers to be the most appropriate given the specific circumstances Application of these accounting principles requires the Company s management to make estimates about the future resolution of existing uncertainties Estimates are typically based upon historical experience current trends, contractual documentation, and other information, as appropriate Due to the inherent uncertainty involving estimates, actual results reported in the future may differ from those estimates In preparing these financial statements, management has made its best estimates and judgments of the amounts and disclosures included in the financial statements, giving due regard to materiality The following summarizes the Company's critical accounting policies

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Accounting and Reporting During Reorganization

The Debtors operated as debtors-in-possession from October 1, 2001 to the Effective Date and adopted the provisions of FASB ASC Topic 852, *Reorganizations* ("FASB ASC 852") (formally AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code*), upon commencement of the bankruptcy proceedings The Predecessor Company's Consolidated Financial Statements for the periods from October 1, 2001 through December 31, 2007 have been prepared in accordance with the provisions of FASB ASC 852 Accordingly, all pre-petition liabilities subject to compromise were segregated in the consolidated balance sheet and classified as liabilities subject to compromise at the estimated amount of allowable claims Liabilities not subject to compromise were separately classified as current and non-current Interest was not accrued on debt subject to compromise subsequent to the Petition Date Reorganization items include the expenses, realized gains and losses, and provisions for losses resulting from the reorganization under the Bankruptcy Code, and such items are reported separately as reorganization items in the Company's consolidated statements of operations

In accordance with U S GAAP, the Company was required to adopt fresh-start reporting effective upon emergence from bankruptcy on December 27, 2007 The Company evaluated the activity between December 27, 2007 and December 31, 2007 and, based upon the immateriality of such activity, concluded that the use of an accounting convenience date of December 31, 2007 was appropriate As such, fresh-start reporting has been applied as of that date As a result of fresh-start reporting, financial statements of the Successor Company are not comparable to the financial statements of the Predecessor Company For further information on fresh-start reporting, see Note 3 to the Consolidated Financial Statements, included in Item 8 of this report

The Company adopted fresh-start reporting under the provisions of FASB ASC 852 as of December 31, 2007 Accordingly, the Company's reorganization value was allocated to existing assets using the measurement guidance provided in Statement of Financial Accounting Standards 141, *Business Combinations*, which was subsequently amended by FASB ASC Topic 805 In addition, liabilities were recorded at the present value of amounts estimated to be paid Finally, the Predecessor Company's accumulated deficit was eliminated, and the Company s new debt and equity were recorded in accordance with the Plan

Estimates used in determining fair value measurements include, but are not limited to, expected future cash flow assumptions, market rate assumptions for contractual obligations, actuarial assumptions for benefit plans, settlement plans for litigation and contingencies, and appropriate discount rates The Company's estimates of fair value are based upon assumptions believed to be reasonable, but that are inherently uncertain In addition, estimated liabilities are subject to change as the Company completes the implementation of the Plan

The adoption of fresh-start reporting has had a material effect on the financial statements As a result, consolidated financial statements published for periods following December 31, 2007 are not comparable with those published before such date See Notes 2 and 3 to the Consolidated Financial Statements, included in Item 8 of this report, for further discussion of the provisions of FASB ASC 852

Pension Plans and Other Postemployment Benefit Plans

The Company sponsors several defined benefit pension plans ("Pension Benefits") and health care and life insurance benefits ("Other Benefits") for certain employees and retirees around the world Using appropriate actuarial methods and assumptions, the Company s defined benefit pension plans, non-pension postemployment benefits, and disability, early retirement and other postemployment benefits are accounted for in accordance with FASB ASC Topic 715, *Compensation – Retirement Benefits*

Actual results that differ from assumptions used are accumulated and amortized over future periods and accordingly, generally affect recognized expense and the recorded obligation in future periods Therefore, assumptions used to calculate benefit obligations as of the end of a fiscal year directly impact the expense to be recognized in future periods The primary assumptions affecting the Company's accounting for employee benefits as of December 31, 2009 are as follows

- *Long-term rate of return on plan assets* The required use of the expected long-term rate of return on plan assets may result in recognized returns that are greater or less than the actual returns on those plan assets in any given year Over time however, the expected long-term rate of return on plan assets is designed to approximate actual earned long-term returns The Company uses long-term historical actual return information, the mix of investments that comprise plan assets, and future estimates of long-term investment returns by reference to external sources to develop an assumption of the expected long-term rate of return on plan assets The expected long-term rate of return used to calculate net periodic pension cost is 8 50% for U S plans and 5 79% for non-U S plans

- *Discount rate* The discount rate is used to calculate future pension and postemployment obligations Discount rate assumptions used to account for pension and non-pension postemployment benefit plans reflect the rates available on high-quality, fixed-income debt instruments on December 31 of each year In determining its pension and other benefit obligations, the Company used weighted average discount rates of 5 75% for U S plans and 5 13% for non-U S plans

- *Health care cost trend* For postretirement health care plan accounting the Company reviews external data and Company specific historical trends for health care costs to determine the health care cost trend rate The assumed health care cost trend rate used to measure next year s postemployment health care benefits is 7 1% declining to an ultimate trend rate of 5 0% in 2014 The assumed drug cost trend rate used to measure next year s postemployment health care benefits is 8 5% declining to an ultimate trend rate of 5 0% in 2014

The following table illustrates the sensitivity to a change in certain assumptions for projected benefit obligations ("PBO"), associated expense and other comprehensive loss (OCL") The changes in these assumptions have no impact on the Company s 2009 funding requirements

	Pension Benefits						Other Benefits	
	United States Plans			Non-U S Plans				
	Change in 2010 Pension Expense	Change in PBO	Change in Accumulated OCL	Change in 2010 Pension Expense	Change in PBO	Change in Accumulated OCL	Change in 2010 Expense	Change in PBO
	(Millions of Dollars)							
25 bp decrease in discount rate	$ 2	$ 26	$ (26)	$ —	$ 9	$ (9)	$ —	$ 11
25 bp increase in discount rate	(2)	(26)	26	—	(9)	9	—	(10)
25 bp decrease in return on assets rate	2	—	—	—	—	—	—	—
25 bp increase in return on assets rate	(2)	—	—	—	—	—	—	—

The assumed health care trend rate has a significant impact on the amounts reported for non-pension plans The following table illustrates the sensitivity to a change in the assumed health care trend rate

	Total Service and Interest Cost	APBO
	(Millions of Dollars)	
100 bp increase in health care trend rate	$ 2	$ 24
100 bp decrease in health care trend rate	(2)	(22)

Environmental Matters

The Company is a defendant in lawsuits filed, or the recipient of administrative orders issued, in various jurisdictions pursuant to the Federal Comprehensive Environmental Response Compensation and Liability Act of 1980 ("CERCLA) or other similar national, provincial or state environmental laws These laws require responsible parties to pay for remediating contamination resulting from hazardous substances that were discharged into the environment by them, by prior owners or occupants of their property, or by others to whom they sent such substances for treatment or other disposition The Company has been notified by the United States Environmental Protection Agency, other national environmental agencies, and various provincial and state agencies that it may be a potentially responsible party (PRP") under such laws for the cost of remediating hazardous substances pursuant to CERCLA and other national and state or provincial environmental laws PRP designation typically requires the funding of site investigations and subsequent remedial activities

The Company has also identified certain other present and former properties at which it may be responsible for cleaning up or addressing environmental contamination, in some cases as a result of contractual commitments The Company is actively seeking to resolve these actual and potential statutory regulatory and contractual obligations Although difficult to quantity based on the complexity of the issues, the Company has accrued amounts corresponding to its best estimate of the costs associated with such regulatory and contractual obligations on the basis of available information from site investigations and best professional judgment of consultants

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On the Effective Date, $26 million in environmental liabilities subject to compromise were settled in accordance with the Plan Recorded environmental liabilities were $22 million and $26 million at December 31, 2009 and 2008 respectively These accruals are based upon management s best estimates, which requires management to make assumptions regarding the costs for remediation activities, the extent to which costs may be borne by other liable parties, the financial viability of such parties the time periods over which remediation activities will be completed, and other factors Although management believes its accruals will be adequate to cover the Company s estimated liability for its exposure in respect to such environmental matters, any changes in the underlying assumptions could materially impact the Company's future results of operations and financial condition At December 31, 2009, management estimates that reasonably possible material additional losses above and beyond management's best estimate of required remediation costs as recorded approximates $45 million

Conditional Asset Retirement Obligations

The Company records conditional asset retirement obligations ("CARO") in accordance with FASB ASC Topic 410, *Asset Retirement and Environmental Obligations* The Company's primary CARO activities relate to the removal of hazardous building materials at its facilities The Company records a CARO when the amount can be reasonably estimated typically upon the expectation that an operating site may be closed or sold The Company has identified sites with contractual obligations and several sites that are closed or expected to be closed and sold In connection with these sites, the Company has accrued $30 million and $27 million as of December 31, 2009 and 2008, respectively, for CARO, primarily related to anticipated costs of removing hazardous building materials, and has considered impairment issues that may result from capitalization of CARO

In determining whether the estimated fair value of CARO can reasonably be estimated, the Company must determine if the obligation can be assessed in relation to the acquisition price of the related asset or if an active market exists to transfer the obligation If the obligation cannot be assessed in connection with an acquisition price and if no market exists for the transfer of the obligation, the Company must determine if it has sufficient information upon which to estimate the obligation using expected present value techniques This determination requires the Company to estimate the range of settlement dates and the potential methods of settlement, and then to assign the probabilities to the various potential settlement dates and methods

In cases other than those included in the $30 million, where probability assessments could not reasonably be made, the Company cannot record and has not recorded a liability for the affected CARO If new information were to become available whereby the Company could make reasonable probability assessments for these CARO, the amount accrued for CARO could change significantly, which could materially impact the Company s statement of operations and/or financial position Settlements of CARO in the near-future at amounts other than the Company's best estimates as of December 31, 2009 also could materially impact the Company s future results of operations and financial condition

Long-Lived Assets

As a result of fresh-start reporting, long-lived assets such as property, plant and equipment have been stated at estimated replacement cost as of December 31, 2007, unless the expected future use of the assets indicated a lower value was appropriate Long-lived assets such as definite-lived intangible assets have been stated at estimated fair value as of December 31, 2007 Depreciation and amortization is computed principally by the straight-line method for financial reporting purposes and by accelerated methods for income tax purposes Definite-lived assets are periodically reviewed for impairment indicators If impairment indicators exist, the Company performs the required analysis and records an impairment charge as required, in accordance with the subsequent measurement provisions of FASB ASC Topic 360, *Property, Plant & Equipment*

The Company performs its annual goodwill impairment analysis as of October 1 or more frequently if impairment indicators exist, in accordance with the subsequent measurement provisions of FASB ASC Topic 350, *Intangibles – Goodwill and Other* This impairment analysis compares the estimated fair value of these assets to the related carrying value, and an impairment charge is recorded for any excess of carrying value over estimated fair value The estimated fair value is based upon consideration of various valuation methodologies, including guideline transaction multiples, multiples of current earnings, and projected future cash flows discounted at rates commensurate with the risk involved

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The Company s goodwill balance by reporting segment as of December 31, 2009 is as follows (in millions)

Powertrain Energy	$	277
Powertrain Sealing and Bearings		96
Vehicle Safety and Protection		700
	$	1,073

All of the Company's reporting units with a goodwill balance passed "Step 1" of the October 1, 2009 goodwill impairment analysis All Step 1' results had fair values in excess of carrying values of at least 15%

The Company reviews the carrying value of its long-lived and indefinite-lived assets, whether held for use or disposal, including other intangible assets, annually or more frequently when events and circumstances warrant such a review Estimating fair value for both long-lived and indefinite-lived assets requires management to make assumptions regarding future sales volumes and pricing, capital expenditures, useful lives and salvage values of related property, plant and equipment, the Company's ability to develop and implement productivity improvements, discount rates, effective tax rates, market multiples, and other items Any differences in actual results from management s estimates could result in fair values different from estimated fair values, which could materially impact the Company s future results of operations and financial condition Management believes that the estimates of future cash flows and fair value assumptions are reasonable, however, changes in assumptions underlying these estimates could affect the evaluations Significant judgments and estimates used by management when evaluating assets for impairment include (i) an assessment as to whether an adverse event or circumstance has triggered the need for an impairment review, and (ii) discounted or undiscounted future cash flows generated by the asset

The Company recorded total impairment charges of $17 million, $451 million and $61 million for the years ended December 31, 2009, 2008 and 2007, respectively

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718, *Compensation – Stock Compensation* which requires companies to expense the estimated fair value of employee stock options and other forms of stock-based compensation Estimating fair value for shared-based payments in accordance with FASB ASC Topic 718 requires management to make assumptions regarding expected volatility of the underlying shares, the risk-free rate over the life of the share-based payment, and the date on which share-based payments will be settled Any differences in actual results from management's estimates could result in fair values different from estimated fair values, which could materially impact the Company's future results of operations and financial condition Additional financial information related to the Company s share-based payments is presented in Note 20 to the Consolidated Financial Statements, included in Item 8 of this report

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes* ("FASB ASC 740") The determination of the Company's tax provision is complex due to operations in many tax jurisdictions outside the United States Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and other tax loss and credit carryforwards The realization of deferred tax assets is dependant upon the Company s ability to generate future taxable income The Company records a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled The Company records a valuation allowance that primarily represents operating and other loss carryforwards for which utilization is uncertain Management judgment is required in determining the Company s provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against the Company s net deferred tax assets

The Company did not record taxes on its undistributed earnings of $617 million at December 31, 2009, since these earnings are considered by the Company to be permanently reinvested If at some future date, these earnings cease to be permanently reinvested, the Company may be subject to United States income taxes and foreign withholding taxes on such amounts Determining the unrecognized deferred tax liability on the potential distribution of these earnings is not practicable as such liability, if any, is dependent on circumstances existing when remittance occurs

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At December 31, 2009, the Company had a deferred tax asset of $358 million net of a valuation allowance of $865 million, and deferred tax liabilities of $805 million At December 31, 2008, the Company had a deferred tax asset of $313 million, net of a valuation allowance of $786 million, and deferred tax liabilities of $795 million

The Predecessor Company adopted the Accounting for Uncertainty in Income Taxes provisions, now codified within FASB ASC 740, as of January 1, 2007 This guidance clarifies the accounting for uncertainty in income taxes recognized in companies' financial statements As a result, the Company applies a more-likely-than-not recognition threshold for all tax uncertainties It only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities Management judgment is required in determining when the Company s deferred tax assets and liabilities have met the more likely than not threshold As a result of this adoption, the Predecessor Company recognized a $14 million decrease in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 total shareholders' deficit

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RESULTS OF OPERATIONS

The following discussion of the Company's results of operations should be read in connection with Items 1 and 7A of this Form 10-K, as well as "Forward-Looking Statements" and Item 1A "Risk Factors" These items provide additional relevant information regarding the business of the Company, its strategy, and the various industry dynamics in the OEM market and the aftermarket which have a direct and significant impact on the Company's results of operations, as well as the risks associated with the Company's business

Consolidated Results

Net sales by reporting segment were

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Powertrain Energy	$ 1,413	$ 2,090	$ 2,063
Powertrain Sealing and Bearings	819	1,154	1,156
Vehicle Safety and Protection	772	985	1,016
Global Aftermarket	2,326	2,637	2,679
	$ 5,330	$ 6,866	$ 6,914

Net sales by group and region are listed below "PTE", "PTSB", "VSP" and "GA" represent Powertrain Energy, Powertrain Sealing and Bearings, Vehicle Safety and Protection and Global Aftermarket, respectively

	PTE	PTSB	VSP	GA	Total
Successor – 2009					
United States and Canada	20%	33%	27%	64%	42%
Europe	63%	54%	55%	21%	42%
Rest of World	17%	13%	18%	15%	16%
Successor – 2008					
United States and Canada	20%	30%	29%	64%	40%
Europe	65%	59%	55%	22%	46%
Rest of World	15%	11%	16%	14%	14%
Predecessor – 2007					
United States and Canada	21%	35%	32%	65%	42%
Europe	66%	55%	54%	23%	46%
Rest of World	13%	10%	14%	12%	12%

Cost of products sold by reporting segment was

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Powertrain Energy	$ 1,284	$ 1,786	$ 1,774
Powertrain Sealing and Bearings	801	1,090	1,102
Vehicle Safety and Protection	602	768	782
Global Aftermarket	1,851	2 107	2,068
Corporate	—	(9)	3
	$ 4,538	$ 5,742	$ 5,729

Gross margin by reporting segment was

	Successor	Predecessor	
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Powertrain Energy	$ 129	$ 304	$ 289
Powertrain Sealing and Bearings	18	64	54
Vehicle Safety and Protection	170	217	234
Global Aftermarket	475	530	611
Corporate	—	9	(3)
	$ 792	$ 1,124	$ 1,185

Consolidated net sales decreased by $1,536 million, or 22%, to $5 330 million for the year ended December 31, 2009 from $6,866 million for the year ended December 31, 2008 Over 60% of the Company s sales originate outside the United States, therefore the impact of the U S dollar strengthening in 2009, primarily against the euro, decreased reported sales by $305 million

In general, light and commercial vehicle OE production, and hence demand from the OEM's for the Company s products, declined significantly in all regions When the regional year over year production declines in both light and commercial vehicle are applied to the various markets in which the Company's OE products are sold the weighted average drop in global OEM demand was 32% Against this global production volume decline, the Company increased its OE market share in all regions, with the result that, on a constant dollar and constant pricing basis, the reduction in the Company's sales to OEM s was limited to 24% Global aftermarket volumes decreased by 11% due to a combination of items including macro-economic factors driving deferred maintenance spending at the consumer level and the credit crisis impact on customers in various countries in Eastern Europe and South America In addition, global aftermarket's 2008 volume included increased sales due to the geographic expansion of one of the Company's North American customers due to an acquisition The combined impact of these factors was a net sales volume decline of $1,254 million Net customer price increases were $23 million

In connection with fresh-start reporting completed as of December 31, 2007, inventory balances as of that date were increased by $68 million During the three months ended March 31, 2008, the Company recognized $68 million in additional cost of goods sold, which reduced gross margin by the same The non-recurrence of this one-time event has resulted in an increase in gross margin for 2009 when compared to 2008, and is referenced several times in the discussions that follow

Cost of products sold decreased by $1,204 million to $4,538 million for the year ended December 31, 2009 compared to $5,742 million for the year ended December 31, 2008 This was primarily due to a $748 million decrease in material, manufacturing labor and variable overhead costs as a direct consequence of the lower production volumes Productivity in excess of labor and benefits inflation of $62 million represents improvements in the total manufacturing cost base in excess of those due to reduced production volume and mix changes Other factors contributing to this decrease were currency movements of $270 million, improved materials and services sourcing of $82 million and the non-recurring 2008 fresh-start reporting impact on inventory of $68 million

Gross margin was $792 million, or 14 9% of sales, for the year ended December 31, 2009 compared to $1,124 million, or 16 4% of sales, for the year ended December 31, 2008 The most significant factor affecting gross margin was that of reduced sales, where the impact of lower volumes of $1,254 million was partially offset by lower cost of products sold of $748 million, resulting in lower gross margin of $506 million Favorable productivity in excess of labor and benefits inflation of $62 million, the non-recurring 2008 fresh-start reporting impact on inventory of $68 million, improved materials and services sourcing of $82 million and net customer price increases of $23 million were more than offset by sales volume decreases that reduced margins by $506 million, increased depreciation of $16 million, increased pension expense of $10 million and currency movements of $35 million

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Reporting Segment Results 2009 versus 2008

The following table provides changes in sales cost of products sold gross margin and operational EBITDA for the year ended December 31, 2009 compared with the year ended December 31, 2008 for each of the Company s reporting segments Operational EBITDA is defined as earnings before interest, income taxes, depreciation and amortization, and certain items such as restructuring and impairment charges, Chapter 11 and U K Administration related reorganization expenses, gains or losses on the sales of businesses gain on settlement of liabilities subject to comprise, fresh-start reporting adjustments, expense associated with U S based funded pension plans and the impact on 2008 gross margin of the fresh-start reporting valuation of inventory

	PTE	PTSB	VSP	GA	Corporate	Total
			(Millions of Dollars)			
2008 Sales, Successor	$ 2,090	$ 1,154	$ 985	$ 2,637	$ —	$ 6,866
Sales volumes	(504)	(292)	(168)	(290)	—	(1,254)
Customer pricing	(36)	13	(1)	47	—	23
Foreign currency	(137)	(56)	(44)	(68)	—	(305)
2009 Sales, Successor	$ 1,413	$ 819	$ 772	$ 2,326	$ —	$ 5,330

	PTE	PTSB	VSP	GA	Corporate	Total
			(Millions of Dollars)			
2008 Cost of Products Sold, Successor	$ 1,786	$ 1,090	$ 768	$ 2,107	$ (9)	$ 5,742
Sales volumes / mix	(311)	(179)	(79)	(175)	(4)	(748)
Productivity, net of inflation	(32)	(32)	(13)	5	10	(62)
Materials and services sourcing	(16)	(19)	(30)	(11)	(6)	(82)
Depreciation	6	6	4	1	(1)	16
Pension	1	(1)	—	—	10	10
Non-recurrence of 2008 fresh-start reporting impact on inventory	(11)	(7)	(5)	(45)	—	(68)
Foreign currency	(139)	(57)	(43)	(31)	—	(270)
2009 Cost of Products Sold, Successor	$ 1,284	$ 801	$ 602	$ 1,851	$ —	$ 4,538

	PTE	PTSB	VSP	GA	Corporate	Total
			(Millions of Dollars)			
2008 Gross Margin, Successor	$ 304	$ 64	$ 217	$ 530	$ 9	$ 1,124
Sales volumes / mix	(193)	(113)	(89)	(115)	4	(506)
Customer pricing	(36)	13	(1)	47	—	23
Productivity net of inflation	32	32	13	(5)	(10)	62
Materials and services sourcing	16	19	30	11	6	82
Depreciation	(6)	(6)	(4)	(1)	1	(16)
Pension	(1)	1	—	—	(10)	(10)
Non-recurrence of 2008 fresh-start reporting impact on inventory	11	7	5	45	—	68
Foreign currency	2	1	(1)	(37)	—	(35)
2009 Gross Margin, Successor	$ 129	$ 18	$ 170	$ 475	$ —	$ 792

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	PTE	PTSB	VSP	GA	Corporate	Total
			(Millions of Dollars)			
2008 Operational EBITDA, Successor	$ 354	$ 58	$ 206	$ 377	$ (233)	$ 762
Sales volumes / mix	(193)	(113)	(89)	(115)	4	(506)
Customer pricing	(36)	13	(1)	47	—	23
Productivity – Cost of products sold	32	32	13	(5)	(10)	62
Productivity – SG&A	23	17	10	25	57	132
Productivity – Other Income	—	(2)	—	—	—	(2)
Sourcing – Cost of products sold	16	19	30	11	6	82
Sourcing – SG&A	—	—	—	3	3	6
Sourcing – Other Income	1	—	—	—	15	16
Equity earnings on non-consolidated affiliates	(6)	(2)	(1)	2	—	(7)
Stock-based compensation	—	—	—	—	(41)	(41)
Foreign currency	(10)	(3)	(1)	(20)	15	(19)
Other	(5)	(1)	(3)	(5)	9	(5)
2009 Operational EBITDA, Successor	$ 176	$ 18	$ 164	$ 320	$ (175)	$ 503
Interest expense, net						(132)
Depreciation and amortization						(327)
Restructuring expense, net						(32)
Adjustment of assets to fair value						(17)
Chapter 11 and U K Administration related reorganization expenses						(3)
Expense associated with U S based funded pension plans						(66)
Other						2
Loss before income taxes						$ (72)

Powertrain Energy

Sales decreased by $677 million, or 32%, to $1,413 million for the year ended December 31, 2009 from $2,090 million for the year ended December 31, 2008 PTE generates over 80% of its revenue outside the United States and the resulting currency movements decreased reported sales by $137 million Sales volumes decreased by $504 million due to OE production volume declines in all regions, slightly offset by market share gains and new program launches in all regions Price downs associated with customer contractual agreements reduced sales by $36 million, including the impact of material price escalators whereby, through prior arrangements with certain customers, the Company transfers all, or part, of the changes in material costs to its customers

Cost of products sold decreased by $502 million to $1,284 million for the year ended December 31, 2009 compared to $1,786 million for the year ended December 31 2008 This was primarily due to a $311 million decrease in material, manufacturing labor and variable overhead costs as a direct consequence of the lower production volumes Productivity in excess of labor and benefits inflation of $32 million represents improvements in the total manufacturing cost base in excess of those due to reduced production volume Other significant factors contributing to this decrease were currency movements of $139 million and improved materials and services sourcing of $16 million

Gross margin decreased by $175 million to $129 million, or 9 1% of sales, for the year ended December 31, 2009 compared to $304 million, or 14 5% of sales, for the year ended December 31, 2008 The unfavorable impact of sales volumes contributed to a $193 million decrease in gross margin, being the difference between the volume related reductions of $504 million in sales and $311 million in the cost of products sold Other less significant factors contributing to the margin erosion were $36 million in customer pricing decreases, partially offset by $32 million of favorable productivity in excess of labor and benefits inflation and improved materials and services sourcing of $16 million

Operational EBITDA decreased by $178 million to $176 million for the year ended December 31, 2009 from $354 million for the year ended December 31, 2008 This decrease was primarily due to the impact of reduced volumes of $193 million When combined with the other macro-economic factors, such as adverse currency movements of $10 million and reduced income from non-consolidated affiliates of $6 million, the latter due to reductions in global market demand, EBITDA before operational actions fell by $209 million Improved productivity in both cost of products sold and SG&A increased EBITDA by $55 million, and improved materials and services sourcing contributed a further $17 million However, these favorable actions were partly offset by reduced customer pricing of $36 million

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Powertrain Sealing and Bearings

Sales decreased by $335 million, or 29%, to $819 million for the year ended December 31, 2009 from $1,154 million for the year ended December 31 2008 PTSB generates approximately 70% of its revenue outside the United States and the resulting currency movements decreased reported sales by $56 million Sales volumes decreased by $292 million due to OE production volume declines in all regions, slightly offset by market share gains and new program launches in all regions Customer pricing increased sales by $13 million

Cost of products sold decreased by $289 million to $801 million for the year ended December 31, 2009 compared to $1,090 million for the year ended December 31, 2008 This was primarily due to a $179 million decrease in material, manufacturing labor and variable overhead costs as a direct consequence of the lower production volumes Productivity in excess of labor and benefits inflation of $32 million represents improvements in the total manufacturing cost base in excess of those due to reduced production volume Other factors contributing to this decrease were currency movements of $57 million and improved materials and services sourcing of $19 million

Gross margin decreased by $46 million to $18 million, or 2 2% of sales, for the year ended December 31 2009 compared to $64 million, or 5 5% of sales, for the year ended December 31, 2008 The unfavorable impact of sales volumes contributed to a $113 million decrease in gross margin, being the difference between the volume related reductions of $292 million in sales and $179 million in the cost of products sold Other significant factors that helped to mitigate to the impact of lower volumes were $13 million in customer pricing increases, $32 million of favorable productivity in excess of labor and benefits inflation and improved materials and services sourcing of $19 million

Operational EBITDA decreased by $40 million to $18 million for the year ended December 31, 2009 from $58 million for the year ended December 31, 2008 This decrease was primarily due to the impact of reduced volumes of $113 million When combined with the other macro-economic factors, such as adverse currency movements of $3 million and reduced income from non-consolidated affiliates of $2 million, the latter due to reductions in global market demand, EBITDA before operational actions fell by $118 million Improved productivity in both cost of products sold and SG&A increased EBITDA by $49 million improved materials and services sourcing contributed a further $19 million and favorable customer pricing added $13 million

Vehicle Safety and Protection

Sales decreased by $213 million, or 22%, to $772 million for the year ended December 31, 2009 from $985 million for the year ended December 31, 2008 VSP generates over 70% of its revenue outside the United States and the resulting currency movements decreased reported sales by $44 million Sales volumes fell by $168 million due to lower OE production in all regions, slightly offset by market share gains and new program launches in all regions

Cost of products sold decreased by $166 million to $602 million for the year ended December 31, 2009 compared to $768 million for the year ended December 31, 2008 This was primarily due to a $79 million decrease in material, manufacturing labor and variable overhead costs as a direct consequence of the lower production volumes Productivity in excess of labor and benefits inflation of $13 million represents improvements in the total manufacturing cost base in excess of those due to reduced production volume changes Other factors contributing to this decrease were currency movements of $43 million and improved materials and services sourcing of $30 million

Gross margin decreased by $47 million to $170 million, or 22 0% of sales, for the year ended December 31, 2009 compared to $217 million, or 22 0% of sales, for the year ended December 31, 2008 The unfavorable impact of sales volumes contributed to an $89 million decrease in gross margin, being the difference between the volume related reductions of $168 million in sales and $79 million in the cost of products sold Improved materials and services sourcing reduced costs by $30 million and favorable productivity in excess of labor and benefits inflation was $13 million

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Operational EBITDA decreased by $42 million to $164 million for the year ended December 31, 2009 from $206 million for the year ended December 31, 2008 This decrease was primarily due to the impact of reduced volumes of $89 million When combined with the other macro-economic factors, such as adverse currency movements of $1 million and reduced income from non-consolidated affiliates of $1 million, EBITDA before operational actions fell by $91 million Improved productivity in both cost of goods sold and SG&A increased EBITDA by $23 million, improved materials and services sourcing contributed a further $30 million, and customer pricing $1 million

Global Aftermarket

Sales decreased by $311 million, or 12%, to $2,326 million for the year ended December 31, 2009 from $2,637 million for the year ended December 31, 2008 This change was caused by decreased sales volumes in all regions totaling $290 million due to a combination of factors including the economic recession reducing consumer spending and the frailty of financial markets in Eastern Europe and South America, partially offset by customer price increases of $47 million Unfavorable foreign currency movements were $68 million

Cost of products sold decreased by $256 million to $1,851 million for the year ended December 31, 2009 compared to $2,107 million for the year ended December 31, 2008 This was primarily due to a $175 million decrease due to reduced volume of product purchased as a direct consequence of the lower market demand Other factors contributing to this decrease were the non-recurring 2008 fresh-start reporting impact on inventory of $45 million and currency movements of $31 million

Gross margin decreased by $55 million to $475 million, or 20 4% of sales, for the year ended December 31, 2009 compared to $530 million, or 20 1% of sales, for the year ended December 31, 2008 The unfavorable impact of sales volumes contributed to a $115 million decrease in gross margin, being the difference between the volume related reductions of $290 million in sales and $175 million in the cost of products sold Customer price increases were $47 million, and the non-recurrence of the 2008 fresh-start reporting impact on inventory which increased reported gross margin by $45 million was mostly offset by adverse currency movements of $37 million

Operational EBITDA decreased by $57 million to $320 million for the year ended December 31, 2009 from $377 million for the year ended December 31, 2008 This decrease was primarily due to the impact of reduced volumes of $115 million When combined with adverse currency movements of $20, EBITDA before operational actions fell by $135 million Improved productivity, mainly in SG&A, increased EBITDA by $20 million, improved materials and services sourcing contributed a further $14 million, and customer pricing $47 million

Corporate

Operational EBITDA increased by $58 million to $(175) million for the year ended December 31, 2009 from $(233) million for the year ended December 31, 2008 This increase was due to reduced SG&A in excess of labor and benefits inflation of $57 million, improvements in the cost of services of $9 million, favorable currency movements of $15 million and increased gains on hedging transactions of $15 million, partially offset by increased stock-based compensation expense for liability based awards of $41 million primarily due to the impact of the Company's rising stock price

Selling, General and Administrative Expense

SG&A expenses were $690 million, or 12 9% of net sales, for the year ended December 31, 2009 as compared to $774 million or 11 3% of net sales the year ended December 31 2008 Included within SG&A is a charge of $37 million relating to the U S funded pension plan The favorable impact of exchange movements decreased SG&A by $27 million, leaving a constant-dollar decrease of $111 million which is due to reduced employee costs and other productivity improvements, net of labor and benefits inflation, partially offset by increased pension costs

Included in SG&A expense above were research and development ("R&D") costs, including product engineering and validation costs, of $140 million for the year ended December 31, 2009 compared to $173 million for the year ended December 31, 2008 As a percentage of OEM sales, research and development was 4 7% for the year ended December 31, 2009 and 4 1% for the year ended December 31, 2008

Interest Expense

Net interest expense was $132 million for the year ended December 31, 2009 compared to $180 million for the year ended December 31, 2008 The decrease is primarily due to lower average interest rates

Other Income, Net

Other income net was $43 million for the year ended December 31, 2009, compared with other income, net of $37 million for the year ended December 31, 2008 The Company was party to two lawsuits in Ohio and Michigan relating to indemnification for costs arising from environmental releases from industrial operations of the Predecessor Company prior to 1986 During 2009 and 2008, the Company reached settlements with certain parties, which resulted in net recoveries to the Company of $12 million and $17 million, respectively

During 2009, an affiliate purchased and sold debt investments on the Company's behalf for $22 million and $30 million, respectively This resulted in a single cash transaction with the affiliate for an $8 million net gain, which the Company recognized in other income

In 2008, the Company experienced a fire at a plant in Europe During 2008, the Company received cash proceeds of $30 million from its insurance carrier, for which it recognized a $12 million gain associated with the involuntary conversion During 2009, the Company received additional proceeds of $7 million, which was recognized as a gain

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Reporting Segment Results 2008 versus 2007

The following table provides changes in sales, cost of products sold, gross margin and Operational EBITDA for the year ended December 31, 2008 compared with the year ended December 31, 2007 for each of the Company's reporting segments

	PTE	PTSB	VSP	GA	Corporate	Total
			(Millions of Dollars)			
2007 Sales, Predecessor	$ 2,063	$ 1,156	$ 1,016	$ 2,679	$ -	$ 6,914
Sales volumes and new business	(29)	(75)	(64)	(119)	-	(287)
Customer pricing	(22)	31	(6)	39	-	42
Foreign currency	78	42	39	38	-	197
2008 Sales, Successor	$ 2,090	$ 1,154	$ 985	$ 2,637	$ -	$ 6,866

	PTE	PTSB	VSP	GA	Corporate	Total
			(Millions of Dollars)			
2007 Cost of Products Sold, Predecessor	$ 1,774	$ 1,102	$ 782	$ 2,068	$ 3	$ 5,729
Sales volumes / mix	(10)	(29)	(12)	(36)	1	(86)
Productivity, net of inflation	(43)	(13)	(54)	-	(12)	(122)
Materials and services sourcing	7	2	26	(8)	1	28
Depreciation	(32)	(18)	(13)	-	-	(63)
Pension	-	1	1	-	(3)	(1)
Increase to inventory values as a result of fresh-start reporting	11	7	5	45	-	68
Foreign currency	79	38	33	38	1	189
2008 Cost of Products Sold, Successor	$ 1,786	$ 1,090	$ 768	$ 2,107	$ (9)	$ 5,742

	PTE	PTSB	VSP	GA	Corporate	Total
			(Millions of Dollars)			
2007 Gross Margin, Predecessor	$ 289	$ 54	$ 234	$ 611	$ (3)	$ 1,185
Sales volumes / mix	(19)	(46)	(52)	(83)	(1)	(201)
Customer pricing	(22)	31	(6)	39	-	42
Productivity net of inflation	43	13	54	-	12	122
Materials and services sourcing	(7)	(2)	(26)	8	(1)	(28)
Depreciation	32	18	13	-	-	63
Pension	-	(1)	(1)	-	3	1
Increase to inventory values as a result of fresh-start reporting	(11)	(7)	(5)	(45)	-	(68)
Foreign currency	(1)	4	6	-	(1)	8
2008 Gross Margin, Successor	$ 304	$ 64	$ 217	$ 530	$ 9	$ 1,124

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	PTE	PTSB	VSP	GA	Corporate	Total
			(Millions of Dollars)			
2007 Operational EBITDA, Successor	$ 355	$ 50	$ 225	$ 423	$ (263)	$ 790
Sales volumes / mix	(19)	(46)	(52)	(83)	(1)	(201)
Customer pricing	(22)	31	(6)	39	-	42
Productivity – Cost of products sold	43	13	54	-	12	122
Productivity – SG&A	6	6	2	5	(10)	9
Productivity – Other income	1	8	-	-	(18)	(9)
Sourcing – Cost of products sold	(7)	(2)	(26)	8	(1)	(28)
Sourcing – SG&A	-	1	-	-	3	4
Sourcing – Other income	-	(2)	-	-	1	(1)
Equity earnings on non-consolidated affiliates	(9)	(2)	1	(2)	-	(12)
Stock based compensation	-	-	-	-	23	23
Environmental claims settlements					17	17
Foreign currency	4	2	5	(11)	(4)	(4)
Other	2	(1)	3	(2)	8	10
2008 Operational EBITDA, Successor	$ 354	$ 58	$ 206	$ 377	$ (233)	$ 762
Interest expense net						(180)
Depreciation and amortization						(349)
Adjustment of assets to fair value						(451)
Restructuring expense, net						(132)
Chapter 11 and U K Administration related reorganization expenses						(17)
Gross margin impact of December 31, 2007 fresh-start reporting inventory adjustment						(68)
Expense associated with U S based funded pension plans						(5)
Other						(6)
Loss before income taxes						$ (446)

Powertrain Energy

Sales increased by $27 million, or 1%, to $2,090 million for the year ended December 31, 2008 from $2,063 million for the year ended December 31, 2007 PTE generated over 80% of its revenue outside the United States and the resulting currency movements increased reported sales by $78 million Sales volumes decreased by $49 million due to OE production volume decreases in Europe and North America The November 2007 acquisition of a controlling interest in a joint venture in China contributed additional sales of $20 million Continued customer pricing pressure reduced sales by $22 million

Cost of products sold increased by $12 million to $1 786 million for the year ended December 31, 2008 compared to $1,774 million for the year ended December 31, 2007 This slight increase was due to foreign currency movements of $79 million and the 2008 fresh-start reporting impact on inventory of $11 million, partially offset by favorable productivity in excess of labor and benefits inflation of $43 million, which represents improvements in the total manufacturing cost base in excess of those due to reduced production volume and mix changes, and lower depreciation expense of $32 million due to the revaluation of fixed assets in conjunction with fresh-start reporting

Gross margin increased by $15 million to $304 million, or 14 5% of sales, for the year ended December 31, 2008 compared to $289 million, or 14 0% of sales, for the year ended December 31, 2007 This increase was due to favorable productivity in excess of labor and benefits inflation of $43 million and lower depreciation expense of $32 million, partially offset by decreased sales volumes, which reduced gross margin by $19 million, customer price reductions of $22 million and the 2008 fresh-start reporting impact on inventory of $11 million

Operational EBITDA decreased by $1 million to $354 million for the year ended December 31, 2008 from $355 million for the year ended December 31, 2007 The unfavorable impact of sales volumes declines of $19 million, customer price decreases of $22 million and decreased equity earnings on non-consolidated affiliates of $9 million were mostly offset by favorable productivity in excess of labor and benefits inflation of $50 million

Source FEDERAL MOGUL CORP 10-K February 23 2010

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Powertrain Sealing and Bearings

Sales decreased by $2 million, or less than 1%, to $1,154 million for the year ended December 31, 2008 from $1,156 million for the year ended December 31, 2007 Approximately 70% of PTSB s revenues were generated outside the United States and the resulting currency movements increased sales by $42 million Reduced light vehicle OE production in North America and Europe outweighed increases in market share and OE production volume in Asia, resulting in a net volume decline of $87 million Customer prices were increased by a net $31 million The March 2008 acquisition of FMBIL increased sales by $12 million

Cost of products sold decreased by $12 million to $1,090 million for the year ended December 31, 2008 compared to $1,102 million for the year ended December 31, 2007 This slight decrease was primarily due to a $29 million decrease associated with the decline in sales volume This reduction is due to reduced material, manufacturing labor and variable overhead costs as a direct consequence of the lower production volumes, partly offset by increases in the cost base resulting from changes in the mix of products manufactured and sold in the period Another factor contributing to this decrease was lower depreciation expense of $18 million due to the revaluation of fixed assets in conjunction with fresh-start reporting These noted decreases were partially offset by foreign currency movements of $38 million

Gross margin increased by $10 million to $64 million, or 5 5% of sales, for the year ended December 31, 2008 compared to $54 million, or 4 7% of sales, for the year ended December 31, 2007 This increase was due to increased customer pricing of $31 million and lower depreciation of $18 million, partially offset by the gross margin impact of $46 million due to lower sales volumes

Operational EBITDA increased by $8 million to $58 million for the year ended December 31, 2009 from $50 million for the year ended December 31, 2008 This increase was due to increased customer pricing of $31 million and favorable productivity in excess of labor and benefits inflation of $27 million, partially offset by the unfavorable impact of sales volumes declines of $46 million

Vehicle Safety and Protection

Sales decreased by $31 million, or 3%, to $985 million for the year ended December 31, 2008 from $1,016 million for the year ended December 31, 2007 Approximately 70% of VSP's sales were generated outside the United States and the resulting currency movements increased sales by $39 million Sales volumes fell by $64 million as significant market share gains in Asia were more than offset by the decline in light vehicle and OE production in North America and Europe Customer price reductions were $6 million

Cost of products sold decreased by $14 million to $768 million for the year ended December 31, 2008 compared to $782 million for the year ended December 31, 2007 This slight decrease was primarily due to $54 million of favorable productivity in excess of labor and benefits inflation, which represents improvements in the total manufacturing cost base in excess of those due to reduced production volume and mix changes Other factors contributing to this decrease were lower depreciation expense of $13 million due to the revaluation of fixed assets in conjunction with fresh-start reporting and a $12 million decrease associated with the decline in sales volume These noted decreases were partially offset by foreign currency movements of $33 million and unfavorable materials and services sourcing of $26 million

Gross margin decreased by $17 million to $217 million, or 22 0% of sales, for the year ended December 31, 2008 compared to $234 million, or 23 0% of sales, for the year ended December 31, 2007 This decrease was due to the gross margin impact of $52 million caused by lower sales volumes and unfavorable materials and services sourcing of $26 million, partially offset by favorable productivity in excess of labor and benefits inflation of $54 million and lower depreciation expense of $13 million

Operational EBITDA decreased by $19 million to $206 million for the year ended December 31, 2008 from $225 million for the year ended December 31, 2007 This decrease was due to the unfavorable impact of sales volumes declines of $52 million and unfavorable materials and services sourcing of $26 million, partially offset by favorable productivity in excess of labor and benefits inflation of $56 million

Source FEDERAL MOGUL CORP 10-K, February 23 2010

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Global Aftermarket

Sales decreased by $42 million, or 2%, to $2,637 million for the year ended December 31, 2008 from $2,679 million for the year ended December 31 2007 This change was due to sales volume decreases of $119 million, partially offset by customer price increases of $39 million and currency movements of $38 million

Cost of products sold increased by $39 million to $2 107 million for the year ended December 31 2008 compared to $2,068 million for the year ended December 31, 2007 This was due to the non-recurring 2008 fresh-start reporting impact on inventory of $45 million and foreign currency movements of $38 million, partially offset by a $36 million decrease associated with the decline in sales volume This $36 million reduction is due to reduced volume of product purchased as a direct consequence of the lower market demand, partly offset by increases in the cost base resulting from changes in the mix of products bought and sold in the period

Gross margin decreased by $81 million to $530 million, or 20 1% of sales, for the year ended December 31, 2008 compared to $611 million, or 22 8% of sales, for the year ended December 31, 2007 Before considering the impact of the one-time inventory charge of $45 million, gross margin would have been 21 8% of sales The impact of the volume decrease was compounded by unfavorable movements in the mix of products and markets into which the aftermarket products were distributed, lowering margin by $83 million This margin erosion was partially offset by increased customer pricing of $39 million

Operational EBITDA decreased by $46 million to $377 million for the year ended December 31, 2008 from $423 million for the year ended December 31, 2007 The unfavorable impact of sales volumes declines of $83 million was partially offset by customer price decreases of $39 million

Corporate

Operational EBITDA increased by $30 million to $(233) million for the year ended December 31, 2008 from $(263) million for the year ended December 31, 2007 This increase was primarily the result of the favorable impact of stock based compensation of $23 million and environmental claims settlements of $17 million, partially offset by unfavorable productivity of $16 million

Selling, General and Administrative Expense

SG&A expenses were $774 million, or 11 3% of net sales, for the year ended December 31, 2008 as compared to $828 million, or 12 0% of net sales, for the year ended December 31, 2007 The unfavorable impact of exchange movements increased SG&A by $18 million, which was more than offset by a constant-dollar reduction of $72 million, primarily due to reduced pension costs of $31 million and other productivity improvements, net of labor and benefits inflation

Included in SG&A expense above were research and development ('R&D') costs, including product engineering and validation costs, of $173 million for the year ended December 31, 2008 compared to $178 million for the year ended December 31, 2007 As a percentage of OEM sales, research and development was 4 1% and 4 2% for the years ended December 31, 2008 and 2007, respectively

Interest Expense

Net interest expense was $180 million for the year ended December 31, 2008 compared to $199 million for the year ended December 31, 2007 The decrease is due to lower average interest rates on higher debt partially offset by amortization of $22 million as a result of marking to market the exit financing arrangements as part of fresh-start reporting

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Other Income, Net

Other income, net was $34 million for the year ended December 31, 2008, compared with other income, net of $41 million for the year ended December 31, 2007 The Company was a party to two lawsuits in Ohio and Michigan relating to indemnification for costs arising from environmental releases from industrial operations of the Predecessor Company prior to 1986 During 2008, the Company reached settlements with certain parties which resulted in net recoveries to the Company of $17 million In addition, the Company had a fire at a plant in Europe for which it recognized a $12 million gain associated with the involuntary conversion

Adjustment of Assets to Estimated Fair Value

The Company and its Predecessor recorded total impairment charges of $17 million, $451 million and $61 million for the years ended December 31, 2009, 2008 and 2007, respectively, as follows

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Property, plant and equipment	$ 20	$ 18	$ 36
Goodwill	(3)	239	25
Other indefinite-lived intangible assets	—	130	—
Investments in non-consolidated affiliates	—	64	—
	$ 17	$ 451	$ 61

The Company s adjustment of assets to estimated fair value are further discussed in Note 5 to the Consolidated Financial Statements, included in Item 8 of this report

Chapter 11 and U.K Administration Related Reorganization Expense

Chapter 11 and U K Administration related reorganization expenses in the consolidated statements of operations consist of legal, financial and advisory fees, including fees of the U K Administrators, critical employee retention costs, and other directly related internal costs as summarized below These expenses have decreased for the years ended December 31 2009 and 2008 when compared to the year ended December 31, 2007 as a result of the Company s emergence from bankruptcy on December 27, 2007

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Professional fees directly related to the filing	$ 3	$ 17	$ 73
Critical employee retention costs	—	—	8
	$ 3	$ 17	$ 81

Restructuring Activities

The Company and its Predecessor, as part of the sustainable global profitable growth strategy, has undertaken various restructuring activities to streamline its operations, consolidate and take advantage of available capacity and resources and ultimately achieve cost reductions These restructuring activities include efforts to integrate and rationalize businesses and to relocate manufacturing operations to best cost countries Such activities have resulted in the redeployment of human and capital resources to the Company s core businesses

An unprecedented downturn in the global automotive industry and global financial markets led the Company to announce, in September and December 2008, certain restructuring actions, herein referred to as 'Restructuring 2009," designed to improve operating performance and respond to increasingly challenging conditions in the global automotive market It was anticipated that this plan would reduce the Company's global workforce by approximately 8 600 positions when compared with the workforce as of September 30, 2008 During 2009 and 2008, the Company has recorded $31 million and $127 million, respectively, in net restructuring expenses associated with Restructuring 2009, and expects to incur additional restructuring expenses up to $6 million through 2010 Because the significant majority of the costs expected to be incurred in relation to Restructuring 2009 are related to severance expenses, such activities are expected to yield future annual savings at least equal to the costs incurred

The Predecessor Company announced, in January 2006, a global restructuring plan ('Restructuring 2006') as part of its sustainable global profitable growth strategy During 2007, the Predecessor Company incurred expenses of $39 million under this program During 2008, the Successor Company incurred expenses of $5 million in connection with the Restructuring 2006 program The Restructuring 2006 program was completed as of December 31, 2008 Payments associated with this program are expected to continue into 2010

The Company s restructuring activities are further discussed in Note 4 to the Consolidated Financial Statements, included in Item 8 of this report

Income Taxes

For the year ended December 31, 2009, the Company recorded an income tax benefit of $39 million on a loss before income taxes of $72 million, compared to income tax expense of $19 million on a loss before income taxes of $446 million for the year ended December 31, 2008 The income tax benefit for the year ended December 31, 2009 differs from the U S statutory rate primarily due to favorable audit settlements, a tax benefit from the reversal of valuation allowances which is offset by the non-recognition of income tax benefits in various jurisdictions and a tax benefit recorded to continuing operations pursuant to an exception to the intraperiod tax allocation rules For the year ended December 31, 2008, the primary difference between the Company's income tax expense at its statutory rate and actual tax expense recorded was the result of goodwill impairment

Liquidity and Capital Resources

Cash Provided by Operating Activities

Net cash provided by operating activities was $328 million, $627 million and $35 million for the years ended December 31, 2009, 2008 and 2007, respectively The most significant factors contributing to operating activity cash flows in 2008 and 2007 are those in relation to emergence from Chapter 11 Cash from operations, excluding the impacts of the Plan, is shown below

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Net cash provided from operating activities	$ 328	$ 627	$ 35
Adjustments			
Payment (from) to U S Asbestos Trust	(40)	(225)	140
Payment of interest on pre-petition debt and notes	—	—	132
Payments to settle non-debt liabilities subject to compromise	51	23	44
Cash from operations, excluding the impacts of the Plan	$ 339	$ 425	$ 351

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Working Capital

The cash inflows from changes in working capital were $25 million, $82 million (excluding $68 million fresh-start adjustment to inventory) and $92 million for the years ended December 31, 2009 2008 and 2007, respectively

The cash inflow due to changes in accounts receivable for the year ended December 31, 2009 was $14 million This is due to a major focus on credit collection, which resulted in a significant reduction in overdue and late payments generating cash inflow of about $64 million, which was partly offset by the impact of higher fourth quarter 2009 sales volumes in excess of those in the fourth quarter of 2008 of about $50 million

The cash inflow due to changes in accounts receivable for the year ended December 31, 2008 of $89 million is primarily due to a reduction in sales volume Excluding the impact of foreign exchange, sales revenue in the last two months of 2008 was approximately $311 million lower than the equivalent period of 2007

The cash outflow due to changes in accounts receivable for the year ended December 31, 2007 of $47 million is primarily due to an increase in sales volume, partially offset by payments received in 2007 for property sold in 2006 Excluding the impact of foreign exchange, sales revenue in the last two months of 2007 was approximately $67 million higher than the equivalent period of 2006 During 2007, $20 million was received related to property sales made in 2006

The cash inflow due to changes in inventory of $93 million and the cash outflow due to changes in accounts payable of $82 million for the year ended December 31, 2009 are both largely as a result of the drop in global revenues for full year 2009 as compared to full year 2008

The cash inflow due to changes in inventory for the year ended December 31, 2008 of $53 million (excluding $68 million fresh-start adjustment to inventory) and the cash outflow due to changes in accounts payable for the year ended December 31, 2008 of $61 million both reflect the impact of decreased production volumes in the fourth quarter of 2008 – impacts which continued in 2009

Through more efficient internal logistics and supply chain management, the Predecessor Company reduced inventories by $15 million during for the year ended December 31, 2007 Excluding the impact of foreign exchange, the significant improvement in payments terms created a cash inflow of $124 million for purchased goods and services for the year ended December 31, 2007

Cash Flow Used by Investing Activities

Cash flow used by investing activities was $166 million, $306 million and $263 million for the years ended December 31, 2009, 2008 and 2007, respectively Expenditures for property, plant and equipment of $176 million for the year ended December 31, 2009 were $144 million lower than for the year ended December 31, 2008 As a result of the reduction in global revenue, the Company was able to utilize excess capacity and equipment, including that made available through the consolidation of production activities at certain locations These actions made it possible for the Company to operate with a lower level of capital investment throughout 2009

During 2009, an affiliate purchased and sold debt investments on the Company s behalf for $22 million and $30 million, respectively This resulted in a single cash transaction with the affiliate for an $8 million net gain, which the Company recognized in other income

Proceeds from the sales of property, plant and equipment were $2 million, $13 million and $26 million for the years ended December 31, 2009, 2008 and 2007, respectively The 2007 proceeds were largely due to the sale of real estate following the closure of a manufacturing facility in Upton, England during 2007 Also during 2007, the Predecessor Company realized proceeds of $14 million each for the sale of a 12 2% ownership interest in an industrial brake manufacturer and the sale of a 30% ownership interest in a piston venture in India

The Company maintains investments in 14 non-consolidated affiliates, which are located in China, Germany, India, Italy, Korea, Turkey, the United Kingdom and the United States The Company s direct ownership in such affiliates ranges from approximately 1% to 50% The aggregate investments in these affiliates were $238 million and $221 million as of December 31 2009 and 2008, respectively Upon the adoption of fresh-start reporting, the Company s investments in non-consolidated affiliates were adjusted to estimated fair value

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The Company's joint ventures are businesses established and maintained in connection with its operating strategy and are not special purpose entities In general, the Company does not extend guarantees, loans or other instruments of a variable nature that may result in incremental risk to the Company's liquidity position Furthermore, the Company does not rely on dividend payments or other cash flows from its non-consolidated affiliates to fund its operations and, accordingly, does not believe that they have a material effect on the Company's liquidity

The Company holds a 50% non-controlling interest in a joint venture located in Turkey This joint venture was established in 1995 for the purpose of manufacturing and marketing automotive parts, including pistons, piston rings, piston pins, and cylinder liners, to original equipment and aftermarket customers Pursuant to the joint venture agreement, the Company's partner holds an option to put its shares to a subsidiary of the Company at the higher of the current fair value or at a guaranteed minimum amount The term of the contingent guarantee is indefinite, consistent with the terms of the joint venture agreement However, the contingent guarantee would not survive termination of the joint venture agreement

The guaranteed minimum amount represents a contingent guarantee of the initial investment of the joint venture partner and can be exercised at the discretion of the partner As of December 31, 2009, the total amount of the contingent guarantee, were all triggering events to occur approximated $60 million Management believes that this contingent guarantee is substantially less than the estimated current fair value of the guarantees interest in the affiliate As such, the contingent guarantee does not give rise to a contingent liability and, as a result, no amount is recorded for this guarantee If this put option were exercised, the consideration paid and net assets acquired would be accounted for in accordance with business combination accounting guidance

If this put option were exercised at its estimated current fair value, such exercise could have a material effect on the Company s liquidity Any value in excess of the guaranteed minimum amount of the put option would be the subject of negotiation between the Company and its joint venture partner

The Company has determined that its investments in Chinese joint venture arrangements are considered to be limited-lived" as such entities have specified durations ranging from 30 to 50 years pursuant to regional statutory regulations In general, these arrangements call for extension renewal or liquidation at the discretion of the parties to the arrangement at the end of the contractual agreement Accordingly, a reasonable assessment cannot be made as to the impact of such contingencies on the future liquidity position of the Company

Cash Provided from (Used by) Financing Activities

Cash flow used by financing activities was $35 million for the year ended December 31, 2009, compared to cash provided from financing activities of $197 million and $265 million for years ended December 31, 2008 and 2007, respectively Financing activity during 2009 primarily related to scheduled debt repayments, whereas 2008 and 2007 had significant borrowing activity The Company purchased approximately 1 1 million shares of its common stock for approximately $17 million in a single transaction from an unrelated party on September 11, 2008

In connection with the consummation of the Plan, on the Effective Date, the Company entered into a Tranche A Term Loan Agreement (the "Tranche A Facility Agreement") The Tranche A Facility Agreement provided for a $1,335 million term loan issued on the Effective Date to satisfy in part the obligations owed under the Prepetition Credit Agreement and certain other prepetition surety-related obligations On December 27, 2007, the Company notified the administrative agent under the Tranche A Facility Agreement of the Company's intent to repay the Tranche A term loan during January 2008 On January 3, 2008, the Tranche A term loan was repaid in full

On the Effective Date, the Company, as the issuer, entered into an Indenture (the "Indenture") relating to the issuance of approximately $305 million in senior subordinated third priority payment-in-kind notes (the "PIK Notes", referred to together with the Tranche A Facility Agreement as the 'Repaid Instruments') The PIK Notes were issued in order to satisfy in part the obligations under the Prepetition Credit Agreement and certain other prepetition surety-related obligations On December 28, 2007, the Company gave its notice of intent to redeem the PIK Notes, in full, in January 2008 at a price equal to their redemption price On January 3, 2008 the PIK Notes were redeemed in full

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Also on the Effective Date, the Company entered into a Term Loan and Revolving Credit Agreement (the Exit Facilities") with Citicorp U S A Inc as Administrative Agent, JPMorgan Chase Bank, N A as Syndication Agent and certain lenders The Exit Facilities include a $540 million revolving credit facility (which is subject to a borrowing base and can be increased under certain circumstances and subject to certain conditions) and a $2,960 million term loan credit facility divided into a $1 960 million tranche B loan and a $1,000 million tranche C loan The Company borrowed $878 million under the term loan facility on the Effective Date and the remaining $2,082 million of term loans, which were available for up to sixty days after the Effective Date have been fully drawn as described below As of the Effective Date, existing letters of credit under the Predecessor Company s debtor-in-possession ("DIP') credit agreement of $34 million and existing letters of credit issued under the Predecessor Company s prepetition credit facility of $39 million, were rolled over as letters of credit under the Exit Facilities

The obligations under the revolving credit facility mature December 27, 2013 and bear interest for the first six months at LIBOR plus 1 75% or at the alternate base rate (ABR,' defined as the greater of Citibank, N A 's announced prime rate or 0 50% over the Federal Funds Rate) plus 0 75%, and thereafter adjusted in accordance with a pricing grid based on availability under the revolving credit facility Interest rates on the pricing grid range from LIBOR plus 1 50% to LIBOR plus 2 00% and ABR plus 0 50% to ABR plus 1 00% The tranche B term loans mature December 27, 2014 and the tranche C term loans mature December 27, 2015 The tranche C term loans are subject to a pre-payment premium should the Company choose to prepay the loans prior to December 27, 2011 All Exit Facilities term loans bear interest at LIBOR plus 1 9375% or at the ABR plus 0 9375% at the Company's election To the extent that interest rates change by 25 basis points, the Company s annual interest expense would show a corresponding change of approximately $4 million

On January 3, 2008, the Company drew an additional $2,082 million under the Exit Facilities, of which $1,642 million was used by the Company to repay or redeem the Repaid Instruments and interest thereon, both as discussed above Given that the Company intended to finance the Repaid Instruments on a long-term basis, commitments for such long-term financing existed as of December 31, 2007 and that such intent was achieved with the refinancing of the Repaid Instruments with long-term borrowings under the Exit Facilities, each of the Repaid Instruments was classified as long-term in the Company s balance sheet as of December 31, 2007

The Company has the following contractual obligations and commercial commitments outstanding at December 31, 2009

	2010	2011	2012	2013	2014	Thereafter	Total
				(Millions of Dollars)			
Debt obligations	$ 97	$ 31	$ 30	$ 30	$ 1,853	$ 935	$ 2,976
Interest payments	105	101	101	101	63	21	492
Letters of credit	50	—	—	—	—	—	50
Payments for settlement of liabilities subject to compromise	39	—	—	—	—	—	39
Pension and other postemployment benefit plans	150	148	182	157	147	*	784
Operating leases	35	27	22	19	19	10	132
Total	$ 476	$ 307	$ 335	$ 307	$ 2 082	$ 966	$ 4 473

*Funding requirements beyond 2014 are not available

The Company's ability to obtain cash adequate to fund its needs depends generally on the results of its operations, restructuring initiatives, and the availability of financing Management believes that cash on hand, cash flow from operations and available borrowings under its Exit Facilities will be sufficient to fund capital expenditures and meet its operating obligations through the end of 2010 In the longer term, the Company believes that its base operating potential, supplemented by the benefits from its announced restructuring programs, will provide adequate long-term cash flows However, there can be no assurance that such initiatives are achievable in this regard

The Exit Facilities contain some affirmative and negative covenants and events of default, including, subject to certain exceptions restrictions on incurring additional indebtedness, mandatory prepayment provisions associated with specified asset sales and dispositions, and limitations on i) investments, ii) certain acquisitions, mergers or consolidations, iii) sale and leaseback transactions, iv) certain transactions with affiliates, and v) dividends and other payments in respect of capital stock The Company was in compliance with all debt covenants under its Exit Facilities as of December 31, 2009 Based on current forecasts, the Company expects to be in compliance with the covenants under the Exit Facilities through December 31, 2010

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The Company's subsidiaries in Brazil, France, Germany, Italy, Japan and Spain are party to accounts receivable factoring arrangements Gross accounts receivable factored under these facilities were $217 million and $222 million as of December 31, 2009 and 2008, respectively Of those gross amounts, $190 million and $209 million, respectively, were factored without recourse and treated as a sale Under terms of these factoring arrangements, the Company is not obligated to draw cash immediately upon the factoring of accounts receivable Thus, as of December 31, 2009 and 2008, the Company has outstanding factored amounts of $4 million and $8 million, respectively, for which cash has not yet been drawn Expenses associated with receivables factored are recorded in the consolidated statements of operations within "Other income, net "

Subsequent Event

The Company has operated an aftermarket distribution center in Venezuela for several years, supplying imported replacement automotive parts to the local independent aftermarket Since 2005, two exchange rates have existed in Venezuela the official rate, which has been frozen since 2005 at 2 15 bolivars per U S dollar, and the parallel rate, which floats at a rate much higher than the official rate Given the existence of the two rates in Venezuela, the Company is required to assess which of these rates is the most appropriate for converting the results of its Venezuelan operations into U S dollars at December 31, 2009 The Company has no positive intent to repatriate cash at the parallel rate and has demonstrated the ability to repatriate cash at the official rate in early January 2010, thus, the official rate was deemed appropriate for the purposes of conversion into U S dollars

Near the end of 2009, the three year cumulative inflation rate for Venezuela was above 100%, which requires the Venezuelan operation to report its results as though the U S dollar is its functional currency in accordance with FASB ASC Topic 830, *Foreign Currency Matters*, commencing January 1, 2010 ("inflationary accounting") The impact of this transition to a U S dollar functional currency is that any change in the U S dollar value of bolivar denominated monetary assets and liabilities must be recognized directly in earnings

At December 31, 2009, the summarized balance sheet of the Company's Venezuelan operations is as follows (all balances are in U S dollars, converted at the official exchange rate of 2 15 bolivar per U S dollar)

Cash and cash equivalents	$	76
Other monetary assets, net		5
Net monetary assets		81
Non-monetary assets, net		5
Total	$	86

In early January 2010, prior to the bolivar devaluation, the Company repatriated $14 million at the official rate of 2 15 bolivars to U S dollar On January 8, 2010 subsequent to this cash repatriation, the official exchange rate was set by the Venezuelan government at 4 3 bolivars per U S dollar, except for certain "strategic industries' that are permitted to buy U S dollars at the rate of 2 6 bolivars per U S dollar Subsequent to this devaluation, the Company has repatriated $11 million at this "strategic" rate

The Company estimates that the immediate impact of inflationary accounting for its Venezuelan operations in 2010 is a loss of between $13-$30 million, largely dependent on the Company's expected ability to continue to repatriate cash at the "strategic" rate of 2 6 bolivars per U S dollar versus the official rate of 4 3

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, the Company is subject to market exposure from changes in foreign currency exchange rates interest rates and raw material prices To manage a portion of these inherent risks, the Company purchases various derivative financial instruments to hedge against unfavorable market changes The Company does not hold or issue derivative financial instruments for trading or speculative purposes

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Foreign Currency Risk

The Company is subject to the risk of changes in foreign currency exchange rates due to its global operations The Company manufactures and sells its products in North America, South America, Asia, Europe and Africa As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets in which the Company manufactures and distributes its products The Company's operating results are primarily exposed to changes in exchange rates between the U S dollar and European currencies

As currency exchange rates change translation of the statements of operations of the Company's international businesses into United States dollars affects year-over-year comparability of operating results The Company does not generally hedge operating translation risks because cash flows from international operations are generally reinvested locally Changes in foreign currency exchange rates are generally reported as a component of stockholders' equity (deficit) for the Company's foreign subsidiaries reporting in local currencies and as a component of income for its foreign subsidiaries using the U S dollar as the functional currency The Company s other comprehensive income (loss) increased by $68 million for the year ended December 31, 2009 and decreased by $252 million for the year ended December 31, 2008 due to cumulative translation adjustments resulting primarily from changes in the U S dollar to the euro and British pound

As of December 31, 2009 and 2008, the Company's net current assets (defined as current assets less current liabilities) subject to foreign currency translation risk were $807 million and $734 million, respectively The potential decrease in net current assets from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be $81 million and $73 million, respectively The sensitivity analysis presented assumes a parallel shift in foreign currency exchange rates Exchange rates rarely move in the same direction This assumption may overstate the impact of changing exchange rates on individual assets and liabilities denominated in a foreign currency

The Company generally tries to utilize natural hedges within its foreign currency activities including the matching of revenues and costs, to minimize foreign currency risk Where natural hedges are not in place, the Company considers managing certain aspects of its foreign currency activities and larger transactions through the use of foreign currency options or forward contracts Principal currencies hedged have historically included the euro, British pound, Japanese yen and Canadian dollar The Company had notional values of $10 million and $5 million of foreign currency hedge contracts outstanding at December 31, 2009 and 2008, respectively, that were designated as hedging instruments for accounting purposes Unrealized net gains of $1 million were recorded in Accumulated other comprehensive loss as of December 31, 2008 No amounts were recorded in "Accumulated other comprehensive loss" as of December 31, 2009

Interest Rate Risk

In connection with the Restructuring Proceedings and in accordance with FASB ASC 852, the Predecessor Company ceased recording interest expense on its outstanding pre-petition Notes, Medium-term Notes and Senior Notes effective October 1, 2001 The Predecessor Company's contractual interest not accrued or paid was $162 million for the year ended December 31, 2007 The Predecessor Company continued to accrue and pay contractual interest on the Senior Credit Agreement in the month incurred, totaling $129 million for the year ended December 31, 2007

In connection with the consummation of the Plan, on the Effective Date, the Company entered into a Term Loan and Revolving Credit Agreement (the "Exit Facilities") The Exit Facilities include a $540 million revolving credit facility (which is subject to a borrowing base and can be increased under certain circumstances and subject to certain conditions) and a $2,960 million term loan credit facility divided into a $1 960 million tranche B loan and a $1 000 million tranche C loan The Company borrowed $878 million under the term loan facility on the Effective Date and the remaining $2,082 million of term loans were drawn on January 3, 2008 As of the Effective Date, existing letters of credit under the Predecessor Company's debtor-in-possession credit agreement in the approximate amount of $34 million, and existing letters of credit issued under the Predecessor Company's prepetition credit facility in the approximate amount of $39 million, were rolled over as letters of credit under the Exit Facilities

The obligations under the revolving credit facility mature December 27, 2013 and bear interest rates that adjust in accordance with a pricing grid based on availability under the revolving credit facility Interest rates on the pricing grid range from LIBOR plus 1 50% to LIBOR plus 2 00% The tranche B term loans mature December 27, 2014 and the tranche C term loans mature December 27, 2015 The tranche C term loans are subject to a pre-payment premium, should the Company choose to prepay the loans prior to December 27, 2011 All Exit Facilities term loans shall bear interest at LIBOR plus 1 9375% or at the ABR plus 0 9375% at the Company s election To the extent that interest rates change by 25 basis points, the Company's annual interest expense would show a corresponding change of approximately $4 million

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The Company, during 2008, entered into a series of five-year interest rate swap agreements with a total notional value of $1,190 million to hedge the variability of interest payments associated with its variable-rate loans under the Exit Facilities Through these swap agreements, the Company has fixed its interest rate at an average interest rate of approximately 5 37% on the hedged principal amount of $1,190 million Since the interest rate swaps hedge the variability of interest payments on variable rate debt with the same terms, they qualify for cash flow hedge accounting treatment As of December 31, 2009 and 2008, unrealized net losses of $50 million and $67 million, respectively were recorded in Accumulated other comprehensive loss' as a result of these hedges As of December 31, 2009, losses of $34 million are expected to be reclassified from "Accumulated other comprehensive loss" to the consolidated statement of operations within the next 12 months No hedge ineffectiveness was recognized for the years ended December 31, 2009 and 2008

These interest rate swaps reduce the Company's overall interest rate risk However, due to the remaining outstanding borrowings on the Company's Exit Facilities and other borrowing facilities that continue to have variable interest rates, management believes that interest rate risk to the Company could be material if there are significant adverse changes in interest rates

Commodity Price Risk

The Company is dependent upon the supply of certain raw materials used in its production processes, these raw materials are exposed to price fluctuations on the open market The primary purpose of the Company s commodity price forward contract activity is to manage the volatility associated with these forecasted purchases The Company monitors its commodity price risk exposures regularly to maximize the overall effectiveness of its commodity forward contracts, including exposures related to natural gas, tin, brass, bronze, zinc, copper, nickel, lead, high-grade aluminum and aluminum alloy Forward contracts are used to mitigate commodity price risk associated with raw materials, generally related to purchases forecast for up to fifteen months in the future

At December 31, 2006, the Predecessor Company had 54 commodity price hedge contracts outstanding that were not designated as accounting hedge contracts, with a combined notional value of $55 million and a fair value liability of $3 million Through March 31, 2007, the Predecessor Company recognized all changes in fair value of these hedges in current earnings resulting in unrealized gains of $10 million recorded to 'Other income, net for the three months ended March 31, 2007 Effective April 1, 2007, the Predecessor Company completed the required evaluation and documentation to designate the majority of such contracts as cash flow hedges

The Company had 140 and 364 commodity price hedge contracts outstanding with combined notional values of $28 million and $91 million at December 31, 2009 and 2008, respectively, of which substantially all mature within one year Of these outstanding contracts, 112 and 346 commodity price hedge contracts with combined notional values of $26 million and $83 million at December 31, 2009 and 2008 respectively, were designated as hedging instruments for accounting purposes Unrealized net gains of $5 million and unrealized net losses of $33 million were recorded in "Accumulated other comprehensive loss" as of December, 31, 2009 and 2008, respectively Unrealized net gains of $3 million were recognized in Other income, net" for the year ended December 31, 2009, associated with ineffectiveness on contracts designated as accounting hedges

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the U S Securities Exchange Act of 1934 Under the supervision and with the participation of the principal executive and financial officers of the Company, an evaluation of the effectiveness of internal controls over financial reporting was conducted based upon the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations (the "COSO Framework") of the Treadway Commission Based on the evaluation performed under the COSO Framework as of December 31, 2009, management has concluded that the Company s internal control over financial reporting is effective

Ernst & Young LLP, an independent registered public accounting firm has audited the Company's internal control over financial reporting as of December 31, 2009, as stated in their report which is included herein

Source FEDERAL MOGUL CORP 10 K, February 23 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Shareholders of
Federal-Mogul Corporation

We have audited Federal-Mogul Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria) Federal-Mogul Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting included as Item 8 Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances We believe that our audit provides a reasonable basis for our opinion

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate

In our opinion, Federal-Mogul Corporation maintained, in all material respects effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Federal-Mogul Corporation as of December 31 2009 and 2008 (Successor) and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for the years ended December 31, 2009 and 2008 (Successor), and 2007 (Predecessor), and our report dated February 23, 2010 expressed an unqualified opinion thereon

/s/ Ernst & Young LLP

Detroit, Michigan
February 23, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Federal-Mogul Corporation

We have audited the accompanying consolidated balance sheets of Federal-Mogul Corporation (the Company) as of December 31 2009 and 2008 (Successor), and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for the years ended December 31, 2009 and 2008 (Successor), and 2007 (Predecessor) Our audits also included the financial statement schedule listed in the index at item 15(a) These financial statements and schedule are the responsibility of the Company's management Our responsibility is to express an opinion on these financial statements and schedule based on our audits

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation We believe that our audits provide a reasonable basis for our opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Federal-Mogul Corporation at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U S generally accepted accounting principles Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein

As discussed in Note 3 to the consolidated financial statements, on November 8, 2007, the U S Bankruptcy Court entered an order confirming the Plan of Reorganization, which became effective on December 27, 2007 Accordingly, the accompanying consolidated financial statements have been prepared in conformity with Financial Accounting Standards Board (FASB ') Accounting Standards Codification ("ASC) 852, Reorganizations, (formally AICPA Statement of Position 90-7 Financial Reporting by Entities in Reorganization under the Bankruptcy Code), for the Successor as a new entity with assets liabilities and a capital structure having carrying values not comparable with prior periods as described in Note 3

As discussed in Note 1 to the consolidated financial statements in 2009 the Successor changed its method of accounting for and presentation of consolidated net income (loss) attributable to the parent and non-controlling interest

As discussed in Note 16 to the consolidated financial statements, in 2007 the Predecessor changed its method of accounting for tax uncertainties

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2010 expressed an unqualified opinion thereon

/s/ Ernst & Young LLP

Detroit, Michigan
February 23, 2010

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FEDERAL-MOGUL CORPORATION
Consolidated Statements of Operations

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars, Except Per Share Amounts)		
Net sales	$ 5,330	$ 6,866	$ 6,914
Cost of products sold	(4,538)	(5,742)	(5,729)
Gross margin	792	1,124	1,185
Selling general and administrative expenses	(690)	(774)	(828)
Adjustment of assets to fair value	(17)	(451)	(61)
Interest expense, net	(132)	(180)	(199)
Amortization expense	(49)	(76)	(19)
Chapter 11 and U K Administration related reorganization expenses, net	(3)	(17)	(81)
Equity earnings of non-consolidated affiliates	16	23	38
Restructuring expense, net	(32)	(132)	(48)
Gain on settlement of liabilities subject to compromise	—	—	761
Fresh-start reporting adjustments	—	—	956
Other income, net	43	37	36
(Loss) income before income taxes	(72)	(446)	1,740
Income tax benefit (expense)	39	(19)	(332)
Net (loss) income	(33)	(465)	1,408
Less net (income) loss attributable to noncontrolling interests	(12)	(3)	4
Net (loss) income attributable to Federal-Mogul	$ (45)	$ (468)	$ 1,412
Net (Loss) Income Per Common Share Attributable to Federal-Mogul			
Basic	$ (0 46)	$ (4 69)	$ 15 74
Diluted	$ (0 46)	$ (4 69)	$ 15 46

See accompanying notes to consolidated financial statements

FEDERAL-MOGUL CORPORATION
Consolidated Balance Sheets

	Successor December 31	
	2009	2008
	(Millions of Dollars)	
ASSETS		
Current assets		
Cash and equivalents	$ 1,034	$ 888
Accounts receivable, net	950	939
Inventories, net	823	894
Prepaid expenses and other current assets	221	267
Total current assets	3,028	2,988
Property, plant and equipment, net	1,834	1,911
Goodwill and other indefinite-lived intangible assets	1,427	1,430
Definite-lived intangible assets, net	515	564
Other noncurrent assets	323	343
	$ 7,127	$ 7,236
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt, including current portion of long-term debt	$ 97	$ 102
Accounts payable	537	622
Accrued liabilities	410	483
Current portion of postemployment benefit liability	61	61
Other current liabilities	175	204
Total current liabilities	1,280	1,472
Long-term debt	2,760	2,768
Postemployment benefits	1,298	1,240
Long-term portion of deferred income taxes	498	554
Other accrued liabilities	192	206
Shareholders' equity		
Preferred stock ($ 01 par value, 90,000,000 authorized shares, none issued)	—	—
Common stock ($ 01 par value, 450,100 000 authorized shares, 100,500,000 issued shares, 98,904,500 outstanding shares as of both December 31, 2009 and 2008)	1	1
Additional paid-in capital, including warrants	2,123	2,123
Accumulated deficit	(513)	(468)
Accumulated other comprehensive loss	(571)	(688)
Treasury stock, at cost	(17)	(17)
Total Federal-Mogul shareholders' equity	1,023	951
Noncontrolling interests	76	45
Total shareholders' equity	1,099	996
	$ 7,127	$ 7,236

See accompanying notes to consolidated financial statements

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FEDERAL-MOGUL CORPORATION
Consolidated Statements of Cash Flows

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Cash Provided From (Used By) Operating Activities			
Net (loss) income	$ (33)	$ (465)	$ 1,408
Adjustments to reconcile net (loss) income to net cash provided from (used by) operating activities			
Depreciation and amortization	327	349	354
Gain on settlement of liabilities subject to compromise	—	—	(761)
Fresh-start reporting adjustments	—	—	(956)
Payments from (to) U S Asbestos Trust	40	225	(140)
Payment of interest on pre-petition debt and notes	—	—	(132)
Payments to settle non-debt liabilities subject to compromise, net	(51)	(23)	(44)
Chapter 11 and U K Administration related reorganization expenses	3	17	81
Payments for Chapter 11 and U K Administration related reorganization expenses	(6)	(48)	(75)
Adjustment of assets to fair value	17	451	61
Restructuring expense, net	32	132	48
Payments against restructuring liabilities	(94)	(40)	(67)
Gain on involuntary conversion	(7)	(12)	—
Insurance proceeds from involuntary conversion, excluding capital	7	24	—
Gain on sale of debt investment	(8)	—	—
Gain on sale of assets and businesses	—	—	(8)
Change in postemployment benefits, including pensions	48	(11)	79
Change in deferred taxes	(34)	49	260
Changes in operating assets and liabilities			
Accounts receivable	14	89	(47)
Inventories	93	122	15
Accounts payable	(82)	(61)	124
Other assets and liabilities	62	(171)	(165)
Net Cash Provided From Operating Activities	328	627	35
Cash Provided From (Used By) Investing Activities			
Expenditures for property, plant and equipment	(176)	(320)	(310)
Net settlement from sale of debt investment	8	—	—
Net proceeds from the sale of property, plant and equipment	2	13	26
Insurance proceeds from involuntary conversion of capital	—	6	—
Net proceeds from the sale of businesses	—	—	14
Proceeds from sale of investments	—	—	14
Payments to acquire business	—	(5)	(7)
Net Cash Used By Investing Activities	(166)	(306)	(263)
Cash Provided From (Used By) Financing Activities			
Proceeds from borrowings on exit facilities	—	2,082	2,669
Repayment of Tranche A , Revolver and PIK notes	—	(1,791)	—
Payments to Predecessor Company lenders	—	—	(2,701)
Proceeds from borrowings on DIP credit facility	—	—	669
Principal payments on DIP credit facility	—	—	(360)
Principal payments on exit facilities	(30)	(22)	—
Decrease in other long-term debt	—	(18)	(15)
(Decrease) increase in short-term debt	(8)	(29)	66
Treasury stock purchase	—	(17)	—
Net proceeds (payments) from factoring arrangements	4	(7)	(43)
Debt amendment / issuance fees	(1)	(1)	(20)
Net Cash (Used By) Provided From Financing Activities	(35)	197	265
Effect of foreign currency exchange rate fluctuations on cash	19	(55)	29
Increase in cash and equivalents	146	463	66

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Cash and equivalents at beginning of year	888	425	359
Cash and equivalents at end of year	$ 1,034	$ 888	$ 425

See accompanying notes to consolidated financial statements

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FEDERAL-MOGUL CORPORATION
Consolidated Statements of Shareholders' Equity (Deficit)

	Series C ESOP Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock, at Cost	Total	Noncontrolling Interests
				(Millions of Dollars)				
Balance at January 1, 2007, Predecessor	**$ 28**	**$ 445**	**$ 2,160**	**$ (4,151)**	**$ (230)**	**$ —**	**$ (1,748)**	**$ 54**
Net income (loss)				1 408			1,408	(4)
Less net loss attributable to noncontrolling interests				4			4	
Currency translation adjustments and other					223		223	(6)
Defined benefit plans, net of $(12) tax impact					144		144	
Hedge instruments no tax impact					(9)		(9)	
Total Comprehensive Income							1,770	(10)
Adoption of FIN 48				(14)			(14)	
Stock compensation			7				7	
Conversion of mandatorily redeemable securities, net		4	37				41	
Balance at December 31, 2007, Predecessor	**28**	**449**	**2,204**	**(2,753)**	**128**	**—**	**56**	**44**
Fresh-start reporting adjustments								
Cancellation of Predecessor preferred and common stock	(28)	(449)	(2 204)				(2,681)	
Elimination of Predecessor accumulated deficit and accumulated other comprehensive income				2 753	(128)		2 625	
Issuance of new equity, including warrants in connection with emergence from Chapter 11		1	2,123				2,124	
Fair value adjustment								44
Balance at December 31, 2007, Successor	**—**	**1**	**2,123**	**—**	**—**	**—**	**2,124**	**88**
Net (loss) income				(465)			(465)	3
Less net income attributable to noncontrolling interests				(3)			(3)	
Currency translation adjustments and other					(252)		(252)	(2)
Defined benefit plans, net of $1 tax impact					(341)		(341)	
Hedge instruments net of $3 tax impact					(95)		(95)	
Total Comprehensive Loss							(1 156)	1
Purchase of treasury stock						(17)	(17)	
Fresh-start reporting adjustment								(44)
Balance at December 31, 2008, Successor	**—**	**1**	**2,123**	**(468)**	**(688)**	**(17)**	**951**	**45**
Net (loss) income				(33)			(33)	12
Less net income attributable to noncontrolling interests				(12)			(12)	
Currency translation adjustments and other					68		68	10
Defined benefit plans, net of $(10) tax impact					16		16	
Hedge instruments, net of $(19) tax impact					33		33	
Total Comprehensive Income							72	22
Capital investment in subsidiary								9
Balance at December 31, 2009, Successor	**$ —**	**$ 1**	**$ 2,123**	**$ (513)**	**$ (571)**	**$ (17)**	**$ 1,023**	**$ 76**

See accompanying notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation The predecessor to Federal-Mogul Corporation, (the "Predecessor Company" or the "Predecessor") and all of its then-existing wholly-owned United States subsidiaries ("U S Subsidiaries") filed voluntary petitions on October 1, 2001 for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") On October 1 2001, certain of the Predecessor Company s United Kingdom subsidiaries (together with the U S Subsidiaries, the "Debtors") filed voluntary petitions for reorganization under the Bankruptcy Code with the Bankruptcy Court On November 8, 2007, the Bankruptcy Court entered an Order (the "Confirmation Order") confirming the Fourth Amended Joint Plan of Reorganization for Debtors and Debtors-in-Possession (as Modified) (the "Plan") and entered Findings of Fact and Conclusions of Law regarding the Plan (the "Findings of Fact and Conclusions of Law") On November 14, 2007, the United States District Court for the District of Delaware entered an order affirming the Confirmation Order and adopting the Findings of Fact and Conclusions of Law On December 27, 2007 (the "Effective Date"), the Plan became effective in accordance with its terms On the Effective Date, the Predecessor Company merged with and into New Federal-Mogul Corporation whereupon (i) the separate corporate existence of the Predecessor Company ceased, (ii) New Federal-Mogul Corporation became the surviving corporation and continues to be governed by the laws of the State of Delaware and (iii) New Federal-Mogul Corporation was renamed "Federal-Mogul Corporation" (also referred to as "Federal-Mogul," the "Company," the "Successor Company," or the "Successor")

The consolidated financial statements for the period the Predecessor Company was in Bankruptcy were prepared in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 852, *Reorganizations* (formally AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code*), and on a going concern basis, which contemplated continuity of operations and realization of assets and liquidation of liabilities in the ordinary course of business

In accordance with accounting principles generally accepted in the United States ("U S GAAP"), the Company was required to adopt fresh-start reporting effective upon emergence from bankruptcy on December 27, 2007 The Company evaluated the activity between December 27, 2007 and December 31, 2007 and, based upon the immateriality of such activity, concluded that the use of an accounting convenience date of December 31, 2007 was appropriate As such fresh-start reporting has been applied as of that date As a result of fresh-start reporting, financial statements of the Successor Company are not comparable to the financial statements of the Predecessor Company For further information on fresh-start reporting, see Note 3

Principles of Consolidation The Company consolidates into its financial statements the accounts of the Company, all wholly-owned subsidiaries, and any partially-owned subsidiary that the Company has the ability to control Control generally equates to ownership percentage, whereby investments that are more than 50% owned are consolidated, investments in affiliates of 50% or less but greater than 20% are accounted for using the equity method, and investments in affiliates of 20% or less are accounted for using the cost method The Company does not hold a controlling interest in any entity based on exposure to economic risks and potential rewards (variable interests) for which the Company is the primary beneficiary Further the Company s joint ventures are businesses established and maintained in connection with the Company s operating strategy and are not special purpose entities All intercompany transactions and balances have been eliminated

Use of Estimates The preparation of financial statements in conformity with U S GAAP requires management to make estimates and assumptions that affect the amounts reported therein Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts that differ from these estimates

Controlling Ownership Mr Carl C Icahn indirectly controls approximately 76% of the voting power of the Company s capital stock and, by virtue of such stock ownership is able to control or exert substantial influence over the Company, including the election of directors, business strategy and policies mergers or other business combinations, acquisition or disposition of assets, future issuances of common stock or other securities, incurrence of debt or obtaining other sources of financing, and the payment of dividends on the Company's common stock The existence of a controlling stockholder may have the effect of making it difficult for, or may discourage or delay, a third party from seeking to acquire a majority of the Company s outstanding common stock, which may adversely affect the market price of the stock

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Mr Icahn's interests may not always be consistent with the Company's interests or with the interests of the Company's other stockholders Mr Carl C Icahn and entities controlled by him may also pursue acquisitions or business opportunities that may or may not be complementary to the Company's business To the extent that conflicts of interest may arise between the Company and Mr Icahn and his affiliates, those conflicts may be resolved in a manner adverse to the Company or its other shareholders

Cash and Equivalents The Company considers all highly liquid investments with maturities of 90 days or less from the date of purchase to be cash equivalents

Trade Accounts Receivable and Allowance for Doubtful Accounts Trade accounts receivable is stated at net realizable value, which approximates fair value The Company does not generally require collateral for its trade accounts receivable Accounts receivable is reduced by an allowance for amounts that may become uncollectible in the future This estimated allowance is based primarily on management's evaluation of specific balances as the balances become past due, the financial condition of its customers and the Company's historical experience of write-offs The Company's general policy for uncollectible accounts, if not reserved through specific examination procedures, is to reserve based upon the aging categories of accounts receivable and whether amounts are due from an original equipment manufacturer ("OEM") or aftermarket customer Past due status is based upon the invoice date of the original amounts outstanding Included in selling, general and administration ("SG&A") expenses are bad debt expenses of $5 million, $6 million and $1 million for the years ended December 31, 2009, 2008 and 2007, respectively Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote The Company's allowances for doubtful accounts were $19 million and $27 million at December 31, 2009 and 2008 respectively

Federal-Mogul subsidiaries in Brazil, France, Germany, Italy, Japan and Spain are party to accounts receivable factoring arrangements Gross accounts receivable factored under these facilities were $217 million and $222 million as of December 31, 2009 and 2008, respectively Of those gross amounts, $190 million and $209 million, respectively, were factored without recourse and treated as a sale Under terms of these factoring arrangements, the Company is not obligated to draw cash immediately upon the factoring of accounts receivable Thus, as of December 31, 2009 and 2008, cash has not yet been drawn related to outstanding factored amounts of $4 million and $8 million, respectively Expenses associated with receivables factored are recorded in the consolidated statements of operations within "Other income, net"

Inventories Upon emergence from bankruptcy, the Successor Company values inventory at the lower of cost or market, with cost determined on a first-in, first-out ("FIFO") basis As a result of both the adoption of the FIFO inventory valuation methodology and the application of fresh-start reporting, the Predecessor Company's last-in, first-out ("LIFO") and other inventory reserves were eliminated as of December 31, 2007 The value of inventories has also been reduced for excess and obsolete inventories based on management's review of on-hand inventories compared to historical and estimated future sales and usage

Prior to emerging from bankruptcy, the Predecessor Company valued inventory at the lower of cost or market, with cost determined on a FIFO basis primarily outside the United States and on a LIFO basis for specific U S subsidiaries based upon the use of such valuation methodology at the time those subsidiaries were acquired The Predecessor Company used the LIFO method to determine cost for 40% of its inventory at December 31, 2007, with the remaining inventory being costed using the FIFO method If all inventories had been valued at current cost, amounts reported prior to fresh-start reporting would have been increased by $77 million as of December 31, 2007

Long-Lived Assets As a result of fresh-start reporting long-lived assets such as property plant and equipment ("PP&E") that were purchased prior to January 1, 2008 were stated at estimated replacement cost, unless the expected future use of the assets indicated a lower value was appropriate PP&E purchased during 2008 and 2009 were recorded at cost Definite-lived intangible assets have been stated at estimated fair value Long-lived assets are periodically reviewed for impairment indicators If impairment indicators exist, the Company performs the required analysis and records an impairment charge, if required, in accordance with the subsequent measurement provisions of FASB ASC Topic 360, *Property, Plant & Equipment* If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its estimated fair value Depreciation and amortization is computed principally by the straight-line method for financial reporting purposes and by accelerated methods for income tax purposes

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Indefinite-lived Intangible Assets As of December 31, 2007, indefinite-lived intangible assets, primarily consisting of goodwill and trademarks, were stated at estimated fair value as a result of fresh-start reporting Prior to the application of fresh-start reporting, indefinite-lived intangible assets were carried at historical value Indefinite-lived intangible assets are reviewed for impairment annually as of October 1, or more frequently if impairment indicators exist, in accordance with the subsequent measurement provisions of FASB ASC Topic 350, *Intangibles – Goodwill and Other* ("FASB ASC 350") The impairment analysis compares the estimated fair value of these assets to the related carrying value, and an impairment charge is recorded for any excess of carrying value over estimated fair value The estimated fair value is based upon consideration of various valuation methodologies, including guideline transaction multiples, multiples of current earnings, and projected future cash flows discounted at rates commensurate with the risk involved

Pension and Other Postemployment Obligations Pension and other postemployment benefit costs are dependent upon assumptions used in calculating such costs These assumptions include discount rates health care cost trends, expected returns on plan assets, and other factors In accordance with U S GAAP, actual results that differ from the assumptions used are accumulated and amortized over future periods and, accordingly, generally affect recognized expense and the recorded obligation in future periods

Revenue Recognition The Company records sales when products are shipped and title has transferred to the customer, the sales price is fixed and determinable, and the collectability of revenue is reasonably assured Accruals for sales returns and other allowances are provided at the time of shipment based upon past experience Adjustments to such returns and allowances are made as new information becomes available

Shipping and Handling Costs The Company recognizes shipping and handling costs as incurred as a component of cost of products sold in the statements of operations

Engineering and Tooling Costs Pre-production tooling and engineering costs that the Company will not own and that will be used in producing products under long-term supply arrangements are expensed as incurred unless the supply arrangement provides the Company with the noncancelable right to use the tools, or the reimbursement of such costs is agreed to by the customer Pre-production tooling costs that are owned by the Company are capitalized as part of machinery and equipment, and are depreciated over the shorter of the tool's expected life or the duration of the related program

Research and Development The Company expenses research and development ("R&D") costs as incurred R&D expense including product engineering and validation costs, was $140 million, $173 million and $178 million for the years ended December 31, 2009, 2008 and 2007 respectively As a percentage of OEM sales R&D expense was 4 7%, 4 1% and 4 2% for the years ended December 31, 2009, 2008 and 2007, respectively

Advertising Costs Advertising and promotion expenses for continuing operations are expensed as incurred and were $38 million, $46 million and $48 million for the years ended December 31, 2009, 2008 and 2007, respectively

Restructuring The costs contained within "Restructuring expense, net" in the Company's consolidated statements of operations are comprised of two types employee costs (principally termination benefits) and facility closure costs Termination benefits are accounted for in accordance with FASB ASC Topic 712, *Compensation – Nonretirement Postemployment Benefits*, and are recorded when it is probable that employees will be entitled to benefits and the amounts can be reasonably estimated Estimates of termination benefits are based on the frequency of past termination benefits, the similarity of benefits under the current plan and prior plans, and the existence of statutory required minimum benefits Facility closure and other costs are accounted for in accordance with FASB ASC Topic 420, *Exit or Disposal Cost Obligations*, and are recorded when the liability is incurred

Rebates/Sales Incentives The Company accrues for rebates pursuant to specific arrangements with certain of its customers primarily in the aftermarket Rebates generally provide for price reductions based upon the achievement of specified purchase volumes and are recorded as a reduction of sales as earned by such customers

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Foreign Currency Translation Exchange adjustments related to international currency transactions and translation adjustments for international subsidiaries whose functional currency is the United States dollar (principally those located in highly inflationary economies) are reflected in the consolidated statements of operations Translation adjustments of international subsidiaries for which the local currency is the functional currency are reflected in the consolidated balance sheets as a component of accumulated other comprehensive loss Deferred taxes are not provided on translation adjustments as the earnings of the subsidiaries are considered to be permanently reinvested As a result of fresh-start reporting the December 31, 2007 balance of accumulated other comprehensive income of the Successor Company was reset to zero

Environmental Liabilities The Company recognizes environmental liabilities when a loss is probable and reasonably estimable Such liabilities are generally not subject to insurance coverage Engineering and legal specialists within the Company estimate each environmental obligation based on current law and existing technologies Such estimates are based primarily upon the estimated cost of investigation and remediation required and the likelihood that other potentially responsible parties will be able to fulfill their commitments at the sites where the Company may be jointly and severally liable with such parties The Company regularly evaluates and revises its estimates for environmental obligations based on expenditures against established accruals and the availability of additional information

Conditional Asset Retirement Obligations The Company records conditional asset retirement obligations ("CARO") in accordance with FASB ASC Topic 410, *Asset Retirement and Environmental Obligations* The Company's primary CARO activities relate to the removal of hazardous building materials at its facilities The Company records a CARO when the amount can be reasonably estimated, typically upon the expectation that a facility may be closed or sold

Derivative Financial Instruments The Company uses interest rate swaps, currency swaps and commodity forward contracts to manage volatility of underlying exposures The Company recognizes all of its derivative instruments as either assets or liabilities at fair value The accounting for changes in the fair value (i e , gains or losses) of a derivative instrument depends on whether it has been designated, and is effective, as a hedge and further, on the type of hedging relationship For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation Gains and losses related to a hedge are either recognized in income immediately to offset the gain or loss on the hedged item or are deferred and reported as a component of "Accumulated other comprehensive loss" and subsequently recognized in earnings when the hedged item affects earnings The change in fair value of the ineffective portion of a financial instrument, determined using the hypothetical derivative method, is recognized in earnings immediately The gain or loss related to financial instruments that are not designated as hedges are recognized immediately in earnings The Company does not hold or issue derivative financial instruments for trading or speculative purposes The Company's objectives for holding derivatives are to minimize risks using the most effective and cost-efficient methods available

Adoption of New Accounting Pronouncements In July 2009, the Financial Accounting Standards Board ("FASB") released the authoritative version of the FASB Accounting Standards Codification ("FASB ASC") as the single source of authoritative nongovernmental U S GAAP The FASB ASC supersedes all existing accounting standard documents recognized by the FASB Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U S GAAP for SEC registrants All other non-SEC accounting literature not included in the FASB ASC will be considered nonauthoritative The FASB ASC is effective for fiscal years and interim periods ending after September 15, 2009 The adoption of the FASB ASC had no impact on the Company s consolidated financial position, results of operations or cash flows

In September 2006, the FASB issued guidance now codified within FASB ASC Topic 820, *Fair Value Measurements and Disclosures* ("FASB ASC 820"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements The pronouncement was effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years In February 2008, the FASB released additional guidance now codified under FASB ASC 820, which provided for delayed application of certain guidance related to non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those years The Company adopted certain provisions of FASB ASC 820 effective December 31, 2007 in connection with its fresh-start reporting Pursuant to the requirements of FASB ASC 820, the Company adopted the provisions with respect to its non-financial assets and non-financial liabilities effective January 1, 2009 The implementation of this pronouncement did not have a material impact on the Company's consolidated financial position, results of operations or cash flows

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In December 2007 the FASB issued guidance now codified within FASB ASC Topic 810, *Consolidation* ("FASB ASC 810"), which requires that ownership interests in subsidiaries held by parties other than the parent are clearly identified In addition, FASB ASC 810 requires that the amount of consolidated net income (loss) attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statements of operations The provisions of FASB ASC 810 are effective for financial statements issued for fiscal years and interim periods beginning on or after December 15, 2008 As required, FASB ASC 810 was adopted through retrospective application, and all prior period amounts have been adjusted accordingly The adoption of FASB ASC 810 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows

In March 2008, the FASB issued guidance now codified as FASB ASC Topic 815, *Derivatives and Hedging* ("FASB ASC 815"), which requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting FASB ASC 815 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 The Company adopted these provisions of FASB ASC 815 on a prospective basis as of January 1, 2009 The adoption of FASB ASC 815 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows

In April 2009, the FASB issued guidance now codified as FASB ASC Topic 825 *Financial Instruments* ("FASB ASC 825"), which extends the existing annual fair value disclosure requirements to interim financial statements The new guidance is effective for financial statements issued for interim periods ending after June 15, 2009 The adoption of these provisions of FASB ASC 825 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows

In May 2009, the FASB issued guidance now codified as FASB ASC Topic 855, *Subsequent Events* ("FASB ASC 855"), which defines and establishes the period after the balance sheet date during which management of a reporting entity evaluates transactions and events for potential disclosure in the financial statements in addition to disclosing the date through which such events have been evaluated The guidance is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009 and is to be applied prospectively The adoption of FASB ASC 855 did not have a material impact on the Company s consolidated financial position results of operations or cash flows In accordance with FASB ASC 855, the Company has evaluated subsequent events through February 23, 2010, which is the date on which these financial statements were issued

In June 2009, the FASB issued accounting guidance on accounting for transfers of financial assets This guidance amends previous guidance by including the elimination of the qualifying special-purpose entity ("QSPE") concept, a new participating interest definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale, and a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor Additionally, the guidance requires extensive new disclosures regarding an entity s involvement in a transfer of financial assets Finally, existing QSPEs (prior to the effective date of this guidance) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance upon the elimination of this concept The Company will adopt this new guidance effective January 1, 2010 and is currently evaluating the provisions of this guidance and the impact on its consolidated financial statements

In June 2009, the FASB issued accounting guidance on the consolidation of variable interest entities ("VIE") This new guidance revises previous guidance by eliminating the exemption for qualifying special purposes entities, by establishing a new approach for determining who should consolidate a VIE The Company will adopt this new guidance effective January 1, 2010 and is currently evaluating the provisions of this guidance and the impact on its consolidated financial statements

Reclassifications Certain items in the prior years' financial statements have been reclassified to conform with the presentation used in 2009

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2 REORGANIZATION UPON EMERGENCE FROM CHAPTER 11 PROCEEDINGS

Background

On October 1, 2001 (the "Petition Date") the predecessor to Federal-Mogul Corporation and all of its then-existing wholly-owned United States subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code with the Bankruptcy Court Also on October 1, 2001, 133 affiliates of Predecessor Federal-Mogul incorporated under the laws of England and Wales filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court and commenced administration proceedings in the High Court of Justice, Chancery Division, in London, England under the United Kingdom Insolvency Act 1986 An additional affiliate of Predecessor Federal-Mogul incorporated under the laws of Scotland filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court on the Petition Date, and commenced administration proceedings before the Court of Session in Edinburgh, Scotland in April 2002

Predecessor Federal-Mogul, together with its United States and United Kingdom affiliates that commenced bankruptcy proceedings in the United States and administration proceedings in the United Kingdom, are referred to collectively as the Debtors Subsidiaries of Predecessor Federal-Mogul other than the aforementioned U S and U K subsidiaries were not party to any insolvency proceedings and operated in the normal course during the pendency of the Chapter 11 Cases and the U K administration proceedings

Following a Confirmation Hearing that began on June 18, 2007 and concluded on October 2 2007, and following the consensual resolution of various legal objections to confirmation of the Fourth Amended Joint Plan of Reorganization (As Modified) for Predecessor Federal-Mogul and certain of its affiliates (the 'Plan"), the Bankruptcy Court entered an order on November 8, 2007 confirming the Plan and entered detailed Findings of Fact and Conclusions of Law with respect to the Plan On November 14, 2007, the United States District Court for the District of Delaware (the "District Court) entered an order affirming the Confirmation Order and adopting the Findings of Fact and Conclusions of Law The Confirmation Order became final and non-appealable thirty days after its affirmance by the District Court The Plan became effective in accordance with its terms on December 27, 2007 (the Effective Date")

On the Effective Date, the Predecessor Company merged with and into New Federal-Mogul Corporation, a Delaware Corporation, whereupon (i) the separate corporate existence of the Predecessor Company ceased, (ii) New Federal-Mogul Corporation became the surviving corporation and continues to be governed by the laws of the State of Delaware and (iii) New Federal-Mogul Corporation was renamed "Federal-Mogul Corporation" ("Federal-Mogul", the "Company", the Successor Company , or the "Successor)

From October 1, 2001 through December 27 2007, the Debtors operated their businesses as debtors-in-possession in accordance with the Bankruptcy Code The chapter 11 cases of the Debtors (collectively, the "Chapter 11 Cases) were jointly administered under Case No 01-10578(JKF) The Debtors filed for relief under Chapter 11 in response to a sharply increasing number of asbestos-related claims and their demand on the Debtors cash flows and liquidity

Company Voluntary Arrangements and Discharge of U.K. Administration Proceedings

The commencement of the administration proceedings in the United Kingdom resulted in the appointment of certain administrators (the "Administrators") to oversee the businesses of the Debtors that were incorporated under the laws of England and Wales (the "U K Debtors") Predecessor Federal-Mogul the Administrators of the U K Debtors and the co-proponents of the Plan (the "Plan Proponents") entered into an agreement on September 26, 2005 outlining the terms and conditions of distributions to creditors of the U K Debtors (the "U K Settlement Agreement") A copy of the U K Settlement Agreement was filed with the SEC on Form 8-K on September 30, 2005

The U K Settlement Agreement contemplated the proposal by the Administrators of Company Voluntary Arrangements (CVAs") for certain of the U K Debtors, which CVAs would follow the basic terms specified in the U K Settlement Agreement In mid-2006, the Administrators proposed CVAs for 51 of the U K Debtors (the "CVA Debtors) Following approval of the CVAs by the requisite majorities of creditors and shareholders the CVAs became effective on October 11 2006, resolving claims (other than those dealt with by the Plan) against the principal U K Debtors

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Upon the 2006 effective date of the CVAs, the Predecessor Company transferred to the Administrators approximately $750 million for

(i) settlement of claims relating to two U K pension schemes,
(ii) settlement of general unsecured claims against the CVA Debtors (other than certain unsecured claims specifically excluded pursuant to the terms of the CVAs),
(iii) settlement of asbestos property damage claims payable under the CVAs,
(iv) distribution to a U K asbestos trust established under the CVAs for payment to holders of asbestos-related personal injury claims against the CVA Debtors arising from exposure to asbestos that occurred in whole or predominantly in the United Kingdom, Australia and certain other countries as specified in the CVAs ("CVA Asbestos Claims"), and
(v) other miscellaneous CVA-related matters, such as expenses relating to the administration and operation of the CVAs and the U K asbestos trust

The trustees of the U K asbestos trust will pay dividends to holders of CVA Asbestos Claims from the U K asbestos trust Amounts paid by the Predecessor Company to fund the U K asbestos trust were recorded by the Predecessor Company as a reduction to asbestos liabilities subject to compromise Amounts paid to settle claims relating to the U K pension plans first reduced the recorded liability to zero, with the payment in excess of the recorded liability recorded as a settlement charge, approximating $500 million, in the Predecessor Company s 2006 Consolidated Statement of Operations

On December 1, 2006, the discharge of the administration proceedings for the principal U K Debtors became effective That discharge ended those U K Debtors' administration proceedings On February 6, 2008, the High Court of Justice in London, England approved the discharge of the administration proceedings for all 70 of the U K Debtors that did not have CVAs and whose administration proceedings were in effect as of that date The Company intends to have those remaining 70 U K Debtors, virtually all of which are dormant entities, either liquidated under the laws of England and Wales or struck from the English register of companies in the near term The discharge of those U K Debtors administration proceedings will be effective immediately before the passage of a resolution to liquidate the U K Debtor in question or the making of an application to strike off the U K Debtor in question

Plan of Reorganization

In early 2007, the Debtors and other Plan Proponents solicited votes to accept or reject the Plan through a process approved by the Bankruptcy Court The Plan Proponents comprised the overwhelming majority of significant stakeholders in the Chapter 11 Cases, including representatives of (i) the holders of current and future asbestos-related personal injury claims against the Debtors, (ii) the holders of unsecured claims against the Debtors, (iii) the holders of equity interests in Predecessor Federal-Mogul, and (iv) the holders of obligations incurred under Predecessor Federal-Mogul s pre-Petition Date secured credit facility

On June 15, 2007, the Debtors' voting agent filed the results of the Plan voting process with the Bankruptcy Court, which showed that all classes of claims against and equity interests in the Debtors voted to accept the Plan by margins in excess of the Bankruptcy Code requirements for plan acceptance All classes of asbestos personal injury claims voted to accept the Plan by margins in excess of those required for the imposition of an asbestos trust and channeling injunction pursuant to section 524(g) of the Bankruptcy Code The legal representative for future asbestos claimants also supported approval of the Plan

The Plan provides for distributions of cash and/or securities to be made to holders of pre-Petition Date claims against the Debtors as well as certain claims that arose during the pendency of the Chapter 11 Cases Key provisions of the Plan, including significant distributions to implement the Plan, include the following

- On the Effective Date, the Company distributed all of its newly-issued Class B Common Stock (representing 50 1% of all of its newly-issued common stock) to the U S Asbestos Trust (defined below), subject to the Company retaining possessory security interests in certain of that stock to secure obligations of the U S Asbestos Trust to the Company The Company also distributed certain insurance-related rights and proceeds to the U S Asbestos Trust on the Effective Date

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

- On the Effective Date, the Company distributed all of its Class A Common Stock (representing 49 9% of all of its newly-issued common stock) to a disbursing agent for further distribution to the holders of Predecessor Federal-Mogul's pre-bankruptcy note debt and to those holders of unsecured claims against Predecessor Federal-Mogul and its U S Debtor subsidiaries that elected under the Plan to receive a stock distribution in lieu of a cash distribution on account of their claims

- On the Effective Date, the Company issued new Tranche A term loans in the amount of $1,335 million and senior subordinated third priority payment-in-kind notes ("PIK Notes") in the approximate amount of $305 million to satisfy claims under Predecessor Federal-Mogul's pre-Petition Date secured credit facility and pre-Petition Date claims on account of certain surety bonds The new Tranche A term loans were repaid and the PIK Notes were redeemed by the Company on January 3, 2008 from proceeds of its new Effective Date Exit Facilities

- On the Effective Date, the Company repaid approximately $761 million in obligations under the debtor-in-possession financing facility entered into during the Chapter 11 Cases

- On the Effective Date, the Company paid approximately $132 million for settlement of an Administrative Expense Claim (as defined in the Plan) on account of adequate protection payments owed to the holders of Predecessor Federal-Mogul's notes issued prior to the Petition Date

- On or after the Effective Date, the Company distributed 6,951,871 warrants (the "Warrants") to the disbursing agent for further distribution to holders of common stock, convertible preferred stock, and convertible subordinated debentures (following the deemed conversion of such debentures under the Plan) of Predecessor Federal-Mogul that were cancelled under the Plan Each Warrant provides the holder thereof with the right to purchase one share of Class A Common Stock of the Company at $45 815 per share from the Effective Date through December 27, 2014

The Plan further provides that holders of general unsecured claims against the U S Debtors that did not elect to receive distributions of Class A Common Stock on account of their claims will receive cash distributions totaling 35% of the allowed amount of their claims, subject to reduction in the event the total amount of such claims, after considering the value of distributions of Class A Common Stock in lieu of cash, exceeds $258 million Those distributions will be made in three annual installments The first installment payments were made to holders of unsecured claims against the U S Debtors during March 2008 The Company has accrued $39 million and $51 million for payment of unsecured claims against the U S Debtors as of December 31, 2009 and 2008, respectively At December 31, 2008, $21 million of the accrued amount was classified as noncurrent

The Plan also provides that payments will be made to holders of certain allowed Administrative Expense Claims (as defined in the Plan) and professional advisors in the Chapter 11 Cases The Company accrued $44 million for payment of such claims as of December 31, 2007, including $35 million for professional fees accrued by the Predecessor Company These amounts were paid out in 2008

Establishment and Operation of the U S Asbestos Trust and U K Asbestos Trust

Section 524(g) of the Bankruptcy Code provides in general terms that, if certain specified conditions are satisfied, a court may as part of a bankruptcy plan of reorganization issue a permanent injunction preventing entities from taking legal action against a debtor to collect recover, or receive payment on asbestos-related claims where the bankruptcy plan provides that those claims are to be paid by an asbestos trust established under section 524(g) of the Bankruptcy Code

On the Effective Date, in accordance with the Plan, an asbestos personal injury trust qualifying under section 524(g) of the Bankruptcy Code (the "U S Asbestos Trust") was created Pursuant to and on the terms specified in the Plan and the Confirmation Order, the U S Asbestos Trust has assumed liability for all asbestos-related personal injury claims of the Debtors The U S Asbestos Trust will make payments to holders of asbestos personal injury claims in accordance with the trust distribution procedures that were filed with the Bankruptcy Court as an exhibit to the Plan, with the exception of asbestos-related personal injury claims against the U K Debtors that are to be evaluated and paid by the U K Asbestos Trust The Plan contains an injunction issued by the Bankruptcy Court and affirmed by the District Court pursuant to section 524(g) of the Bankruptcy Code that expressly forbids any and all actions against the Debtors, their respective subsidiaries, and certain of their affiliates, for the purpose of, directly or indirectly, collecting recovering or receiving payments or recovery with respect to all direct or indirect claims relating to asbestos-related personal injury claims

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The CVAs established a U K Asbestos Trust which shall provide for the sole and exclusive treatment and payment of the CVA Asbestos Claims The U K Asbestos Trust is separate from the U S Asbestos Trust, and was funded by the Predecessor Company when the CVAs became effective in 2006

As part of the Plan, the U S Asbestos Trust issued on the Effective Date a note in the amount of $125 million to the Company The issuance of that note reflected the fact that certain of the asbestos personal injury claims that had been anticipated to be paid from the U S Asbestos Trust prior to entry into the U K Global Settlement will instead be paid from the U K Asbestos Trust, which had been previously funded by the Predecessor Company The $125 million note had a maturity date of January 11, 2008 and was repayable in either cash or through the Company taking ownership of 6,958,333 shares of Class B Common Stock of the Company that were pledged to secure the $125 million note The note was repaid by the U S Asbestos Trust on the maturity date

Pneumo Abex Settlement and Ongoing Bankruptcy-Related Matters

The Plan contemplated that one of two alternative settlements would be implemented by and between certain of the Debtors, on the one hand, and Cooper Industries, LLC ("Cooper"), Pneumo Abex LLC ("Pneumo Abex"), and certain of their affiliates, on the other hand The first of these alternatives was known as the "Plan A" Settlement and was detailed in an addendum of additional provisions filed with the Plan (as subsequently amended, the "Addendum") The Plan A Settlement contemplated in general terms that Cooper and Pneumo Abex would make a combined contribution of $756 million, plus the contribution of certain rights and additional consideration, to the U S Asbestos Trust, which would be placed into a segregated subfund of the U S Asbestos Trust for the satisfaction of Pneumo Asbestos Claims (as defined in the Addendum) Pneumo Asbestos Claims would be payable exclusively from such subfund, and a court injunction would prevent the assertion of Pneumo Asbestos Claims against any of the Pneumo Protected Parties (as defined in the Addendum)

The second alternative settlement was the "Plan B" Settlement, pursuant to which the U S Asbestos Trust would pay $138 million to Cooper and $2 million to Pneumo Abex in satisfaction of the indirect asbestos claims of those entities and their affiliates against the Debtors Under that settlement, the Pneumo Protected Parties (including Cooper and Pneumo Abex) would not receive the benefit of any court injunctions, and Pneumo Asbestos Claims would remain assertable against them in the tort system Pneumo Asbestos Claims will not be assertable against the Successor Company or any of its affiliates under either settlement Both the Plan A Settlement and the Plan B Settlement provided for a broad release of claims from Cooper, Pneumo Abex and various of their affiliates in favor of the Successor Company

Contemporaneously with confirmation of the Plan, the Bankruptcy Court approved the Plan B Settlement On September 30, 2008, the Bankruptcy Court issued an order denying implementation and approval of the Plan A Settlement On October 1, 2008, Cooper notified the Debtors that it had terminated the Plan A Settlement, and, on that date, the releases and settlements contained in the Plan B Settlement became effective

On the Effective Date the Company, on behalf of the U S Asbestos Trust, placed $140 million needed to fund the Plan B Settlement into an escrow account, where it has been paid out as part of the implementation of the Plan B Settlement In exchange for the funding by the Company, the U S Asbestos Trust issued a $140 million note payable to the Company with a maturity date 60 days after the Effective Date The U S Asbestos Trust's obligations under the $140 million note were secured by a possessory security interest in 7,793,333 shares of Class B Common Stock of the Company previously issued to the U S Asbestos Trust Following the exercise by Thornwood Associates Limited Partnership of its option to purchase from the U S Asbestos Trust the Company's Class B Common Stock, the $140 million note was repaid by the U S Asbestos Trust on February 25, 2008 at which time the possessory security interest in 7,793 333 shares of the Company's Class B Common Stock was released The note receivable is included in other current assets as of December 31, 2007

Various matters relating to the Chapter 11 Cases continue to be litigated in the Bankruptcy Court or have been litigated therein and are awaiting rulings The ongoing pursuit of these matters does not affect the discharges releases and injunctions afforded to the Debtors under the Plan

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Discharge, Releases and Injunctions Pursuant to the Plan and the Confirmation Order

The Plan and Confirmation Order contain various discharges, injunctive provisions and releases that became operative upon the Effective Date, including (i) discharge (except as otherwise provided in the Plan and Confirmation Order) of each of the Debtors of all pre-Effective Date obligations in accordance with the Bankruptcy Code, and (ii) various injunctions providing, among other things, that, all creditors and interest holders of any of the Debtors (or their respective estates) shall be prohibited from taking any action against the Debtors with respect to such discharged obligations

Dismissal of Certain U K Subsidiaries' Chapter 11 Cases

On the Effective Date, in accordance with a previously-entered order of the Bankruptcy Court, the Chapter 11 Cases of 75 of the Company's U K subsidiaries were dismissed Each of those U K subsidiaries has either few or (in most cases) no known third-party creditors, has no history of using asbestos or manufacturing, selling or distributing asbestos-containing products, and has never to the Debtors' knowledge been named in any asbestos-related lawsuits or comparable proceedings None of the U K subsidiaries whose Chapter 11 Cases were dismissed was a party to the Plan

Chapter 11 And U.K. Administration Related Reorganization Expenses

Chapter 11 and U K Administration related reorganization expenses in the consolidated statements of operations consist of legal, financial and advisory fees, including fees of the U K Administrators, critical employee retention costs, and other directly related internal costs as follows

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Professional fees directly related to the filing	$ 3	$ 17	$ 73
Critical employee retention costs	—	—	8
	$ 3	$ 17	$ 81

3. FRESH-START REPORTING

The Predecessor Company s emergence from the Chapter 11 Cases resulted in a new reporting entity for accounting purposes and the adoption of fresh-start reporting in accordance with FASB ASC Topic 852 *Reorganizations* (FASB ASC 852') Since the reorganization value of the assets of the Successor Company immediately before the date of confirmation of the Plan was less than the total of all post-petition liabilities and allowed claims, and the holders of the Predecessor Company s voting shares immediately before confirmation of the Plan received less than 50 percent of the voting shares of the emerging entity, the Successor Company adopted fresh-start reporting

Following confirmation of the Plan by the Bankruptcy Court on November 8, 2007 and the affirmance of that confirmation by the District Court on November 14, 2007 the Plan required a number of conditions precedent to be satisfied prior to it becoming effective These conditions included, but were not limited to (i) the establishment of the U S Asbestos Trust and the transfer of the Class B Common Stock and certain additional assets thereto, (ii) the entry by all parties into the documents governing the U S Asbestos Trust and numerous other corporate-related documents, (iii) the District Court order confirming the Plan becoming a final, non-appealable order, and (iv) the closing of the Company's post-bankruptcy secured credit facilities Under the terms of the Plan, the Plan could not become effective without such conditions being satisfied or waived The first date on which all of the conditions precedent set forth in the Plan were satisfied was December 27, 2007, which corresponds with the Effective Date of the Plan As such, the Company was required to adopt fresh-start reporting as of December 27 2007

The Company analyzed the transactions that occurred during the four-day period from December 28, 2007 through December 31, 2007, and concluded that such transactions were not material individually or in the aggregate as they represented approximately 1% of total revenues, gross margin, selling, general and administrative expenses and income before taxes As such, the Company used December 31, 2007 as the date for adopting fresh-start reporting in order to coincide with the Company's normal financial closing for the month of December Upon adoption of fresh-start reporting, the recorded amounts of assets and liabilities were adjusted to reflect their estimated fair values Accordingly, the reported historical financial statements of the Predecessor Company prior to the adoption of fresh-start reporting for periods ended prior to December 31, 2007 are not comparable to those of the Successor Company

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The Bankruptcy Court confirmed the Plan based upon a reorganization value of the Company between $4,369 million and $4,715 million, which was estimated using various valuation methods, including (i) a comparison of the Company and its projected performance to the market values of comparable companies (supporting a value between $3 6 billion and $4 0 billion), (ii) a review and analysis of several recent transactions of companies in similar industries to the Company (supporting a value between $4 9 billion and $5 3 billion), and (iii) a calculation of the present value of the future cash flows (discounted cash flow" or DCF") of the Company under its projections (supporting a value between $4 4 billion and $4 7 billion) These three valuation methods were weighted 35%, 15% and 50%, respectively, in arriving at the final range of reorganization value accepted by the Plan Proponents and Bankruptcy Court

The basis for the DCF valuation was the projections published in the Plan These three-year estimates included projected changes associated with the Company's reorganization initiatives, anticipated changes in general market conditions, including variations in market regions and known new business gains and losses, as well as other factors considered by Company's management The discount rate utilized in the DCF valuation was 12 5% This rate was determined based on a weighted cost of capital analysis The terminal value was calculated by utilizing EBITDA multiples ranging from 5 8x to 6 3x This range of multiples was determined taking into account the results of the analyses performed in the other two valuation methods

Based upon a reevaluation of relevant factors used in determining the range of reorganization value and updated expected cash flow projections, the Company concluded that $4,369 million should be used for fresh-start reporting purposes as it most closely approximated fair value This amount was adjusted for cash in excess of normal working requirements and emergence-related actions to be received or paid prior to the effective date of emergence from bankruptcy After deducting the fair value of debt, this resulted in a post-emergence equity value of $2,124 million

In accordance with fresh-start reporting, the Company's reorganization value has been allocated to existing assets using the measurement guidance provided in Statement of Financial Accounting Standards 141, *Business Combinations*, which was subsequently amended by FASB ASC Topic 805 In addition, liabilities, other than deferred taxes, have been recorded at the present value of amounts estimated to be paid Finally, the Predecessor Company s accumulated deficit has been eliminated, and the Company's new debt and equity have been recorded in accordance with the Plan Deferred taxes have been determined in conformity with FASB ASC Topic 740, *Income Taxes* The excess of reorganization value over the value of net tangible and identifiable intangible assets and liabilities has been recorded as goodwill in the accompanying Consolidated Statement of Financial Position

Estimates of fair value represent the Company s best estimates, which are based on industry data and trends and by reference to relevant market rates and transactions and discounted cash flow valuation methods among other factors The foregoing estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the reasonable control of the Company Accordingly, there can be no assurance that the estimates, assumptions, and amounts reflected in the valuations will be realized and actual results could vary materially In accordance with FASB ASC 852, the Company was required to adopt, on December 31, 2007, all accounting guidance scheduled to become effective within the subsequent twelve-month period

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

The implementation of the Plan of Reorganization and the effects of the consummation of the transactions contemplated therein, which included settlement of various liabilities, issuance of certain securities, incurrence of new indebtedness, repayment of old indebtedness, and other cash payments and the adoption of fresh-start reporting in the Company's Consolidated Balance Sheet are as follows

	Predecessor As of 12/31/07	Settlement of Liabilities Subject To Compromise	Fresh-Start Adjustments	Successor As of 12/31/07
		(Millions of Dollars)		
Assets				
Current assets				
Cash and cash equivalents	$ 445	$ (20) (a,f,g)	$ —	$ 425
Accounts receivables, net	1,096	—	—	1,096
Inventories, net	931	—	143 (e)	1,074
Prepaid expenses and other current assets	325	252 (a)	(50) (e)	527
Total Current Assets	2,797	232	93	3,122
Property, plant and equipment, net	2,193	—	(131) (e)	2,062
Goodwill	1,037	—	507 (e)	1,544
Other indefinite-lived intangible assets	169	—	139 (e)	308
Definite-lived intangible assets, net	253	—	57 (e)	310
Asbestos-related insurance recoverable	873	(873) (a)	—	—
Other noncurrent assets	271	9 (a,b,f)	240 (e)	520
Total Assets	$ 7 593	$ (632)	$ 905	$ 7,866
Liabilities and Shareholders' Equity (Deficit)				
Current Liabilities				
Short-term debt, including current portion of long-term debt	$ 869	$ (751) (f)	—	118
Accounts payable	659	68 (a)	—	727
Accrued liabilities	475	(2) (a)	23 (e)	496
Current portion of postemployment benefit liability	61	—	—	61
Other current liabilities	160	(4) (a)	11 (e)	167
Total Current Liabilities	2 224	(689)	34	1,569
Liabilities subject to compromise	5,464	(5,464) (a)	—	—
Long-term debt	21	2,660 (f)	(163) (e)	2,518
Postemployment benefits	948	(11) (a)	—	937
Long-term portion of deferred income taxes	107	190 (a)	34 (e)	331
Other accrued liabilities	170	129 (a,d)	—	299
Minority interest in consolidated subsidiaries	44	—	44 (e)	88
Shareholders' Equity (Deficit)				
Series C ESOP preferred stock	28	—	(28) (c)	—
Predecessor Company Common stock	449	—	(449) (c)	—
Successor Company Common stock	—	1 (a)	—	1
Additional paid-in capital	2,204	2 070 (a,d)	(2,151) (c)	2,123
Accumulated deficit	(4,194)	485 (a)	3,709 (c)	—
Accumulated other comprehensive income (loss)	128	(3) (a)	(125) (c)	—
Total Shareholders Equity (Deficit)	(1,385)	2,553	956 (e)	2,124
Total Liabilities and Shareholders Equity (Deficit)	$ 7 593	$ (632)	$ 905	$ 7,866

(a) The material components of the settlement of liabilities subject to compromise were to record i) the discharge of liabilities subject to compromise, ii) payments and accruals required as part of the discharge of liabilities subject to compromise, iii) the transfer to the U S Asbestos Trust of collection rights under the asbestos insurance policies, iv) the notes receivable from the U S Asbestos Trust, v) the issuance of Successor Company common stock of $2,091 million, and vi) the resulting pre-tax gain on discharge of liabilities subject to compromise of $761 million less tax of $276 million for a net gain of $485 million

Description	Debit	Credit	Balance Sheet Account
	(Millions of Dollars)		
Gain on settlement of liabilities subject to compromise:			
Discharge liabilities subject to compromise ("LSC")	$ 5,464		Liabilities subject to compromise
Issue Successor Company common stock		$ 2,091	$1 in Common stock and $2,090 in APIC
Transfer asbestos insurance policies' rights to U S Asbestos Trust		873	Asbestos-related insurance recoverable
Payments on LSC debt		1,640	Cash and cash equivalents
Temporary funding of U S Asbestos Trust		140	Cash and cash equivalents
Adequate protection payments to DIP lenders		132	Cash and cash equivalents
Notes receivable from U S Asbestos Trust	265		$225 in Prepaid expenses and other current assets and $40 in Other noncurrent assets
LSC accounts payable claims to be satisfied in cash		108	$67 in Accounts payable and $41 in Other accrued liabilities
Insurance carrier settlement	18		Other noncurrent assets
Other		2	Various
Pre-tax gain on discharge of LSC		761	Retained earnings
	$ 5,747	$ 5,747	
Tax associated with gain on settlement of liabilities subject to compromise:			
Tax associated with gain on discharge of LSC	$ 276		Retained earnings
Noncurrent deferred tax liability		$ 190	Long-term portion of deferred income taxes
Noncurrent deferred tax liability		68	Other accrued liabilities
Noncurrent deferred tax asset		49	Other noncurrent assets
Current deferred tax asset	25		Prepaid expenses and other current assets
Current deferred tax liability	4		Other current liabilities
Current deferred tax liability	2		Accrued liabilities
	$ 307	$ 307	

(b) To record the non-current portion of the $125 million loan note Upon repayment of this note in January 2008, $40 million must be held in escrow pursuant to the Plan and will be available for the Company's use upon termination of the escrow requirement expected at some point beyond 2008 This adjustment also includes the $15 million long-term portion of a settlement with one insurance carrier to reimburse the Company for pre-petition claims paid by the Predecessor Company

(c) To record the i) gain on fresh-start reporting adjustments, ii) cancellation of Predecessor Company Common Stock, iii) close out of remaining equity balances of the Predecessor in accordance with fresh-start reporting, and iv) the cancellation of Predecessor Company Series C ESOP Preferred stock The $(2,151) million fresh-start reporting adjustment is the elimination of the Predecessor Company additional paid-in capital ("APIC") to appropriately state the Successor Company APIC to a reorganization value of equity of $2,123 million ($2,090 million of newly issued Successor Company common stock and $33 million of warrants issued to Predecessor Company stockholders)

(d) Adjustment includes the reclassification of $19 million from equity into a long-term liability related to the grant of stock options to Jose Maria Alapont as further discussed in Note 21 to the Consolidated Financial Statements

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(e) To eliminate the unamortized balance of indefinite-lived intangible assets of the Predecessor Company, adjust assets and liabilities to estimated fair value or other measurement as specified within ASC Topic 805, record Successor Company indefinite-lived intangible assets, including reorganization value in excess of amounts allocated to identified tangible and intangible assets (Successor Company goodwill) and resulting gain on fresh-start reporting adjustments Note that the Successor As of 12/31/07" reflects the allocation of the reorganization value of equity to assets and liabilities immediately following emergence

	Allocation of Reorganization Value (Millions of Dollars)
Reorganization value	$ 4,369
Less debt at fair value	(2,635)
Plus notes receivable from U S Asbestos Trust	265
Plus excess cash	215
Less LSC accounts payable claims to be satisfied in cash	(108)
Plus Insurance carrier settlement	18
Reorganization value of equity (common stock of $2,091 and warrants of $33)	2,124
Plus liabilities at fair value	5,742
Less assets (excluding goodwill) at fair value	(6,322)
Reorganization value of assets in excess of amounts allocated to identified tangible and intangible assets (goodwill)	$ 1,544

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	Gain on Fresh-Start Reporting Adjustments
	(Millions of Dollars)
Establishment of Successor Company s goodwill	$ 1,544
Elimination of Predecessor Company's goodwill	(1,037)
Establishment of Successor Company's other intangible assets	618
Elimination of Predecessor Company's other intangible assets	(422)
Debt fair value adjustment	163
Investment in non-consolidated affiliates fair value adjustment	148
Property, plant & equipment fair value adjustment	(131)
Elimination of capitalized supplies inventory (accounting policy change to expense as incurred)	(93)
Deferred tax adjustment	84
Elimination of inventory LIFO reserve (accounting policy change)	75
Inventory fair value adjustment	68
Minority interest fair value adjustment	(44)
Other	(17)
	$ 956

(f) To record the elimination of debtor-in-possession ('DIP') financing and the issuance of various Successor Company debt instruments required to implement the Plan

Description	Debit	Credit	Balance Sheet Account
	(Millions of Dollars)		
Issuance of emergence debt	$ 2,669		Cash and cash equivalents
Issuance of emergence debt		$ 2,669	$2,660 in Long-term debt and $9 in Short-term debt
Repayment of DIP financing	760		Short-term debt
Repayment of DIP financing		760	Cash and cash equivalents
Debt issuance fees	17		Other noncurrent assets
Debt issuance fees		17	Cash and cash equivalents
	$ 3,446	$ 3,446	

(g) Reconciliation of the cash impacts highlighted in (a) and (f) to the net change in cash and cash equivalents

Description	Debit (Credit)
	(Millions of Dollars)
Issuance of emergence debt	$ 2,669
Payments on LSC debt	(1,640)
Repayment of DIP financing	(760)
Temporary funding of U S Asbestos Trust	(140)
Adequate protection payments to DIP lenders	(133)
Debt issuance fees	(17)
Miscellaneous cash transactions not contained in (a) or (f)	1
Net change in cash and cash equivalents	$ (20)

In accordance with ASC Topic 805, the preliminary allocation of the reorganization value completed as of December 31, 2007 was subject to additional adjustment within one year after emergence from bankruptcy to provide the Company with adequate time to complete the valuation of its assets and liabilities During 2008, subsequent adjustments to fair value estimates initially recorded as of December 31, 2007 were recorded as follows

- Valuation reports associated with long-lived tangible and intangible assets were completed, resulting in adjustments to the recorded values of long-lived tangible and intangible assets,
- Valuations associated with the Company's investments in non-consolidated affiliates were completed, resulting in adjustments to the recorded investment values, and

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- Adjustments to deferred tax assets and liabilities were finalized based upon the completed valuations and related adjustments above

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Liabilities Subject To Compromise

Liabilities subject to compromise include the following

	December 31 2007 (Millions of Dollars)
Debt	$ 3,727
Asbestos liabilities	1,389
Accounts payable	176
Company-obligated mandatorily redeemable securities	74
Interest payable	44
Environmental liabilities	27
Other accrued liabilities	27
Predecessor Company Balance	5,464
Application of fresh-start reporting	(5,464)
Successor Company Balance	$ —

4. RESTRUCTURING

The costs contained within "Restructuring expense, net" in the Company's consolidated statements of operations are comprised of two types employee costs (principally termination benefits) and facility closure costs Termination benefits are accounted for in accordance with FASB ASC Topic 712, *Compensation – Nonretirement Postemployment Benefits*, and are recorded when it is probable that employees will be entitled to benefits and the amounts can be reasonably estimated Estimates of termination benefits are based on the frequency of past termination benefits, the similarity of benefits under the current plan and prior plans, and the existence of statutory required minimum benefits Facility closure and other costs are accounted for in accordance with FASB ASC Topic 420, *Exit or Disposal Cost Obligations*, and are recorded when the liability is incurred

Estimates of restructuring expenses are based on information available at the time such charges are recorded In certain countries where the Company operates, statutory requirements include involuntary termination benefits that extend several years into the future Accordingly, severance payments continue well past the date of termination at many international locations Thus, these programs appear to be ongoing when, in fact, terminations and other activities under these programs have been substantially completed Management expects that future savings resulting from execution of its restructuring programs will generally result in full pay back within 36 months

Due to the inherent uncertainty involved in estimating restructuring expenses, actual amounts paid for such activities may differ from amounts initially estimated Accordingly, the Company reversed $47 million, $3 million and $7 million of previously recorded liabilities in 2009, 2008 and 2007, respectively Such reversals result from changes in estimated amounts to accomplish previously planned activities, changes in expected (based on historical practice) outcome of negotiations with labor unions, which reduced the level of originally committed actions, newly implemented government employment programs, which lowered the expected cost, and changes in approach to accomplish restructuring activities

Management expects to finance these restructuring programs over the next several years through cash generated from its ongoing operations or through cash available under its existing credit facility, subject to the terms of applicable covenants Management does not expect that the execution of these programs will have an adverse impact on its liquidity position

The Company s restructuring activities are undertaken as necessary to execute management's strategy and streamline operations, consolidate and take advantage of available capacity and resources, and ultimately achieve net cost reductions Restructuring activities include efforts to integrate and rationalize the Company s businesses and to relocate manufacturing operations to lower cost markets These activities generally fall into one of the following categories

1 Closure of facilities and relocation of production – in connection with the Company's strategy, certain operations have been closed and related production relocated to best cost geographies or to other locations with available capacity

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2 Consolidation of administrative functions and standardization of manufacturing processes – as part of its productivity strategy the Company has acted to consolidate its administrative functions and change its manufacturing processes to reduce selling, general and administrative costs and improve operating efficiencies through standardization of processes

The Company recorded $32 million, $132 million and $48 million in net restructuring expense for the years ended December 31, 2009, 2008 and 2007, respectively, of which $30 million, $130 million and $27 million were employee costs and $2 million, $2 million and $21 million were facility closures The facility closure costs were paid within the year of incurrence and there were no reversals The following is a summary of the Company's consolidated restructuring liabilities and related activity for 2009, 2008 and 2007 PTE," "PTSB," "VSP" and GA' represent Powertrain Energy, Powertrain Sealing and Bearings, Vehicle Safety and Protection and Global Aftermarket respectively As disclosed in Note 22, the Company consolidated its reporting segments from six to five during the first quarter of 2009, eliminating the Automotive Products segment Prior year reporting segment amounts have been reclassified to conform to the new reporting segment structure

	PTE	PTSB	VSP	GA	Corporate	Total
			(Millions of Dollars)			
Balance at January 1, 2007, Predecessor	$ 14	$ 19	$ 4	$ 3	$ —	$ 40
Provisions	10	27	8	7	3	55
Reversals	(3)	(1)	(3)	—	—	(7)
Payments	(14)	(40)	(8)	(5)	—	(67)
Reclassification to postemployment benefits	(4)	—	—	—	—	(4)
Foreign currency	1	1	—	—	—	2
Balance at December 31, 2007, Successor	4	6	1	5	3	19
Provisions	42	47	33	8	5	135
Reversals	(1)	—	—	(1)	(1)	(3)
Payments	(12)	(7)	(12)	(7)	(2)	(40)
Foreign currency	1	1	—	—	—	2
Balance at December 31, 2008, Successor	34	47	22	5	5	113
Provisions	33	20	17	7	2	79
Reversals	(22)	(11)	(13)	(1)	—	(47)
Payments	(29)	(33)	(21)	(7)	(4)	(94)
Foreign currency	3	1	—	—	—	4
Balance at December 31 2009, Successor	$ 19	$ 24	$ 5	$ 4	$ 3	$ 55

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Activities under Global "Restructuring 2009" Program

An unprecedented downturn in the global automotive industry and global financial markets led the Company to announce, in September and December 2008, certain restructuring actions, herein referred to as "Restructuring 2009," designed to improve operating performance and respond to increasingly challenging conditions in the global automotive market It was anticipated that this plan would reduce the Company s global workforce by approximately 8,600 positions when compared with the workforce as of September 30, 2008 During 2009 and 2008, the Company has recorded $31 million and $127 million, respectively in net restructuring expenses associated with Restructuring 2009, of which $29 million and $127 million, respectively, were employee costs, and $2 million were facility closure costs in 2009 The Company expects to incur additional restructuring expenses up to $6 million through 2010, of which $4 million are expected to be facility closure costs and $2 million are expected to be employee related costs As the majority of the costs expected to be incurred in relation to Restructuring 2009 are related to severance, such activities are expected to yield future annual savings at least equal to the incurred costs

	PTE	PTSB	VSP	GA	Corporate	Total
			(Millions of Dollars)			
Balance at January 1, 2008, Successor	$ —	$ —	$ —	$ —	$ —	$ —
Provisions	39	46	31	7	4	127
Payments	(7)	(4)	(9)	(2)	(1)	(23)
Foreign currency	1	2	—	—	—	3
Balance at December 31, 2008, Successor	33	44	22	5	3	107
Provisions	33	21	16	6	2	78
Reversals	(22)	(11)	(13)	(1)	—	(47)
Payments	(28)	(32)	(19)	(7)	(4)	(90)
Foreign currency	3	1	—	—	—	4
Balance at December 31, 2009 Successor	$ 19	$ 23	$ 6	$ 3	$ 1	$ 52

Significant components of expenses related to Restructuring 2009 are as follows

	Total Expected Costs	Incurred During 2008	Incurred During 2009	Estimated Additional Expenses
		(Millions of Dollars)		
Powertrain Energy	$ 51	$ 39	$ 11	$ 1
Powertrain Sealing and Bearings	60	46	10	4
Vehicle Safety and Protection	35	31	3	1
Global Aftermarket	12	7	5	—
Corporate	6	4	2	—
	$ 164	$ 127	$ 31	$ 6

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Activities under Global "Restructuring 2006" Program

In January 2006, the Predecessor Company announced a global restructuring plan (Restructuring 2006') as part of its sustainable global profitable growth strategy From the inception of this program through December 31, 2007, the Predecessor Company incurred net restructuring expenses of $120 million under this program associated with the closures of its facilities located in Alpignano, Italy, Upton, United Kingdom, Malden, Missouri, Pontoise, France, Rochdale, United Kingdom, Slough United Kingdom, St Johns, Michigan, St Louis, Missouri, and Bretten, Germany The Predecessor Company also transferred production with high labor content from its facilities in Nuremberg, Germany, Wiesbaden, Germany, and Orleans, France to existing facilities in best cost countries During 2008, the Successor Company incurred net expenses of $5 million for Restructuring 2006 Payments associated with this program are expected to continue into 2010 This program was completed as of December 31, 2008

Included in the summary table above, the payment activity and remaining liabilities associated with activities executed under Restructuring 2006 are as follows

	PTE	PTSB	VSP	GA	Corporate	Total
			(Millions of Dollars)			
Balance at January 1, 2007, Predecessor	$ 9	$ 19	$ 4	$ 1	$ —	$ 33
Provisions	8	27	4	4	3	46
Reversals	(3)	(1)	(3)	—	—	(7)
Payments	(12)	(40)	(5)	(4)	—	(61)
Foreign currency	1	1	—	—	—	2
Balance at December 31 2007, Successor	3	6	—	1	3	13
Provisions	3	1	2	1	—	7
Reversals	(1)	—	—	(1)	—	(2)
Payments	(4)	(4)	(2)	(1)	(1)	(12)
Balance at December 31, 2008 Successor	$ 1	$ 3	$ —	$ —	$ 2	$ 6
Provisions	—	—	1	—	—	1
Reversals	—	(1)	—	—	—	(1)
Payments	(1)	(1)	(1)	—	—	(3)
Balance at December 31, 2009 Successor	$ —	$ 1	$ —	$ —	$ 2	$ 3

Other Restructuring Activity and Programs

The Predecessor Company reclassified certain restructuring liabilities related to long-term pension arrangements from restructuring liabilities to postemployment benefits during 2007 This reclassification was made as a result of the Predecessor Company s continuous evaluation of its restructuring activities The Predecessor Company's evaluation determined that these amounts would be more appropriately classified as postemployment benefits

The Predecessor Company announced the closure and relocation of its VSP system protection facility in Exton, PA to other facilities with available capacity during 2007 The Predecessor Company recorded $2 million of severance expenses during the year and as of December 31, 2007 This project was substantially completed as of December 31, 2008

The Predecessor Company commenced a restructuring of its GA sales and marketing functions designed to drive business growth and to improve customer focus during 2007 Through realignment of the sales force on a regional basis, the Company intends to strengthen customer relations particularly in emerging markets Accordingly, a charge of $3 million related to these activities was recorded during 2007

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

5 ADJUSTMENT OF ASSETS TO ESTIMATED FAIR VALUE

The Company and its Predecessor recorded total impairment charges of $17 million, $451 million and $61 million for the years ended December 31, 2009, 2008 and 2007, respectively as follows

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Property, plant and equipment	$ 20	$ 18	$ 36
Goodwill	(3)	239	25
Other indefinite-lived intangible assets	—	130	—
Investments in non-consolidated affiliates	—	64	—
	$ 17	$ 451	$ 61

Impairments of goodwill and other indefinite-lived intangible assets are discussed further in Note 11 Impairments of investments in non-consolidated affiliates are discussed further in Note 12

The Company recorded impairment charges of $20 million, $18 million and $36 million for the years ended December 31 2009 2008 and 2007, respectively, to adjust property, plant and equipment to their estimated fair values in accordance with the subsequent measurement provisions of FASB ASC 360 (see Note 8) The charges by reporting segment are as follows

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Powertrain Energy	$ 15	$ 11	$ 4
Powertrain Sealing and Bearings	3	5	(1)
Vehicle Safety and Protection	2	2	29
Global Aftermarket	—	—	2
Corporate	—	—	2
	$ 20	$ 18	$ 36

2009 Impairments

The Company recorded impairment charges related to the identification of a Powertrain Energy ("PTE") facility where the Company s assessment of future undiscounted cash flows, when compared to the current carrying value of plant and equipment, indicated the assets were not recoverable The Company determined the fair value of the assets by applying a probability weighted, expected present value technique to the estimated future cash flows using assumptions a market participant would utilize The discount rate used is consistent with other long-lived asset fair value measurements The carrying value of the assets exceeded the resulting fair value by $15 million and an impairment charge was recorded for that amount In addition, the Company recorded impairment charges of $3 million and $2 million related to Powertrain Sealing and Bearings ("PTSB") and Vehicle Safety and Protection ("VSP") operating facilities, respectively, primarily as a result of reduced volumes resulting in a revaluation of the expected future cash flows of these operations as compared to the carrying value of the buildings and production equipment The impairment amounts were determined by assessing the book values associated with building and production equipment in relation to their estimated fair values

2008 Impairments

The Company recorded impairment charges of $7 million and $3 million related to the identification of PTE and PTSB facilities, respectively, where the Company's assessment of estimated future cash flows, when compared to the current carrying value of property, plant and equipment, indicated impairment was necessary In addition, the Company recorded impairment charges of $4 million, $2 million and $2 million related to PTE, PTSB and VSP operating facilities, respectively, for which the Company announced the closures in 2009 as part of its ongoing Restructuring 2009 program The impairment amounts were determined by assessing the book values associated with building and production equipment in relation to their estimated fair values

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2007 Impairments

The Predecessor Company recorded impairment charges of $3 million $3 million and $25 million related to the identification of PTE, PTSB and VSP operating facilities, respectively, where the Company s assessment of estimated future cash flows, when compared to the current carrying values of property, plant and equipment, indicated impairments were necessary

In addition the Predecessor Company s ability to remediate a CARO at a cost below the original estimate for a PTSB operating facility resulted in the reversal of the excess accrual of $4 million through impairment where such liabilities were originally recorded

6 OTHER INCOME, NET

The specific components of Other income, net" are as follows

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Environmental claims settlements	$ 12	$ 17	$ —
Gain on sale of debt investment	8	—	—
Gain on involuntary conversion	7	12	—
Unrealized gain (loss) on derivative instruments	7	(6)	4
Accounts receivable discount expense	(4)	(9)	(8)
Foreign currency exchange	(2)	2	9
Gain on sale of assets	—	1	15
Gain on sale of business	—	—	8
Other	15	20	8
	$ 43	$ 37	$ 36

The Company was a party to two lawsuits in Ohio and Michigan relating to indemnification for costs arising from environmental releases from industrial operations of the Predecessor Company prior to 1986 During 2009 and 2008, the Company reached settlements with certain parties, which resulted in net recoveries to the Company of $12 million and $17 million, respectively

During 2009, an affiliate purchased and sold debt investments on the Company s behalf for $22 million and $30 million, respectively This resulted in a single cash transaction with the affiliate for an $8 million net gain

In 2008, the Company experienced a fire at a plant in Europe During 2008, the Company received cash proceeds of $30 million from its insurance carrier, for which it recognized a $12 million gain associated with the involuntary conversion During 2009, the Company received additional proceeds of $7 million, which was recognized as a gain

7 FINANCIAL INSTRUMENTS

Foreign Currency Risk

The Company manufactures and sells its products in North America, South America, Asia, Europe and Africa As a result the Company s financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets in which the Company manufactures and sells its products The Company's operating results are primarily exposed to changes in exchange rates between the U S dollar and European currencies

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The Company generally tries to use natural hedges within its foreign currency activities including the matching of revenues and costs, to minimize foreign currency risk Where natural hedges are not in place, the Company considers managing certain aspects of its foreign currency activities and larger transactions through the use of foreign currency options or forward contracts Principal currencies hedged have historically included the euro, British pound, Japanese yen and Canadian dollar The Company had notional values of $10 million and $5 million of foreign currency hedge contracts outstanding at December 31, 2009 and 2008, respectively, that were designated as hedging instruments for accounting purposes Unrealized net gains of $1 million were recorded in "Accumulated other comprehensive loss" as of December 31, 2008 Immaterial unrealized net losses were recorded in "Accumulated other comprehensive loss" as of December 31, 2009 No hedge ineffectiveness was recognized during the three years ended December 31, 2009

Interest Rate Risk

The Company, during 2008, entered into a series of five-year interest rate swap agreements with a total notional value of $1,190 million to hedge the variability of interest payments associated with its variable-rate term loans under the Exit Facilities Through these swap agreements, the Company has fixed its base interest and premium rate at a combined average interest rate of approximately 5 37% on the hedged principal amount of $1,190 million Since the interest rate swaps hedge the variability of interest payments on variable rate debt with the same terms, they qualify for cash flow hedge accounting treatment As of December 31 2009 and 2008, unrealized net losses of $50 million and $67 million, respectively, were recorded in "Accumulated other comprehensive loss" as a result of these hedges As of December 31, 2009, losses of $34 million are expected to be reclassified to the consolidated statement of operations within the next 12 months No hedge ineffectiveness was recognized during the three years ended December 31, 2009

These interest rate swaps reduce the Company's overall interest rate risk However due to the remaining outstanding borrowings on the Company's Exit Facilities and other borrowing facilities that continue to have variable interest rates, management believes that interest rate risk to the Company could be material if there are significant adverse changes in interest rates

Commodity Price Risk

The Company's production processes are dependent upon the supply of certain raw materials that are exposed to price fluctuations on the open market The primary purpose of the Company's commodity price forward contract activity is to manage the volatility associated with forecasted purchases The Company monitors its commodity price risk exposures regularly to maximize the overall effectiveness of its commodity forward contracts Principal raw materials hedged include natural gas, copper, nickel, lead, platinum, high-grade aluminum and aluminum alloy Forward contracts are used to mitigate commodity price risk associated with raw materials, generally related to purchases forecast for up to fifteen months in the future

At December 31, 2006, the Predecessor Company had 54 commodity price hedge contracts outstanding that were not designated as accounting hedge contracts, with a combined notional value of $55 million and a fair value liability of $3 million Through March 31, 2007, the Predecessor Company recognized all changes in fair value of these hedges in current earnings, resulting in unrealized gains of $10 million recorded to "Other income, net" for the three months ended March 31, 2007 Effective April 1, 2007, the Predecessor Company completed the required evaluation and documentation to designate the majority of such contracts as cash flow hedges

The Company had 140 and 364 commodity price hedge contracts outstanding with combined notional values of $28 million and $91 million at December 31, 2009 and 2008, respectively, of which substantially all mature within one year Of these outstanding contracts, 112 and 346 commodity price hedge contracts with combined notional values of $26 million and $83 million at December 31, 2009 and 2008 respectively, were designated as hedging instruments for accounting purposes Unrealized net gains of $5 million and unrealized net losses of $33 million were recorded in "Accumulated other comprehensive loss" as of December 31, 2009 and 2008, respectively Unrealized net gains of $3 million and unrealized net losses of $2 million were recognized in "Other income, net" during the years ended December 31, 2009 and 2008, respectively, associated with ineffectiveness on contracts designated as accounting hedges Hedge ineffectiveness during the year ended December 31, 2007 was immaterial

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Other

The Company presents its derivative positions and any related material collateral under master netting agreements on a net basis For derivatives designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness Unrealized gains and losses associated with ineffective hedges determined using the hypothetical derivative method, are recognized in "Other income, net" Derivative gains and losses included in "Accumulated other comprehensive loss" for effective hedges are reclassified into operations upon recognition of the hedged transaction Derivative gains and losses associated with undesignated hedges are recognized in "Other income, net" for outstanding hedges and "Cost of products sold" upon hedge maturity The Company's undesignated hedges are primarily commodity hedges and such hedges have become undesignated mainly due to forecasted volume declines

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of accounts receivable and cash investments The Company's customer base includes virtually every significant global light and commercial vehicle manufacturer and a large number of retailers, distributors and installers of automotive aftermarket parts The Company's credit evaluation process and the geographical dispersion of sales transactions help to mitigate credit risk concentration No individual customer accounted for more than 5% of the Company's sales during 2009 The Company requires placement of cash in financial institutions evaluated as highly creditworthy

Adoption of Additional Disclosure Requirements

In March 2008, the FASB issued additional disclosure requirements contained within FASB ASC Topic 815, *Derivatives and Hedging*, which requires enhanced disclosures about an entity's derivative and hedging activities The Company adopted these disclosures on a prospective basis as of January 1, 2009

The following table discloses the fair values and balance sheet locations of the Company's derivative instruments

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	December 31 2009	December 31 2008	Balance Sheet Location	December 31 2009	December 31 2008
			(Millions of Dollars)			
Derivatives designated as cash flow hedging instruments.						
Interest rate swap contracts		$ —	$ —	Other current liabilities	$ (34)	$ (30)
				Other noncurrent liabilities	(16)	(37)
Commodity contracts	Other current assets	6	—	Other current liabilities	(1)	(36)
Foreign currency contracts	Other current liabilities	—	1		—	—
		$ 6	$ 1		$ (51)	$ (103)
Derivatives not designated as hedging instruments.						
Commodity contracts	Other current assets	$ 1	$ —	Other current liabilities	$ —	$ (7)

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The following tables disclose the effect of the Company's derivative instruments on the consolidated statement of operations for the year ended December 31, 2009 (in millions of dollars)

Derivatives Designated as Hedging Instruments	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap contracts	$ (11)	Interest expense, net	$ (37)		$ —
Commodity contracts	20	Cost of products sold	(18)	Other income, net	3
Foreign currency contracts	—	Cost of products sold	1		—
	$ 9		$ (54)		$ 3

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Commodity contracts	Cost of products sold	$ (7)
Commodity contracts	Other income, net	4
		$ (3)

8 FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, clarifies that fair value is an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability As a basis for considering such assumptions, FASB ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows

Level 1 Observable inputs such as quoted prices in active markets,

Level 2 Inputs, other than quoted prices in active markets, that are observable either directly or indirectly, and

Level 3 Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques noted in FASB ASC Topic 820

A *Market approach* Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities

B *Cost approach* Amount that would be required to replace the service capacity of an asset (replacement cost)

C *Income approach* Techniques to convert future amounts to a single present amount based upon market expectations (including present value techniques, option-pricing and excess earnings models)

Assets and liabilities remeasured and disclosed at fair value on a recurring basis at December 31, 2009 and 2008 are set forth in the table below

	Asset / (Liability)	Level 2	Valuation Technique
	(Millions of Dollars)		
December 31, 2009			
Interest rate swap contracts	$ (50)	$ (50)	C
Commodity contracts	6	6	C
December 31, 2008			
Interest rate swap contracts	(67)	(67)	C
Commodity contracts	(44)	(44)	C
Foreign currency contracts	1	1	C

The Company calculates the fair value of its interest rate swap contracts, commodity contracts and foreign currency contracts using quoted interest rate curves, quoted commodity forward rates and quoted currency forward rates, respectively, to calculate forward values, and then discounts to the forward values

The discount rates for all derivative contracts are based on quoted swap interest rates or bank deposit rates For contracts which, when aggregated by counterparty, are in a liability position, the rates are adjusted by the credit spread that market participants would apply if buying these contracts from the Company s counterparties

The following table presents the Company s defined benefit plan assets measured at fair value on a recurring basis as of December 31, 2009

	Total	Level 1	Level 2	Valuation Technique
	(Millions of Dollars)			
U.S. Plans:				
Investments with Registered Investment Companies				
Equity securities	$ 448	$ 448	$ —	A
Fixed income securities	142	142	—	A
	$ 590	$ 590	$ —	
Non-U S Plans:				
Insurance contracts	$ 32	$ —	$ 32	B
Investments with Registered Investment Companies				
Fixed income securities	8	8	—	A
Equity securities	1	1	—	A
Government bonds	2	—	2	B
Equity securities	1	1	—	A
Cash	1	1	—	A
	$ 45	$ 11	$ 34	

Investments with registered investment companies are valued at the closing price reported on the active market on which the funds are traded Government bonds and equity securities are valued at the closing price reported on the active market on which the individual investments are traded The insurance contracts guarantee a minimum rate of return The Company has no input into the investment strategy of the assets underlying the contracts, but they are typically heavily invested in active bond markets and are highly regulated by local law

In addition to items that are measured at fair value on a recurring basis, the Company also has assets and liabilities that are measured at fair value on a nonrecurring basis As these assets and liabilities are not measured at fair value on a recurring basis, they are not included in the tables above Assets and liabilities that are measured at fair value on a nonrecurring basis include long-lived assets (see Notes 5 and 11), investments in non-consolidated affiliates (see Note 12) and CARO (see Note 17) The Company has determined that the fair value measurements included in each of these assets and liabilities rely primarily on the Company's assumptions as observable inputs are not available As such, the Company has determined that each of these fair value measurements reside within Level 3 of the fair value hierarchy

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As of December 31 2009, the Company had $30 million of CARO, which were measured at fair value upon initial recognition of the associated liability CARO fair values are determined based on the Company s determination of what a third party would charge to perform the remediation activities, generally using a present value technique

As of December 31, 2008, the Company evaluated the recorded value of its investments in non-consolidated affiliates for potential impairment Given the economic downturn in the global automotive industry and the related declines in anticipated production volumes, the Company concluded that its investments in non-consolidated affiliates, primarily in the Powertrain Energy segment were impaired, and an impairment charge of $64 million was recorded as of December 31, 2008, to adjust its investments in non-consolidated affiliates to estimated fair value The estimated fair value is based upon consideration of various valuation methodologies, including guideline transaction multiples multiples of current earnings and projected future cash flows discounted at rates commensurate with the risk involved The Company has determined that the fair value measurement of its investments in non-consolidated affiliates relies primarily on Company-specific inputs and the Company's assumptions about the use of these investments, as observable inputs are not available As such, the Company has determined that the fair value measurement of its investments in non-consolidated affiliates resides within Level 3 of the fair value hierarchy

9 INVENTORY

Inventories are stated at the lower of cost or market Cost was determined by the first-in, first-out (FIFO") method at December 31, 2009 and 2008 Inventories are reduced by an allowance for excess and obsolete inventories based on management's review of on-hand inventories compared to historical and estimated future sales and usage

Net inventories consisted of the following

	December 31 2009	December 31 2008
	(Millions of Dollars)	
Raw materials	$ 151	$ 175
Work-in-process	118	132
Finished products	630	624
	899	931
Inventory valuation allowance	(76)	(37)
	$ 823	$ 894

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10. PROPERTY, PLANT AND EQUIPMENT

Upon the adoption of fresh-start reporting, property, plant and equipment carrying values were stated at current replacement cost as of December 31, 2007, unless the expected future use of the assets indicated a lower value as appropriate In addition, accumulated depreciation was reset to zero The values assigned to the property, plant and equipment upon the adoption of fresh-start reporting were preliminary and represented the Company s best estimates of replacement costs based upon valuations considering both internal and external factors The finalization of fresh-start reporting resulted in subsequent changes to these estimates Depreciation expense for the years ended December 31, 2009, 2008 and 2007 was $278 million, $273 million and $335 million, respectively

Property, plant and equipment consisted of the following

	Useful Life	December 31 2009 (In millions)	Useful Life	December 31 2008 (In millions)
Land	—	$ 246	—	$ 254
Buildings and building improvements	10 - 40 years	408	10 - 40 years	366
Machinery and equipment	2 - 12 years	1 704	2 - 12 years	1 550
		2,358		2,170
Accumulated depreciation		(524)		(259)
		$ 1,834		$ 1,911

The Company leases property and equipment used in their operations Future minimum payments under noncancelable operating leases with initial or remaining terms of more than one year are as follows (in millions of dollars)

2010	$ 35
2011	27
2012	22
2013	19
2014	19
Thereafter	10
	$ 132

Total rental expense under operating leases for the years ended December 31, 2009, 2008 and 2007 was $58 million, $61 million and $57 million, respectively, exclusive of property taxes, insurance and other occupancy costs generally payable by the Company

11. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2009 and 2008, goodwill and other intangible assets consist of the following

	December 31, 2009			December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(Millions of Dollars)			
Definite-Lived Intangible Assets						
Developed technology	$ 115	$ (21)	$ 94	$ 115	$ (10)	$ 105
Customer relationships	525	(104)	421	525	(66)	459
	$ 640	$ (125)	$ 515	$ 640	$ (76)	$ 564
Goodwill and Indefinite-Lived Intangible Assets						
Goodwill			$ 1,073			$ 1,076
Trademarks and brand names			354			354
			$ 1,427			$ 1,430

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As of December 31, 2007, the Company adjusted its net carrying amount of intangible assets based upon preliminary valuations as a result of applying fresh-start reporting Included in these adjustments were the elimination of Predecessor goodwill and the establishment of Successor goodwill Successor goodwill was determined as the excess of reorganization value over amounts attributable to specific tangible and intangible assets, including developed technology and customer relationships

During 2008, the Company received valuation estimates for intangible assets other than goodwill that were more detailed and comprehensive than those used for its initial application of fresh-start reporting Based upon these revised valuations, the Company recorded adjustments to the initially recorded fresh-start reporting amounts, with offsets directly to goodwill

The Company has assigned $115 million to technology, including value for patented and unpatented proprietary know-how and expertise as embodied in the processes, specifications and testing of products This value was reduced from $140 million recorded as of December 31, 2007 due to changes primarily in the underlying valuation assumptions and not a change in the portfolio of identified technologies nor on any changes in the expected revenue streams associated with each of the identified technologies The value assigned is based on the relief-from-royalty method which applies a fair royalty rate for the technology group to forecasted revenue Royalty rates were determined based on discussions with management and a review of royalty data for similar or comparable technologies The amortization periods between 10 and 14 years are based on the expected useful lives of the products or product families for which the technology relate

Aftermarket products are sold to a wide range of wholesalers, retailers and installers as replacement parts for vehicles in current production and for older vehicles For its aftermarket customers, the Company generally establishes product line arrangements that encompass all products offered within a particular product line These are typically open-ended arrangements that are subject to termination by either the Company or the customer at any time The generation of repeat business from any one aftermarket customer depends upon numerous factors, including but not limited to the speed and accuracy of order fulfillment, the availability of a full range of product, brand recognition, and market responsive pricing adjustments Predictable recurring revenue is generally not heavily based upon prior relationship experience As such, distinguishing revenue between that attributable to customer relationships as opposed to revenue attributable to recognized customer brands is difficult

During 2008, the Company completed its analysis of its various Aftermarket revenue streams and bifurcated those streams between revenues associated with brand recognition and revenues associated with customer relationships Valuations for brand names and customer relationships were then determined based upon the estimated revenue streams As a result of the valuations the Company recorded $484 million for its trademarks and brand names As part of fresh-start reporting, value was assigned to trademarks or brand names based on earnings potential or relief from costs associated with licensing the trademarks or brand names As the Company expects to continue using each trademark or brand name indefinitely with respect to the related product lines, the trademarks or brand names have been assigned indefinite lives

The Company has assigned $519 million to its customer relationships, of which $62 million relates to original equipment ("OE") customer relationships and $457 million relates to aftermarket customer relationships The values assigned to customer relationships are based on the propensity of these customers to continue to generate predictable future recurring revenue and income The value was based on the present value of the future earnings attributable to the intangible assets after recognition of required returns to other contributory assets The amortization periods of between 1 and 16 years are based on the expected cash flows and historical attrition rates, as determined within each of the separate product groups

During 2009 and associated with the pushdown of final fresh-start values to the individual operating entities, the Company identified $6 million of adjustments, principally related to foreign currency translation, that were necessary to properly state goodwill The Company recorded these adjustments in 2009, which reduced its goodwill balance by $6 million

The Company evaluated the criteria defined by the American Institute of Certified Public Accountants practice aid entitled *Assets Acquired in a Business Combination to be Used in Research and Development Activities* The criteria included control, economic benefit, measurability, no alternative future use and substance As a result of this evaluation, the Company concluded that there were no significant research and development activities to which value should be assigned in connection with fresh-start reporting

The Company, in February 2008, also recorded $6 million in customer relationships in connection with the acquisition of Federal-Mogul Bearings India Limited ("FMBIL") The acquisition of FMBIL did not have a material impact on the Company's financial statements or liquidity

The Company performs its annual goodwill impairment analysis as of October 1, or more frequently if impairment indicators exist, in accordance with the subsequent measurement provisions of FASB ASC Topic 350, *Intangibles – Goodwill and Other* This impairment analysis compares the estimated fair value of these assets to the related carrying value, and an impairment charge is recorded for any excess of carrying value over estimated fair value The estimated fair value is based upon consideration of various valuation methodologies including guideline transaction multiples, multiples of current earnings, and projected future cash flows discounted at rates commensurate with the risk involved

The Company's goodwill balance by reporting segment as of December 31, 2009 is as follows (in millions)

Powertrain Energy	$ 277
Powertrain Sealing and Bearings	96
Vehicle Safety and Protection	700
	$ 1,073

All of the Company's reporting units with a goodwill balance passed "Step 1" of the October 1, 2009 goodwill impairment analysis All Step 1 results had fair values in excess of carrying values of at least 15%

Given the complexity of the calculation of goodwill impairment and the significance of 2008 fourth quarter economic activity, the Company had not completed its annual impairment assessment for the year ended December 31, 2008 prior to filing its annual report on Form 10-K Based upon draft valuations and preliminary assessment, the Company recorded estimated impairment charges of $239 million and $130 million for goodwill and other indefinite-lived intangible assets, respectively, for the year ended December 31, 2008 During the quarter ended March 31, 2009, the Company completed this assessment and recorded a reduction to its goodwill impairment charge of $3 million The goodwill impairment charges were required to adjust the carrying value of goodwill and other indefinite-lived intangible assets to estimated fair value The estimated fair values were determined based upon consideration of various valuation methodologies, including guideline transaction multiples, multiples of current earnings, and projected future cash flows discounted at rates commensurate with the risk involved, giving appropriate consideration to the unprecedented economic downturn in the automotive industry that continued throughout the fourth quarter of 2008 The 2008 impairment charge was primarily attributable to significant decreases in forecasted future cash flows as the Company adjusts to known and anticipated changes in industry production volumes

As a result of its annual assessment, the Predecessor Company recorded impairment charges of $25 million for the year ended December 31, 2007 This impairment charge, incurred within the Global Pistons operating unit of the Powertrain Energy Reporting Segment was required to adjust the carrying value of goodwill to estimated fair value for the year ended December 31, 2007 The estimated fair value of the operating unit was determined based upon consideration of various valuation methodologies, including guideline transaction multiples, multiples of current earnings, and projected future cash flows discounted at rates commensurate with the risk involved The 2007 impairment charge was primarily attributable to significant increases in forecasted future capital expenditures to keep pace with current technological product requirements, without a corresponding increase in product profitability

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The goodwill and other indefinite-lived intangible assets impairment charges of $369 million and $25 million for the years ended December 31, 2008 and 2007, respectively, are broken down by reporting segment as follows

	Successor 2008	Predecessor 2007
	(Millions of Dollars)	
Powertrain Energy	$ 14	$ 25
Powertrain Sealing and Bearings	16	—
Vehicle Safety and Protection	209	—
Global Aftermarket	130	—
Corporate	—	—
	$ 369	$ 25

The following is a rollforward of the Company's goodwill and other intangible assets (net) for the two years ended December 31, 2009

	Goodwill	Other Indefinite-Lived Intangibles	Definite-Lived Intangibles (Net)
	(Millions of Dollars)		
Balance at January 1, 2008	$ 1,544	$ 308	$ 310
Fresh-start valuation adjustments			
Other intangible assets	(500)	176	324
Deferred taxes	275		
Property, plant & equipment	44		
Minority interest	(44)		
Pensions	(17)		
Investments in non-consolidated affiliates	13		
	(229)	176	324
Acquisition of FMBIL	—	—	6
Amortization expense	—	—	(76)
Impairment expense (preliminary)	(239)	(130)	—
Balance at December 31, 2008	1,076	354	564
Fresh-start adjustments, principally foreign currency translation	(6)	—	—
Amortization expense	—	—	(49)
Finalization of 2008 impairment	3	—	—
Balance at December 31, 2009	$ 1,073	$ 354	$ 515

The Company recorded amortization expense of $49 million and $76 million associated with definite-lived intangible assets during the years ended December 31, 2009 and 2008, respectively The Company utilizes the straight line method of amortization, recognized over the estimated useful lives of the assets The Company's estimated future amortization expense for its definite-lived intangible assets is as follows (in millions of dollars)

2010	$ 49
2011	47
2012	47
2013	45
2014	45
Thereafter	282
	$ 515

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12 INVESTMENTS IN NON-CONSOLIDATED AFFILIATES

The Company maintains investments in 14 non-consolidated affiliates, which are located in China, Germany India, Italy, Korea, Turkey, the United Kingdom and the United States The Company s direct ownership in such affiliates ranges from approximately 1% to 50% The aggregate investments in these affiliates were $238 million and $221 million at December 31 2009 and 2008, respectively, and are included in the consolidated balance sheets as 'Other noncurrent assets' Upon the adoption of fresh-start reporting, the Company's investments in non-consolidated affiliates were adjusted to estimated fair value by increasing the aggregate investment balances by $127 million These estimated fair values were determined based upon internal and external valuations considering various relevant market rates and transactions, and discounted cash flow valuation methods, among other factors, as further described in Note 3 above

As of December 31, 2008 the Company evaluated the recorded value of its investments in non-consolidated affiliates for potential impairment Given the economic downturn in the global automotive industry and the related declines in anticipated production volumes, the Company concluded that its investments in non-consolidated affiliates, primarily in the Powertrain Energy segment were impaired, and an impairment charge of $64 million was recorded as of December 31, 2008 The remaining fresh-start adjustment (net of impairment, amortization and foreign currency) of $61 million as of December 31, 2009 represents a difference between the amounts of these investments and the underlying equity This difference is comprised of $34 million of definite-lived intangible and tangible assets with a weighted average remaining useful life of 17 years, and $27 million of indefinite-lived intangible and tangible assets

The Company's equity in the earnings of non-consolidated affiliates amounted to $16 million, $23 million and $38 million for the years ended December 31, 2009, 2008 and 2007, respectively During 2009, these entities generated sales of approximately $504 million, net income of approximately $45 million and at December 31, 2009 had total net assets of approximately $511 million Dividends received from non-consolidated affiliates by the Company for the periods ended December 31, 2009, 2008 and 2007 were $7 million, $33 million and $56 million, respectively The Company does not hold a controlling interest in an entity based on exposure to economic risks and potential rewards (variable interests) for which it is the primary beneficiary Further, the Company's joint ventures are businesses established and maintained in connection with its operating strategy and are not special purpose entities

The Company holds a 50% non-controlling interest in a joint venture located in Turkey This joint venture was established in 1995 for the purpose of manufacturing and marketing automotive parts, including pistons piston rings, piston pins, and cylinder liners, to OE and aftermarket customers Pursuant to the joint venture agreement, the Company s partner holds an option to put its shares to a subsidiary of the Company at the higher of the current fair value or at a guaranteed minimum amount The term of the contingent guarantee is indefinite, consistent with the terms of the joint venture agreement However, the contingent guarantee would not survive termination of the joint venture agreement

The guaranteed minimum amount represents a contingent guarantee of the initial investment of the joint venture partner and can be exercised at the discretion of the partner As of December 31, 2009, the total amount of the contingent guarantee, were all triggering events to occur, approximated $60 million Management believes that this contingent guarantee is substantially less than the estimated current fair value of the guarantees' interest in the affiliate As such, the contingent guarantee does not give rise to a contingent liability and as a result, no amount is recorded for this guarantee If this put option were exercised, the consideration paid and net assets acquired would be accounted for in accordance with business combination accounting guidance Any value in excess of the guaranteed minimum amount of the put option would be the subject of negotiation between the Company and its joint venture partner

The Company has determined that its investments in Chinese joint venture arrangements are considered to be "limited-lived' as such entities have specified durations ranging from 30 to 50 years pursuant to regional statutory regulations In general, these arrangements call for extension renewal or liquidation at the discretion of the parties to the arrangement at the end of the contractual agreement Accordingly, a reasonable assessment cannot be made as to the impact of such arrangements on the future liquidity position of the Company

Source FEDERAL MOGUL CORP 10-K, February 23 2010

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13. ACCRUED LIABILITIES

Accrued liabilities consisted of the following

	December 31	
	2009	2008
	(Millions of Dollars)	
Accrued compensation	$ 153	$ 176
Accrued rebates	100	104
Restructuring liabilities	55	113
Non-income tax payable	37	25
Accrued income taxes	23	17
Accrued product returns	22	21
Accrued professional services	11	14
Accrued warranty	7	9
Accrued Chapter 11 and U K Administration expenses	2	4
	$ 410	$ 483

14. DEBT

In connection with the consummation of the Plan, on the Effective Date, the Company entered into a Tranche A Term Loan Agreement (the "Tranche A Facility Agreement") The Tranche A Facility Agreement provided for a $1,335 million term loan issued on the Effective Date to satisfy in part the obligations owed under the Predecessor Company's prepetition credit agreement and certain other prepetition surety-related obligations On December 27, 2007, the Company notified the administrative agent under the Tranche A Facility Agreement of the Company's intent to repay the Tranche A term loan during January 2008 On January 3, 2008, the Tranche A term loan was repaid in full

On the Effective Date the Company, as the issuer, entered into an Indenture (the "Indenture") relating to the issuance of approximately $305 million in senior subordinated third priority payment-in-kind notes (the PIK Notes," referred to together with the Tranche A Facility Agreement as the "Repaid Instruments") The PIK Notes were issued in order to satisfy in part the obligations under the Predecessor Company's prepetition credit agreement and certain other prepetition surety-related obligations On December 28, 2007, the Company gave its notice of intent to redeem the PIK Notes, in full, in January 2008 at a price equal to their redemption price On January 3, 2008, the PIK Notes were redeemed in full

Also on the Effective Date, the Company entered into a Term Loan and Revolving Credit Agreement (the 'Exit Facilities") with Citicorp U S A Inc as Administrative Agent, JPMorgan Chase Bank, N A as Syndication Agent and certain lenders The Exit Facilities include a $540 million revolving credit facility (which is subject to a borrowing base and can be increased under certain circumstances and subject to certain conditions) and a $2,960 million term loan credit facility divided into a $1 960 million tranche B loan and a $1 000 million tranche C loan The Company borrowed $878 million under the term loan facility on the Effective Date and the remaining $2,082 million of term loans, which were available for up to sixty days after the Effective Date, have been fully drawn as described below As of the Effective Date, existing letters of credit under the Predecessor Company s debtor-in-possession ("DIP") credit agreement of $34 million, and existing letters of credit issued under the Predecessor Company s prepetition credit facility of $39 million, were rolled over as letters of credit under the Exit Facilities

The obligations under the revolving credit facility mature December 27, 2013 and bear interest for the first six months at LIBOR plus 1 75% or at the alternate base rate ("ABR,' defined as the greater of Citibank, N A s announced prime rate or 0 50% over the Federal Funds Rate) plus 0 75%, and thereafter shall be adjusted in accordance with a pricing grid based on availability under the revolving credit facility Interest rates on the pricing grid range from LIBOR plus 1 50% to LIBOR plus 2 00% and ABR plus 0 50% to ABR plus 1 00% The tranche B term loans mature December 27, 2014 and the tranche C term loans mature December 27 2015 The tranche C term loans are subject to a pre-payment premium, should the Company choose to prepay the loans prior to December 27, 2011 All Exit Facilities term loans bear interest at LIBOR plus 1 9375% or at the alternate base rate (as previously defined) plus 0 9375% at the Company's election To the extent that interest rates change by 25 basis points, the Company's annual interest expense would show a corresponding change of approximately $4 million

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On January 3, 2008, the Company drew an additional $2,082 million under the Exit Facilities, of which $1,642 million was used by the Company to repay or redeem the Repaid Instruments and interest thereon, both as discussed above Given that the Company intended to finance the Repaid Instruments on a long-term basis, commitments for such long-term financing existed as of December 31, 2007 and that such intent was achieved with the refinancing of the Repaid Instruments with long-term borrowings under the Exit Facilities each of the Repaid Instruments was classified as long-term in the Company's balance sheet as of December 31, 2007

The Company, during 2008 entered into a series of five-year interest rate swap agreements with a total notional value of $1,190 million to hedge the variability of interest payments associated with its variable-rate term loans under the Exit Facilities Through these swap agreements, the Company has fixed its base interest and premium rate at a combined average interest rate of approximately 5 37% on the hedged principal amount of $1,190 million Since the interest rate swaps hedge the variability of interest payments on variable rate debt with the same terms, they qualify for cash flow hedge accounting treatment

The Exit Facilities were initially negotiated by the Predecessor Company and certain of the Plan Proponents, reaching agreement on the majority of significant terms of the Exit Facilities in early 2007 Between the time the terms were agreed in early 2007 and the Effective Date, interest rates charged on similar debt instruments for companies with similar debt ratings and capitalization levels rose to higher levels As such, when applying the provisions of fresh-start reporting, the Company estimated a fair value adjustment of $163 million for the available borrowings under the Exit Facilities This estimated fair value has been recorded within the fresh-start reporting and will be amortized as interest expense over the terms of each of the underlying components of the Exit Facilities During both 2009 and 2008, the Company recognized $22 million in interest expense associated with the amortization of this fair value adjustment

Debt consisted of the following

	December 31	
	2009	2008
	(Millions of Dollars)	
Exit Facilities		
Revolver	$ —	$ —
Tranche B term loan	1,921	1,940
Tranche C term loan	980	990
Debt discount	(119)	(141)
Other debt, primarily foreign instruments	75	81
	2,857	2,870
Less short-term debt, including current maturities of long-term debt	(97)	(102)
Total long-term debt	$ 2 760	$ 2,768

The obligations of the Company under the Exit Facilities are guaranteed by substantially all of the domestic subsidiaries and certain foreign subsidiaries of the Company, and are secured by substantially all personal property and certain real property of the Company and such guarantors, subject to certain limitations The liens granted to secure these obligations and certain cash management and hedging obligations have first priority

The Exit Facilities contain some affirmative and negative covenants and events of default, including, subject to certain exceptions, restrictions on incurring additional indebtedness, mandatory prepayment provisions associated with specified asset sales and dispositions and limitations on i) investments, ii) certain acquisitions, mergers or consolidations, iii) sale and leaseback transactions, iv) certain transactions with affiliates and v) dividends and other payments in respect of capital stock

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The total commitment and amounts outstanding on the revolving credit facility are as follows

	December 31	
	2009	2008
	(Millions of Dollars)	
Current Contractual Commitment	$ 540	$ 540
Outstanding		
Revolving credit facility	$ —	$ —
Letters of credit	—	47
Total outstanding	$ —	$ 47
Borrowing Base on Revolving credit facility		
Current borrowings	—	—
Letters of credit	—	47
Available to borrow	470	475
Total borrowing base	$ 470	$ 522

The Company had $50 million of letters of credit outstanding at December 31, 2009, all pertaining to the term loan credit facility The Company had $57 million of letters of credit outstanding at December 31, 2008, $47 million pertaining to the revolving credit facility and $10 million pertaining to the term loan credit facility To the extent letters of credit associated with the revolving credit facility are issued, there is a corresponding decrease in borrowings available under this facility

The Company has the following contractual debt obligations outstanding at December 31, 2009

Maturities of Long-Term Borrowings	Debt
	(Millions of Dollars)
2010	$ 97
2011	31
2012	30
2013	30
2014	1,853
Thereafter	935
Total	$ 2 976

The weighted average cash interest rates for debt were approximately 3 5% and 4 6% as of December 31, 2009 and 2008, respectively Interest paid on debt in 2009, 2008 and 2007 was $124 million, $152 million and $217 million, respectively

As of December 31, 2009 and 2008, the estimated fair values of the Company s Exit Facilities were $2,444 and $1,363 million, respectively The estimated fair values were $339 and $1,427 million, respectively, lower than its carrying value Fair market values are developed by the use of estimates obtained from brokers and other appropriate valuation techniques based on information available as of December 31, 2009 and 2008 The fair value estimates do not necessarily reflect the values the Company could realize in the current markets

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15 PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Company sponsors several defined benefit pension plans ("Pension Benefits") and health care and life insurance benefits ("Other Benefits") for certain employees and retirees around the world Using appropriate actuarial methods and assumptions, the Company's defined benefit pension plans, non-pension postemployment benefits, and disability, early retirement and other postemployment benefits are accounted for in accordance with FASB ASC Topic 715, *Compensation – Retirement Benefits* ("FASB ASC 715")

The measurement date for all defined benefit plans is December 31 The following provides a reconciliation of the plans' benefit obligations, plan assets, funded status and recognition in the consolidated balance sheets

	Pension Benefits				Other Benefits	
	United States Plans		Non-U S Plans			
	2009	2008	2009	2008	2009	2008
	(Millions of Dollars)					
Change in benefit obligation						
Benefit obligation, beginning of year	$ 986	$ 1,006	$ 334	$ 348	$ 494	$ 523
Service cost	26	24	8	7	2	1
Interest cost	63	61	18	19	31	30
Employee contributions	—	—	—	—	2	2
Benefits paid	(79)	(75)	(24)	(23)	(50)	(50)
Medicare subsidies received	—	—	—	—	3	4
Curtailment	—	—	(2)	(1)	—	—
Plan amendments		1	—	—	(7)	(8)
Actuarial losses (gains) and changes in actuarial assumptions	75	(31)	5	1	28	(3)
Net transfer in	—	—	6	—	—	—
Currency translation	—	—	7	(17)	3	(5)
Benefit obligation, end of year	$ 1 071	$ 986	$ 352	$ 334	$ 506	$ 494
Change in plan assets						
Fair value of plan assets, beginning of year	$ 541	$ 907	$ 40	$ 42	$ —	$ —
Actual return on plan assets	126	(295)	2	2	—	—
Company contributions	2	4	23	23	45	44
Benefits paid	(79)	(75)	(24)	(23)	(50)	(50)
Medicare subsidies received	—	—	—	—	3	4
Employee contributions	—	—	—	—	2	2
Net transfer in	—	—	3	—	—	—
Currency translation	—	—	1	(4)	—	—
Fair value of plan assets at end of year	$ 590	$ 541	$ 45	$ 40	$ —	$ —
Funded status of the plan	$ (481)	$ (445)	$ (307)	$ (294)	$ (506)	$ (494)
Amounts recognized in the consolidated balance sheets						
Noncurrent assets	$ —	$ —	$ 3	$ 2	$ —	$ —
Current liabilities	(2)	(2)	(15)	(15)	(44)	(44)
Noncurrent liabilities	(479)	(443)	(295)	(281)	(462)	(450)
Net amount recognized	$ (481)	$ (445)	$ (307)	$ (294)	$ (506)	$ (494)
Amounts recognized in accumulated other comprehensive loss, inclusive of tax impacts						
Net actuarial loss (gain)	$ 319	$ 348	$ 6	$ 2	$ 13	$ (2)
Prior service cost (credit)	1	1	—	—	(14)	(8)
Total	$ 320	$ 349	$ 6	$ 2	$ (1)	$ (10)

Source FFDERAL MOGUL CORP 10-K, February 23 2010

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Weighted-average assumptions used to determine the benefit obligation as of December 31

	Pension Benefits					
	United States Plans		Non-U S Plans		Other Benefits	
	2009	2008	2009	2008	2009	2008
Discount rate	5 75%	6 45%	5 13%	5 59%	5 65%	6 40%
Rate of compensation increase	3 50%	3 50%	3 14%	3 18%	—	—

The Company evaluates its discount rate assumption annually as of December 31 for each of its retirement-related benefit plans based upon the yield of high quality, fixed-income debt instruments, the maturities of which correspond to expected benefit payment dates

The Company's expected return on assets is established annually through analysis of anticipated future long-term investment performance for the plan based upon the asset allocation strategy While the study gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term prospective rate

Information for defined benefit plans with projected benefit obligations in excess of plan assets

	Pension Benefits					
	United States Plans		Non-U.S Plans		Other Benefits	
	2009	2008	2009	2008	2009	2008
	(Millions of Dollars)					
Projected benefit obligation	$ 1,071	$ 986	$ 351	$ 331	$ 506	$ 494
Fair value of plan assets	590	541	41	35	—	—

Information for pension plans with accumulated benefit obligations in excess of plan assets

	Pension Benefits			
	United States Plans		Non-U S Plans	
	2009	2008	2009	2008
	(Millions of Dollars)			
Projected benefit obligation	$ 1 071	$ 986	$ 327	$ 311
Accumulated benefit obligation	1,058	972	313	297
Fair value of plan assets	590	541	22	18

The accumulated benefit obligation for all pension plans is $1 391 million and $1,289 million for the years ended December 31, 2009 and 2008 respectively

Components of net periodic benefit cost for the years ended December 31

	Pension Benefits								
	United States Plans			Non-U S Plans			Other Benefits		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
	(Millions of Dollars)								
Service cost	$ 26	$ 24	$ 26	$ 8	$ 7	$ 7	$ 2	$ 1	$ 2
Interest cost	63	61	60	18	19	16	31	30	31
Expected return on plan assets	(43)	(74)	(72)	(2)	(3)	(2)	—	—	—
Amortization of actuarial losses	30	—	18	—	—	3	—	—	19
Amortization of prior service cost (credit)	—	—	6	—	—	—	(1)	—	(12)
Settlement and curtailment gain	—	—	—	(2)	—	(2)	—	—	—
Net periodic cost	$ 76	$ 11	$ 38	$ 22	$ 23	$ 22	$ 32	$ 31	$ 40

Source FEDERAL MOGUL CORP 10-K February 23 2010 Powered by Morningstar® Document Research℠

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31

	Pension Benefits				Other Benefits	
	United States Plans		Non-U S Plans			
	2009	2008	2009	2008	2009	2008
Discount rate	6 45%	6 25%	5 59%	5 67%	6 40%	6 20%
Expected return on plan assets	8 50%	8 50%	5 79%	6 33%	—	—
Rate of compensation increase	3 50%	3 70%	3 18%	2 74%	—	—

Amounts in accumulated other comprehensive (loss) income expected to be recognized as components of net periodic benefit cost over the next fiscal year

	Pension Benefits United States	Other Benefits
	(Millions of Dollars)	
Amortization of actuarial losses	$ 25	$ —
Amortization of prior service credit	—	(2)
Total	$ 25	$ (2)

The assumed health care and drug cost trend rates used to measure next year s postemployment healthcare benefits are as follows

	Other Benefits	
	2009	2008
Health care cost trend rate	7 1%	7 5%
Ultimate health care cost trend rate	5 0%	5 0%
Year ultimate health care cost trend rate reached	2014	2014
Drug cost trend rate	8 5%	9 2%
Ultimate drug cost trend rate	5 0%	5 0%
Year ultimate drug cost trend rate reached	2014	2014

The assumed health care cost trend rate has a significant impact on the amounts reported for Other Benefits plans The following table illustrates the sensitivity to a change in the assumed health care cost trend rate

	Total Service and Interest Cost	APBO
	(Millions of Dollars)	
100 basis point ("bp") increase in health care cost trend rate	$ 2	$ 24
100 bp decrease in health care cost trend rate	(2)	(22)

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The following table illustrates the sensitivity to a change in certain assumptions for projected benefit obligations ("PBO") associated expense and other comprehensive loss ("OCL") The changes in these assumptions have no impact on the Company's 2009 funding requirements

	Pension Benefits						Other Benefits	
	United States Plans			Non-U S Plans				
	Change in 2010 pension expense	Change in PBO	Change in accumulated OCL	Change in 2010 pension expense	Change in PBO	Change in accumulated OCL	Change in 2010 expense	Change in PBO
	(Millions of dollars)							
25 bp decrease in discount rate	$ 2	$ 26	$ (26)	$ —	$ 9	$ (9)	$ —	$ 11
25 bp increase in discount rate	(2)	(26)	26	—	(9)	9	—	(10)
25 bp decrease in return on assets rate	2	—	—	—	—	—	—	—
25 bp increase in return on assets rate	(2)	—	—	—	—	—	—	—

Effective for fiscal years ending after December 15, 2009 the Company adopted the postemployment benefit plan assets disclosure requirements of FASB ASC 715 Refer to Note 8, "Fair Value Measurements", for more detail surrounding the fair value of each major category of plan assets, including the inputs and valuation techniques used to develop the fair value measurements of the plans assets, at December 31, 2009

The Company's pension plan weighted-average asset allocations at the measurement dates of December 31, 2009 and 2008, by asset category are as follows

	United States Plan Assets December 31			Non-U S Plan Assets December 31		
	Actual		Target	Actual		Target
	2009	2008	2010	2009	2008	2010
Asset Category						
Equity securities	76%	71%	75%	4%	4%	4%
Debt securities	24%	29%	25%	25%	26%	25%
Insurance contracts	—	—	—	71%	70%	71%
	100%	100%	100%	100%	100%	100%

The U S investment strategy mitigates risk by incorporating diversification across appropriate asset classes to meet the plan's objectives It is intended to reduce risk, provide long-term financial stability for the plan and maintain funded levels that meet long-term plan obligations while preserving sufficient liquidity for near-term benefit payments Risk assumed is considered appropriate for the return anticipated and consistent with the total diversification of plan assets Approximately 73% of plan assets are invested in actively managed investment funds

The majority of the assets of the non-U S plans are invested through insurance contracts The insurance contracts guarantee a minimum rate of return The Company has no input into the investment strategy of the assets underlying the contracts, but they are typically heavily invested in active bond markets and are highly regulated by local law

Projected benefit payments from the plans are estimated as follows

	Pension Benefits		Other Benefits
	United States	Non-U S Plans	
	(Millions of Dollars)		
2010	$ 71	$ 22	$ 44
2011	74	21	45
2012	75	22	44
2013	79	24	44
2014	76	25	43
Years 2015 - 2019	406	127	202

The Company expects to contribute approximately $105 million to its pension plans in 2010

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The Company also maintains certain defined contribution pension plans for eligible employees The total expenses attributable to the Company s defined contribution savings plan were $20 million, $25 million and $25 million for the years ended December 31, 2009, 2008 and 2007, respectively The amounts contributed to defined contribution pension plans include contributions to U S multi-employer pension plans of $1 million for the year ended December 31, 2007

Other Postemployment Benefits

The Company accounts for benefits to former or inactive employees paid after employment but before retirement pursuant to FASB ASC Topic 712, *Compensation – Nonretirement Postemployment Benefits* The liabilities for such U S and European postemployment benefits as of December 31, 2009 and 2008 were both $42 million

16 INCOME TAXES

Under the liability method deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse

The components of (loss) income from continuing operations before income taxes consisted of the following

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Domestic	$ (132)	$ (361)	$ 1,490
International	60	(85)	250
Total	$ (72)	$ (446)	$ 1 740

Significant components of the benefit (expense) for income taxes are as follows

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Current			
Federal	$ 2	$ 5	$ (5)
State and local	1	(2)	(5)
International	(26)	(34)	(75)
Total current	(23)	(31)	(85)
Deferred			
Federal	26	38	(274)
State and local	—	4	—
International	36	(30)	27
Total deferred	62	12	(247)
	$ 39	$ (19)	$ (332)

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The reconciliation of income taxes computed at the United States federal statutory tax rate to income tax benefit (expense) is

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Income tax benefit (expense) at United States statutory rate	$ 25	$ 157	$ (610)
Tax effect from			
Goodwill impairment	—	(88)	(9)
Gain on purchase of debt by related party	—	(27)	—
Foreign operations	(37)	(9)	(198)
Fresh start reporting adjustments	—	—	335
Gain on settlement of liabilities subject to compromise	—	—	(8)
State income taxes	(1)	2	(4)
Favorable audit settlements and tax refunds	29	—	9
Asbestos trust deduction	—	—	65
Valuation allowances	20	(55)	100
Non-deductible interest, fees and other	3	1	(12)
Income tax benefit (expense)	$ 39	$ (19)	$ (332)

The following table summarizes the Company's total benefit (provision) for income taxes by component

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Income tax benefit (expense)	$ 39	$ (19)	$ (332)
Adjustments to goodwill	—	(262)	81
Allocated to equity			
Postemployment benefits	(99)	119	(59)
Derivatives	(2)	34	—
Foreign currency translation	2	2	8
Valuation allowances	129	(151)	31

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Significant components of the Company's deferred tax assets and liabilities are as follows

	December 31	
	2009	2008
	(Millions of Dollars)	
Deferred tax assets		
Net operating loss carryforwards	$ 627	$ 479
Postemployment benefits, including pensions	397	412
Reorganization costs	100	110
Other temporary differences	—	49
Tax credits	99	49
Total deferred tax assets	1,223	1,099
Valuation allowances for deferred tax assets	(865)	(786)
Net deferred tax assets	358	313
Deferred tax liabilities		
Investment in U S subsidiaries	(367)	(367)
Intangible assets	(320)	(336)
Other temporary differences	(38)	—
Fixed assets	(80)	(92)
Total deferred tax liabilities	(805)	(795)
	$ (447)	$ (482)

Deferred tax assets and liabilities are recorded in the consolidated balance sheets as follows

	December 31	
	2009	2008
	(Millions of Dollars)	
Assets		
Prepaid expenses and other current assets	$ 34	$ 56
Other noncurrent assets	20	24
Liabilities		
Other current liabilities	(3)	(8)
Long-term portion of deferred income taxes	(498)	(554)
	$ (447)	$ (482)

Income tax refunds received, net of income taxes paid, were $10 million for the year ended December 31, 2009 compared to income taxes paid, net of income tax refunds received, of $73 million and $48 million for the years ended December 31, 2008 and 2007, respectively

The Company did not record taxes on its undistributed earnings of $617 million at December 31, 2009 since these earnings are considered by the Company to be permanently reinvested If at some future date, these earnings cease to be permanently reinvested, the Company may be subject to United States income taxes and foreign withholding taxes on such amounts Determining the unrecognized deferred tax liability on the potential distribution of these earnings is not practicable as such liability, if any, is dependent on circumstances existing when remittance occurs

At December 31, 2009 the Company had a deferred tax asset of $726 million for tax loss carryforwards and tax credits, including $316 million in the United States with expiration dates from 2010 through 2029, $201 million in the United Kingdom with no expiration date and $209 million in other jurisdictions with various expiration dates Prior to January 1, 2009, any reduction in the valuation allowance as a result of the recognition of deferred tax assets was adjusted through goodwill Beginning January 1, 2009, pursuant to FASB ASC Topic 805, *Business Combinations* any reduction to the valuation allowance will be reflected through continuing operations

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The Predecessor Company adopted the Accounting for Uncertainty in Income Taxes provisions now codified within FASB ASC 740, as of January 1, 2007 This guidance clarifies the accounting for uncertainty in income taxes recognized in companies financial statements As a result, the Company applies a more-likely-than-not recognition threshold for all tax uncertainties It only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities As a result of this adoption the Predecessor Company recognized a $14 million decrease in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 total shareholders deficit

At December 31, 2009, 2008 and 2007, the Company had total unrecognized tax benefits of $419 million, $456 million and $252 million, respectively Of these totals, $86 million, $84 million and $92 million respectively, represents the amount of unrecognized tax benefits that if recognized, would affect the effective income tax rate The total unrecognized tax benefits differ from the amount which would affect the effective tax rate primarily due to the impact of valuation allowances

A summary of the changes in the gross amount of unrecognized tax benefits for the years ended December 31 2009, 2008 and 2007 are shown below

	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Change in unrecognized tax benefits			
Balance at January 1	$ 456	$ 252	$ 171
Additions based on tax positions related to the current year	18	40	127
Additions for tax positions of prior years	11	207	10
Decreases for tax positions of prior years	(43)	(16)	(52)
Decreases for statute of limitations expiration	(25)	(17)	(9)
Settlements	—	(7)	(1)
Impact of currency translation	2	(3)	6
Balance at December 31	$ 419	$ 456	$ 252

The Company classifies tax-related penalties and net interest as income tax expense As of December 31 2009 2008 and 2007, the Company recorded $13 million, $9 million and $6 million, respectively, in liabilities for tax-related net interest and penalties on its consolidated balance sheet During the year ended December 31 2009, the Company recorded a tax expense related to an increase in its liability for interest and penalties of $4 million

The Company operates in multiple jurisdictions throughout the world The Company is no longer subject to U S federal tax examinations for years before 2006 or state and local for years before 2001, with limited exceptions Furthermore the Company is no longer subject to income tax examinations in major foreign tax jurisdictions for years prior to 2002 The income tax returns of various subsidiaries in various tax jurisdictions are currently under examination It is possible that these examinations will conclude within the next twelve months However, it is not possible to estimate net increases or decreases to the Company s unrecognized tax benefits during the next twelve months

17 COMMITMENTS AND CONTINGENCIES

Litigation and Environmental Matters

Resolution of Asbestos Liabilities

As described in Note 2, all asbestos-related personal injury claims against the Debtors will be addressed by the U S Asbestos Trust or the U K Asbestos Trust in accordance with the terms of the Plan and the CVAs, and such claims will be treated and paid in accordance with the terms of the Plan the CVAs, and their related documents All asbestos property damage claims against the Debtors have been compromised and resolved through the Plan and the CVAs Accordingly, the Debtors have not recorded an asbestos liability as of December 31, 2009 or 2008

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Environmental Matters

The Company is a defendant in lawsuits filed, or the recipient of administrative orders issued, in various jurisdictions pursuant to the Federal Comprehensive Environmental Response Compensation and Liability Act of 1980 ("CERCLA") or other similar national, provincial or state environmental laws These laws require responsible parties to pay for remediating contamination resulting from hazardous substances that were discharged into the environment by them, by prior owners or occupants of their property, or by others to whom they sent such substances for treatment or other disposition The Company has been notified by the United States Environmental Protection Agency, other national environmental agencies, and various provincial and state agencies that it may be a potentially responsible party ("PRP") under such laws for the cost of remediating hazardous substances pursuant to CERCLA and other national and state or provincial environmental laws PRP designation typically requires the funding of site investigations and subsequent remedial activities

Many of the sites that are likely to be the costliest to remediate are often current or former commercial waste disposal facilities to which numerous companies sent wastes Despite the joint and several liability which might be imposed on the Company under CERCLA and some of the other laws pertaining to these sites, the Company s share of the total waste sent to these sites has generally been small The Company believes its exposure for liability at these sites is limited

The Company has also identified certain other present and former properties at which it may be responsible for cleaning up or addressing environmental contamination, in some cases as a result of contractual commitments The Company is actively seeking to resolve these actual and potential statutory, regulatory and contractual obligations Although difficult to quantify based on the complexity of the issues, the Company has accrued amounts corresponding to its best estimate of the costs associated with such regulatory and contractual obligations on the basis of available information from site investigations and best professional judgment of consultants

Total environmental liabilities, determined on an undiscounted basis, were $22 million and $26 million at December 31 2009 and 2008 respectively and are included in the consolidated balance sheets as follows

	December 31 2009	December 31 2008
	(Millions of Dollars)	
Other current liabilities	$ 7	$ 7
Other accrued liabilities (noncurrent)	15	19
	$ 22	$ 26

Management believes that recorded environmental liabilities will be adequate to cover the Company s estimated liability for its exposure in respect to such matters In the event that such liabilities were to significantly exceed the amounts recorded by the Company, the Company's results of operations and financial condition could be materially affected At December 31, 2009, management estimates that reasonably possible material additional losses above and beyond management s best estimate of required remediation costs as recorded approximate $45 million

Conditional Asset Retirement Obligations

The Company records conditional asset retirement obligations ('CARO') in accordance with FASB ASC Topic 410, *Asset Retirement and Environmental Obligations* The Company's primary CARO activities relate to the removal of hazardous building materials at its facilities The Company records a CARO when the amount can be reasonably estimated, typically upon the expectation that an operating site may be closed or sold The Company has identified sites with contractual obligations and several sites that are closed or expected to be closed and sold In connection with these sites, the Company has accrued $30 million and $27 million as of December 31 2009 and 2008, respectively, for CARO, primarily related to anticipated costs of removing hazardous building materials, and has considered impairment issues that may result from capitalization of CARO

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The Company has additional CARO, also primarily related to removal costs of hazardous materials in buildings, for which it believes reasonable cost estimates cannot be made at this time because the Company does not believe it has a reasonable basis to assign probabilities to a range of potential settlement dates for these retirement obligations Accordingly, the Company is currently unable to determine amounts to accrue for CARO at such sites

For those sites that the Company identifies in the future for closure or sale, or for which it otherwise believes it has a reasonable basis to assign probabilities to a range of potential settlement dates, the Company will review these sites for both CARO and impairment issues

Liabilities for CARO are included in the consolidated balance sheets as follows

	December 31 2009	December 31 2008
	(Millions of Dollars)	
Other current liabilities	$ 14	$ 9
Other accrued liabilities (noncurrent)	16	18
	$ 30	$ 27

A rollforward of the CARO liability for 2008 and 2009 is as follows (in millions of dollars)

Balance at January 1, 2008	$ 27
Liabilities incurred	5
Liabilities settled/adjustments	(5)
Balance at December 31 2008	27
Liabilities incurred	5
Liabilities settled/adjustments	(2)
Balance at December 31, 2009	$ 30

Other Matters

The Company is involved in other legal actions and claims, directly and through its subsidiaries Management does not believe that the outcomes of these other actions or claims are likely to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows

18. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss consists of the following

	December 31	
	2009	2008
	(Millions of Dollars)	
Foreign currency translation adjustments and other	$ (184)	$ (252)
Hedge instruments	(46)	(98)
Income taxes	(16)	3
Hedge instruments, including tax impact	(62)	(95)
Postemployment benefits	(314)	(340)
Income taxes	(11)	(1)
Postemployment benefits, including tax impact	(325)	(341)
	$ (571)	$ (688)

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19 CAPITAL STOCK

Common and Preferred Stock

The Company, under its certificate of incorporation is authorized to issue 540,100,000 shares of capital stock consisting of 450,100,000 shares of Common Stock, $ 01 par value and 90,000,000 shares of Preferred Stock, $ 01 par value

From December 27, 2007 through July 27, 2008, the Company was authorized to issue 540,100,000 shares of capital stock consisting of 400,000 000 shares of Class A Common Stock, $ 01 par value 50,100,000 shares of Class B Common Stock, $ 01 par value and 90,000,000 shares of Preferred Stock, $ 01 par value Both classes of common stock had identical rights with respect to dividends, distributions, and voting rights except that Class B Common Stock voted for Class B Directors and Class A Common Stock voted for Class A Directors of the Board of Directors

On February 25, 2008 Thornwood Associates Limited Partnership, a limited partnership beneficially owned indirectly by Mr Carl Icahn, exercised the two options held by it to purchase all of the shares of Class B Common Stock from the U S Asbestos Trust for aggregate consideration of $900 million, and the shares of Class B Common Stock automatically converted into shares of Class A Common Stock pursuant to the then applicable certificate of incorporation

Effective July 28, 2008, upon the written consent of the Company's majority shareholder and notice to all shareholders, the Company s certificate of incorporation was amended to, among other things, eliminate all references to Class B common stock and related provisions and reclassify the Successor Company s Class A common stock as the sole class of common stock

On September 11, 2008, the Company purchased 1,095,500 shares of its common stock for $17 million in a single transaction with an unrelated party

Warrants

In connection with the Plan, holders of the Predecessor Company's common stock, Series C ESOP Convertible Preferred Shares and the 7% Convertible Junior Subordinate Debentures received warrants to purchase shares of Common Stock of the Successor Company at an exercise price equal to $45 815, exercisable through December 27, 2014 The Company issued 6,951 871 warrants as of the Effective Date, all of which remain outstanding as of December 31 2009 All of the Predecessor Company's common stock (and all rights and covenants related thereto) was cancelled pursuant to the Plan on December 27 2007, of which 91 344,239 shares were outstanding at December 27, 2007

The Company has accounted for these warrants as equity instruments in accordance with the Contracts in Entity s Own Equity provision of FASB ASC Topic 815, *Derivatives and Hedging*, and as such, will be classified in stockholders' equity as they meet the definition of indexed to the issuer s stock' The Company estimated the fair value of these warrants at $33 million as of December 31, 2007 using the Black-Scholes option pricing model Key assumptions used by the Company are summarized in the following table

Expected volatility	41%
Expected dividend yield	0%
Risk-free rate over the estimated expected life of warrants	3 88%
Expected term (in years)	7 0

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20 STOCK-BASED COMPENSATION

On February 2, 2005, the Predecessor Company entered into a five-year employment agreement with Jose Maria Alapont, effective March 23, 2005, whereby Mr Alapont was appointed as the Predecessor Company's president and chief executive officer In connection with this agreement, the Plan Proponents agreed to amend the Plan to provide that the reorganized Federal-Mogul would grant to Mr Alapont stock options equal to at least 4% of the value of the Successor Company at the reorganization date (the "Employment Agreement Options") The Employment Agreement Options vest ratably over the life of the employment agreement, such that one fifth of the Employment Agreement Options will vest on each anniversary of the employment agreement effective date For purposes of estimating fair value, the Employment Agreement Options were deemed to expire on December 27, 2014

Additionally, one-half of the Employment Agreement Options had an additional feature allowing for the exchange of one half of the options for shares of stock of the Successor Company, at the exchange equivalent of four options for one share of Common Stock The Employment Agreement Options without the exchange feature are referred to herein as "plain vanilla options" and those Employment Agreement Options with the exchange feature are referred to as "options with exchange

The Predecessor Company determined the amount of compensation expense associated with the Employment Agreement Options based upon the estimated fair value of such options as of December 31 2007 Key assumptions and related option-pricing models used by the Company are summarized in the following table

	Predecessor Company December 31, 2007 Valuation	
	Plain vanilla Options	Options with Exchange
Valuation model	Black-Scholes	Modified Binomial
Expected volatility	43%	43%
Expected dividend yield	0%	0%
Risk-free rate over the estimated expected option life	3 26 – 4 24%	3 26 – 4 24%
Expected option life (in years)	3 80	4 62

In estimating the expected life of the plain vanilla options, the Company utilized the "simplified method" within FASB ASC Topic 718, *Compensation – Stock Compensation* The simplified method was used as there was only one individual who had outstanding options as of December 31, 2007 and no historical option exercise data was available

Prior to the Effective Date of the Plan, the Predecessor Company was required to reassess the value of the Employment Agreement Options quarterly and adjust the aggregate compensation expense recognized to reflect any change in the value of the Employment Agreement Options The Predecessor Company recorded compensation expense pertaining to the options of $7 million for the year ended December 31, 2007

On the Effective Date and in accordance with the Plan, the Company granted to Mr Alapont stock options to purchase four million shares of Successor Company Common Stock at an exercise price of $19 50 (the 'Granted Options") Pursuant to the Stock Option Agreement dated as of December 27, 2007 between the Company and Mr Alapont (the "Initial CEO Stock Option Agreement), the Granted Options do not have an exchange feature In lieu of options with exchange" under the Employment Agreement Options, the Successor Company entered into a deferred compensation agreement with Mr Alapont intended to be the economic equivalent of the options with exchange Under the terms of this deferred compensation agreement, Mr Alapont is entitled to certain distributions of Common Stock, or, at the election of Mr Alapont, certain distributions of cash upon certain events as set forth in the Deferred Compensation Agreement dated as of December 27, 2007 between the Company and Mr Alapont (the "Deferred Compensation Agreement") The amount of the distributions shall be equal to the fair value of 500,000 shares of Common Stock, subject to certain adjustments and offsets, determined as of the first to occur of (1) the date on which Mr Alapont's employment with the Company terminates (2) March 23, 2010, the date on which Mr Alapont's employment agreement with the Company expires, (3) Mr Alapont s death, (4) the date Mr Alapont becomes disabled (as defined for purposes of Section 409A of the Internal Revenue Code), (5) at the election of Mr Alapont, a change in control (as defined for purposes of Section 409A of the Internal Revenue Code) or (6) the occurrence of an unforeseeable emergency (as defined for purposes of Section 409A of the Internal Revenue Code)

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In connection with fresh-start reporting the Company determined the aggregate estimated fair value at $34 million associated with the Granted Options and deferred compensation Since the Deferred Compensation Agreement provides for net cash settlement at the option of Mr Alapont, the Granted Options are treated as a liability award, and the vested portion of the awards, aggregating $19 million, has been recorded as a liability as of December 31, 2007 Key assumptions and related option-pricing models used by the Company are summarized in the following table

	Successor Company December 31, 2007 Valuation		
	Plain Vanilla Options	**Options Connected To Deferred Compensation**	**Deferred Compensation**
Valuation model	Black-Scholes	Monte Carlo	Monte Carlo
Expected volatility	41%	41%	41%
Expected dividend yield	0%	0%	0%
Risk-free rate over the estimated expected option life	3 34%	3 53%	3 53%
Expected option life (in years)	3 87	4 61	4 61

On February 14, 2008, the Company entered into Amendment No 1 to the Initial CEO Stock Option Agreement, dated as of February, 14, 2008 (the "Amendment) Pursuant to the Amendment the exercise price for the option was increased to $29 75 per share On February 15, 2008, the Initial CEO Stock Option Agreement as amended was cancelled by mutual written agreement of the Company and Mr Alapont On February 15, 2008 the Company entered into a new Stock Option Agreement with Mr Alapont dated as of February 15, 2008 (the New CEO Stock Option Agreement") The New CEO Stock Option Agreement grants Mr Alapont a non-transferable, non-qualified option (the 'CEO Option") to purchase up to 4,000,000 shares of the Company's Common Stock subject to the terms and conditions described below The exercise price for the CEO Option is $19 50 per share, which is at least equal to the fair market value of a share of the Company s Common Stock on the date of grant of the CEO Option In no event may the CEO Option be exercised, in whole or in part, after December 27 2014 The New CEO Stock Option Agreement provides for vesting as follows 40% of the shares of Common Stock subject to the Option were vested on the date of grant, and an additional 20% of the shares of Common Stock subject to the Option vest on each of March 23, 2008, March 23, 2009 and March 23, 2010

These transactions were undertaken to comply with Internal Revenue Code Section 409A in connection with the implementation of Mr Alapont s employment agreement The grant of the CEO Option was approved by the Company s shareholders effective July 28, 2008

The Company revalued the CEO Option at December 31, 2008, resulting in a revised fair value of $4 million During 2008, the Company recognized $16 million in income associated with these options Since the Deferred Compensation Agreement provides for net cash settlement at the option of Mr Alapont, the CEO Option is treated as a liability award, and the vested portion of the awards, aggregating $3 million, was recorded as a liability as of December 31, 2008 Key assumptions and related option-pricing models used by the Company are summarized in the following table

	Successor Company December 31, 2008 Valuation		
	Plain Vanilla Options	**Options Connected To Deferred Compensation**	**Deferred Compensation**
Valuation model	Black-Scholes	Monte Carlo	Monte Carlo
Expected volatility	69%	69%	69%
Expected dividend yield	0%	0%	0%
Risk-free rate over the estimated expected option life	1 05%	1 19%	1 19%
Expected option life (in years)	3 14	3 61	3 61

The Company revalued the CEO Option at December 31, 2009, resulting in a revised fair value of $29 million During 2009, the Company recognized $25 million in expense associated with these options Since the Deferred Compensation Agreement provides for net cash settlement at the option of Mr Alapont, the CEO Option is treated as a liability award and the vested portion of the awards aggregating $28 million, was recorded as a liability as of December 31, 2009 The remaining $1 million of total unrecognized compensation cost as of December 31, 2009 related to non-vested stock options is expected to be recognized ratably over the remaining term of Mr Alapont's employment agreement Key assumptions and related option-pricing models used by the Company

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are summarized in the following table

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	Successor Company December 31, 2009 Valuation		
	Plain Vanilla Options	Options Connected To Deferred Compensation	Deferred Compensation
Valuation model	Black-Scholes	Monte Carlo	Monte Carlo
Expected volatility	61%	61%	61%
Expected dividend yield	0%	0%	0%
Risk-free rate over the estimated expected option life	1 41%	1 47%	1 47%
Expected option life (in years)	2 52	2 61	2 61

Expected volatility is based on the average of five-year historical volatility (71%) and implied volatility (50%) for a group of auto industry comparator companies as of the measurement date Risk-free rate is determined based upon U S Treasury rates over the estimated expected option lives Expected dividend yield is zero as the Company has not pay dividends to holders of its common stock in the recent past nor does it expect to do so in the future Expected option lives are primarily equal to one-half of the time to the end of the option term

21 (LOSS) INCOME PER SHARE

As discussed in Note 2, the common shares of the Predecessor Company were cancelled upon the implementation of the Plan As such, the income per share information for the Predecessor Company is not meaningful to shareholders of the Successor Company's common shares, or to potential investors in such common shares

The following is a reconciliation of the numerators and the denominators of the basic and diluted (loss) income per common share

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(In Millions of Dollars, Except Per Share Amounts)		
Net (loss) income attributable to Federal-Mogul shareholders	$ (45)	$ (468)	$ 1,412
Weighted average shares outstanding, basic (in millions)	98 9	99 7	89 7
Incremental shares based on assumed conversion of cumulative convertible preferred stock	N/A	N/A	1 6
Incremental shares on assumed conversion of deferred compensation stock (in millions)	0 4	0 3	N/A
Diluted (in millions)	99 3	100 0	91 3
Net (loss) income per share attributable to Federal-Mogul			
Basic	$ (0 46)	$ (4 69)	$ 15 74
Diluted	$ (0 46)	$ (4 69)	$ 15 46

The Successor Company had a loss for the years ended December 31, 2009 and 2008 As a result, diluted loss per share is the same as basic in those periods, as any potentially dilutive securities would reduce the loss per share

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The 500,000 common shares issued in connection with the Deferred Compensation Agreement described in Note 20 are excluded from the basic earnings per share calculation as required by FASB ASC Topic 710, *Compensation*

22. OPERATIONS BY REPORTING SEGMENT AND GEOGRAPHIC AREA

Prior to 2009, the Company's integrated operations were organized into six reporting segments generally corresponding to major product groups, Powertrain Energy, Powertrain Sealing and Bearings, Vehicle Safety and Protection, Automotive Products, Global Aftermarket and Corporate The Company consolidated its reporting segments from six to five reporting segments during the first quarter of 2009, eliminating the Automotive Products segment Prior year reporting segment amounts have been reclassified to conform to the new reporting segment structure This segment consolidation required a reallocation of goodwill and other indefinite-lived intangibles This reallocation did not trigger any impairment

Powertrain Energy is one of the world's leading providers of powertrain components Federal-Mogul s powertrain energy products are used in automotive, light truck, heavy-duty industrial marine, agricultural power generation and small air-cooled engine applications The primary products of this segment include engine pistons, piston rings, piston pins cylinder liners, camshafts, valve seats and guides, and ignition products These products are offered under the Federal-Mogul®, AE® Champion®, Goetze® and Nural® brand names These products are either sold as individual products or offered to automotive manufacturers as assembled products This strategic product offering adds value to the customer by simplifying the assembly process, lowering costs and reducing vehicle development time Powertrain Energy operates 38 manufacturing facilities in 15 countries, serving many major automotive, heavy-duty diesel and industrial customers worldwide

Powertrain Sealing and Bearings is one of the world's leading sealing solutions and bearings providers Federal-Mogul offers a portfolio of world-class brand names, including Federal-Mogul® Deva®, Fel-Pro®, FP Diesel®, Glyco®, Metafram®, Metaglide®, National®, Payen®, Poral® and Sintertech® The group serves a number of different industries including automotive, truck, commercial equipment (construction, agricultural power generation, marine and rail), industrial, recreation and consumer power equipment Product offering includes dynamic seals, bonded piston seals, combustion and exhaust gaskets, static gaskets and seals, heat shields, engine bearings, bronze engine bearings, aluminum engine bearings, bushings and washers, and transmissions components Powertrain Sealing and Bearings operates 31 manufacturing facilities in 12 countries, serving many major automotive, heavy-duty diesel and industrial customers worldwide

Vehicle Safety and Protection is one of the world's leading suppliers of friction and systems protection products Such products are used in automotive and heavy-duty applications and the primary products of this segment include brake disc pads, brake shoes, brake linings and blocks and element resistant sleeving systems protection products Federal-Mogul has a well-balanced portfolio of world-class brand names, including Federal-Mogul®, Abex®, Anco®, Bentley-Harris® Beral®, Champion® Ferodo®, Moog®, ThermoQuiet® and Wagner® Federal-Mogul supplies friction products to most major customers in the light vehicle, commercial vehicle and aerospace sectors and is also a leading company in the aftermarket Vehicle Safety and Protection operates 35 manufacturing facilities in 15 countries, serving many major automotive, railroad and industrial customers worldwide

Global Aftermarket distributes products manufactured within the above segments, or purchased, to the independent automotive, heavy-duty and industrial replacement markets Federal-Mogul is a leader in several key aftermarket product lines These products are marketed under the leading brand names Abex®, AE®, ANCO®, Beral®, Carter®, Champion®, Fel-Pro®, Ferodo®, FP Diesel®, Glyco®, Goetze®, MOOG®, National®, Necto®, Nural®, Payen®, Precision®, Sealed Power®, ThermoQuiet® and Wagner® Global Aftermarket operates 21 distribution facilities in 14 countries, serving a diverse base of distributors retail parts stores and mass merchants around the world

Corporate is comprised of headquarters and central support costs for finance, human resources, information systems, legal, purchasing and other corporate activities as well as certain health and welfare costs for pension and other postemployment benefits for the Company s retirees Current period service costs for active employees are included in the results of operations for each of the Company's reporting segments

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The accounting policies of the reporting segments are the same as those of the Company Revenues related to products sold from Powertrain Energy, Powertrain Sealing and Bearings, and Vehicle Safety and Protection to OEM customers are recorded within the respective reporting segments Revenues from such products sold to aftermarket customers are recorded within the Global Aftermarket segment All product transferred into Global Aftermarket from other reporting segments is transferred at cost in the United States and at agreed-upon arm's length transfer prices internationally

The Company evaluates reporting segment performance principally on a non-GAAP Operational EBITDA basis Management believes that Operational EBITDA most closely approximates the cash flow associated with the operational earnings of the Company and uses Operational EBITDA to measure the performance of its operations Operational EBITDA is defined as earnings before interest, income taxes, depreciation and amortization, and certain items such as restructuring and impairment charges, Chapter 11 and U K Administration related reorganization expenses, gains or losses on the sales of businesses, gain on settlement of liabilities subject to comprise, fresh-start reporting adjustments, expense associated with U S based funded pension plans and the impact on 2008 gross margin of the fresh-start reporting valuation of inventory

Net sales by reporting segment was

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Powertrain Energy	$ 1,413	$ 2,090	$ 2,063
Powertrain Sealing and Bearings	819	1 154	1,156
Vehicle Safety and Protection	772	985	1,016
Global Aftermarket	2,326	2 637	2,679
	$ 5 330	$ 6,866	$ 6,914

Cost of products sold by reporting segment was

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Powertrain Energy	$ 1,284	$ 1 786	$ 1,774
Powertrain Sealing and Bearings	801	1 090	1,102
Vehicle Safety and Protection	602	768	782
Global Aftermarket	1,851	2 107	2,068
Corporate	—	(9)	3
	$ 4,538	$ 5 742	$ 5,729

Gross margin by reporting segment was

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Powertrain Energy	$ 129	$ 304	$ 289
Powertrain Sealing and Bearings	18	64	54
Vehicle Safety and Protection	170	217	234
Global Aftermarket	475	530	611
Corporate	—	9	(3)
	$ 792	$ 1,124	$ 1,185

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Operational EBITDA by reporting segment is as follows

	Successor		Predecessor
	Year Ended December 31		
	2009	2008	2007
	(Millions of Dollars)		
Powertrain Energy	$ 176	$ 354	$ 355
Powertrain Sealing and Bearings	18	58	50
Vehicle Safety and Protection	164	206	225
Global Aftermarket	320	377	423
Corporate	(175)	(233)	(263)
Total Segments Operational EBITDA	503	762	790
Items required to reconcile Operational EBITDA to (loss) income before income tax expense			
Interest expense, net	(132)	(180)	(199)
Depreciation and amortization	(327)	(349)	(354)
Restructuring charges, net	(32)	(132)	(48)
Expense associated with U S based funded pension plans	(66)	(5)	(31)
Adjustment of assets to fair value	(17)	(451)	(61)
Gross margin impact of December 31, 2007 fresh-start reporting inventory adjustment	—	(68)	—
Chapter 11 and U K Administration related reorganization costs	(3)	(17)	(81)
Gain on settlement of liabilities subject to compromise	—	—	761
Fresh-start reporting adjustments	—	—	956
Other	2	(6)	7
(Loss) Income Before Income Taxes	$ (72)	$ (446)	$ 1,740

Total assets, capital expenditures, and depreciation and amortization information by reporting segment is as set forth in the tables below Included in total assets as of December 31, 2007 were estimated values primarily for fixed assets, intangible assets and deferred taxes, associated with the application of fresh-start reporting The finalization of fresh-start reporting resulted in subsequent changes to these estimates Goodwill was assigned to reporting segments and reporting units based on individual reporting unit fair values over values attributed to specific intangible and tangible assets Reporting units are components of the Company's reporting segments (which are also its operating segments) and generally align with specific product groups for which segment managers regularly review operating results

	Successor		Successor		Predecessor	Successor		Predecessor
	Total Assets		Capital Expenditures			Depreciation and Amortization		
	December 31		Year Ended December 31			Year Ended December 31		
	2009	2008	2009	2008	2007	2009	2008	2007
	(Millions of Dollars)							
Powertrain Energy	$ 1,696	$ 1,641	$ 76	$ 140	$ 149	$ 117	$ 113	$ 151
Powertrain Sealing and Bearings	830	851	44	70	69	60	57	77
Vehicle Safety and Protection	1 626	1 698	38	71	62	87	78	96
Global Aftermarket	1,970	2,007	2	4	6	40	7	11
Corporate	1,005	1 039	16	35	24	23	94	19
	$ 7 127	$ 7 236	$ 176	$ 320	$ 310	$ 327	$ 349	$ 354

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The following table shows geographic information

	Successor	Predecessor		Successor	
	Net Sales			Net PPE	
	Year Ended December 31			December 31	
	2009	2008	2007	2009	2008
	(Millions of Dollars)				
United States	$ 2,131	$ 2,597	$ 2,789	$ 554	$ 633
Germany	880	1,366	1 314	422	447
France	427	565	568	90	107
United Kingdom	221	339	377	71	70
Italy	263	317	300	85	96
Mexico	193	244	246	94	83
Other	1,215	1,438	1 320	518	475
	$ 5 330	$ 6,866	$ 6 914	$ 1,834	$ 1,911

23 SUBSEQUENT EVENTS

The Company has operated an aftermarket distribution center in Venezuela for several years, supplying imported replacement automotive parts to the local independent aftermarket Since 2005, two exchange rates have existed in Venezuela the official rate, which has been frozen since 2005 at 2 15 bolivars per U S dollar, and the parallel rate, which floats at a rate much higher than the official rate Given the existence of the two rates in Venezuela, the Company is required to assess which of these rates is the most appropriate for converting the results of its Venezuelan operations into U S dollars at December 31, 2009 The Company has no positive intent to repatriate cash at the parallel rate and has demonstrated the ability to repatriate cash at the official rate in early January 2010, thus, the official rate was deemed appropriate for the purposes of conversion into U S dollars

Near the end of 2009, the three year cumulative inflation rate for Venezuela was above 100% which requires the Venezuelan operation to report its results as though the U S dollar is its functional currency in accordance with FASB ASC Topic 830, *Foreign Currency Matters*, commencing January 1, 2010 (" inflationary accounting ") The impact of this transition to a U S dollar functional currency is that any change in the U S dollar value of bolivar denominated monetary assets and liabilities must be recognized directly in earnings

At December 31, 2009, the summarized balance sheet of the Company's Venezuelan operations is as follows (all balances are in U S dollars, converted at the official exchange rate of 2 15 bolivar per U S dollar)

Cash and cash equivalents	$ 76
Other monetary assets, net	5
Net monetary assets	81
Non-monetary assets, net	5
Total	$ 86

In early January 2010, prior to the bolivar devaluation, the Company repatriated $14 million at the official rate of 2 15 bolivars to U S dollar On January 8, 2010, subsequent to this cash repatriation, the official exchange rate was set by the Venezuelan government at 4 3 bolivars per U S dollar, except for certain strategic industries" that are permitted to buy U S dollars at the rate of 2 6 bolivars per U S dollar Subsequent to this devaluation, the Company has repatriated $11 million at this "strategic" rate

The Company estimates that the immediate impact of inflationary accounting for its Venezuelan operations in 2010 is a loss of between $13-$30 million, largely dependent on the Company's expected ability to continue to repatriate cash at the 'strategic' rate of 2 6 bolivars per U S dollar versus the official rate of 4 3

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24 QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents selected unaudited quarterly operating results of the Company for 2009 and 2008, and the audited results of the Company for the years ended December 31, 2009 and 2008

	First	Second	Third	Fourth	Year
	(Amounts in millions, except per share amounts and stock prices)				
Year ended December 31, 2009					
Net sales	$ 1,238	$ 1 304	$ 1,380	$ 1 408	$ 5,330
Gross margin	158	198	212	225	792
Net (loss) income attributable to Federal-Mogul	(101)	3	10	43	(45)
Net (loss) income per basic share attributable to Federal-Mogul	(1 02)	0 03	0 11	0 43	(0 46)
Net (loss) income per diluted share attributable to Federal-Mogul	(1 02)	0 03	0 10	0 43	(0 46)
Shares used in computing basic (loss) income per share	98 9	98 9	98 9	98 9	98 9
Shares used in computing diluted (loss) income per share	99 3	99 3	99 3	99 4	99 3
Stock price					
High	$ 7 76	$ 12 62	$ 14 99	$ 17 80	
Low	$ 2 15	$ 6 25	$ 8 23	$ 10 68	
Dividend per share	—	—	—	—	

	First	Second	Third	Fourth(1)	Year
	(Amounts in millions, except per share amounts and stock prices)				
Year ended December 31, 2008					
Net sales	$ 1,859	$ 1,995	$ 1,692	$ 1 320	$ 6,866
Gross margin	266	396	279	183	1,124
Net (loss) income attributable to Federal-Mogul	(32)	90	4	(530)	(468)
Net (loss) income per basic share attributable to Federal-Mogul	(0 31)	0 90	0 04	(5 35)	(4 69)
Net (loss) income per diluted share attributable to Federal-Mogul	(0 31)	0 89	0 04	(5 35)	(4 69)
Shares used in computing basic (loss) income per share	100 0	100 0	99 8	98 9	99 7
Shares used in computing diluted (loss) income per share	100 3	100 3	100 1	99 3	100 0
Stock price					
High	$ 27 00	$ 21 20	$ 17 29	$ 12 80	
Low	$ 18 00	$ 14 91	$ 11 94	$ 3 12	
Dividend per share	—	—	—	—	

(1) Includes impairment charges of $451 million associated with goodwill and other indefinite lived intangible assets, and long-lived tangible assets Also includes $127 million of net restructuring expenses incurred in connection with Restructuring 2009 program

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ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's periodic Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected

As of December 31, 2009, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of December 31, 2009, at the reasonable assurance level previously described

Internal Control over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, the Company included within this Form 10-K Management's Report on Internal Control over Financial Reporting as of December 31, 2009 The Company's independent registered public accounting firm also attested to, and reported on the Company s Internal Control over Financial Reporting Management s report and the independent registered public accounting firm's report are included in Item 8 of this Form 10-K

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the quarter ended December 31, 2009 that has materially affected or is reasonably likely to materially affect the Company s internal control over financial reporting

ITEM 9B. OTHER INFORMATION

None

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PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERANCE

The information required by Item 10 regarding our directors and other corporate governance matters is incorporated by reference to the Company's proxy statement for the 2010 annual meeting of stockholders under the captions "Election of Directors" "Corporate Governance" and "Security Ownership of Certain Beneficial Owners and Management" The information required by Item 10 regarding the Company's executive officers appears as a supplementary item following Item 4 under Part I of this report The information required by Item 10 regarding compliance with section 16(a) of the Securities and Exchange Act of 1934, as amended, is incorporated by reference to the Company's proxy statement for the 2010 annual meeting of stockholders under the caption "Section 16(a) Beneficial Ownership Reporting Compliance"

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to compensation of executive officers and directors of the Company under the captions "Director Compensation", "Compensation Committee Interlocks and Insider Participation," and "Compensation Discussion and Analysis" in the Company's proxy statement for the 2010 annual meeting of stockholders is incorporated herein by reference and made a part of this Annual Report

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information under the captions "Security Ownership of Certain Beneficial Owners and Management" in the Company's proxy statement for the 2010 annual meeting of stockholders is incorporated herein by reference and made a part of this Annual Report

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTORS INDEPENDENCE

The information required by Item 13 is incorporated herein by reference to the Company's proxy statement for the 2010 annual meeting of stockholders under the captions "Director Independence and Controlled Company Status" and "Certain Relationships and Related-Party Transactions"

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to the fees and services of our principal accountant under the caption "Fees of Independent Registered Public Accounting Firm" in the Company's proxy statement for the 2010 annual meeting of stockholders is incorporated herein by reference and made a part of this Annual Report

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PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report

1 **Financial Statements**

Financial statements filed as part of this Annual Report on Form 10-K are listed under Part II, Item 8 hereof

2 **Financial Statement Schedules**

Schedule II — Valuation and Qualifying Accounts

Financial Statements and Schedules Omitted

Schedules other than the schedule listed above are omitted because they are not required or applicable under instructions contained in Regulation S-X or because the information called for is shown in the financial statements and notes thereto

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SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

FEDERAL-MOGUL CORPORATION AND SUBSIDIARIES

Column A	Column B	Column C		Column D	Column E
	Successor				
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
		(Millions of Dollars)			
Year ended December 31, 2009					
Valuation allowance for trade receivables	$ 27	$ 5	$ —	$ (13)(2)	$ 19
Inventory valuation allowance	37	20	29(1)	(10)(3)	76
Valuation allowance for deferred tax assets	786	(20)	99	—	865
Year ended December 31, 2008					
Valuation allowance for trade receivables	$ —	$ 6	$ 21(1)	$ —	$ 27
Inventory valuation allowance	—	11	26(1)	—	37
Valuation allowance for deferred tax assets	484	55	247	—	786

Column A	Column B	Column C		Column D	Column E		
	Predecessor					Successor	
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period	Fresh-Start Adjustments	Successor Company
				(Millions of Dollars)			
Year ended December 31, 2007							
Valuation allowance for trade receivables	$ 29	$ 1	$ —	$ (6)(2)	$ 24	$ (24)	$ —
Inventory valuation allowance	66	5	—	(13)(3)	58	(58)	—
Valuation allowance for deferred tax assets	1 608	(100)	(31)	(669)	808	(324)	484

(1) Represents remaining portion of fresh-start adjustment that is being reestablished with a corresponding increase to gross accounts receivable and inventory

(2) Uncollectible accounts charged off net of recoveries

(3) Obsolete inventory charged off

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15(b). Exhibits

The Company will furnish upon request any of the following exhibits upon payment of the Company's reasonable expenses for furnishing such exhibit

2 1	Agreement and Plan of Merger dated as of December 11, 2007 between Federal-Mogul Corporation and New Federal-Mogul Corporation (Incorporated by reference to Exhibit 2 1 to the Company's Current Report on Form 8-K dated December 11, 2007)
3 1	The Company s Second Amended and Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3 1 to the Company s Current Report on Form 8-K dated July 28, 2008)
3 2	The Company s Second Amended and Restated Bylaws (Incorporated by reference to Exhibit 3 2 to the Company's Current Report on Form 8-K dated July 28, 2008)
4 17	Federal-Mogul U S Asbestos Personal Injury Trust Agreement by and among the Company the Future Claimants Representative, the Official Committee of Asbestos Claimants, the Trustees, Wilmington Trust Company, and the members of the Trust Advisory Committee, dated as of December 27, 2007 (Incorporated by reference to Exhibit 4 1 to the Company s Current Report on Form 8-K dated December 27, 2007)
4 18	Registration Rights Agreement dated as of December 27, 2007 by and among the company, Thornwood Associates Limited Partnership and the Federal-Mogul Asbestos Personal Injury Trust (Incorporated by reference to Exhibit 4 5 to the Company's Current Report on Form 8-K dated December 27 2007)
10 3	Supplemental Executive Retirement Plan, as amended (Incorporated by reference to Exhibit 10 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992) †
10 4	Description of Umbrella Excess Liability Insurance for the Senior Management Team (Incorporated by reference to Exhibit 10 11 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990)
10 20	Amended and Restated Federal-Mogul Supplemental Key Executive Pension Plan dated January 1, 1999 and Restated February 2004 (incorporated by reference to Exhibit 10 20 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003) †
10 21	Employment Agreement dated February 2, 2005 between the Company and José Maria Alapont (Incorporated by reference to Exhibit 10 22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005) †
10 22	Federal-Mogul Corporation Key Executive Pension Plan for Jose Maria Alapont (Incorporated by reference to Exhibit 10 23 to the Company s Annual Report on Form 10-K for the year ended December 31, 2005) †
10 24	Form of Change in Control Employment Agreement (Incorporated by reference to Exhibit 10 3 to the Company's Current Report on Form 8-K dated February 2, 2005) †
10 25	Agreement between the Company, T&N Limited, the other Plan Proponents, High River Limited Partnership, the Administrators and the Pension Protection Fund dated September 26, 2005 (Incorporated by reference to Exhibit 10 1 to the Company s Current Report on Form 8-K dated September 30, 2005)
10 32	Employment Contract dated April 20, 2005 between Federal Mogul Services, Eurl and Jean Brunol (Incorporated by reference to Exhibit 10 32 to the Company s Annual Report on Form 10-K for the year ended December 31, 2006) †

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10 35	Warrant Agreement by and between the Company and Mellon Investor Services LLC, dated December 27, 2007 (Incorporated by reference to Exhibit 4 4 to the Company s Current Report on Form 8-K dated December 27, 2007)
10 36	Stock Option Agreement by and between the Company and José Maria Alapont dated as of December 27, 2007 (Incorporated by reference to Exhibit 4 6 to the Company s Current Report on Form 8-K dated December 27, 2007) †
10 37	Amendment No 1 to Stock Option Agreement between the Company and Jose Maria Alapont dated February 14 2008 (Incorporated by reference to Exhibit 10 2 the Company's Current Report on Form 8-K dated February 14 2008) †
10 38	Cancellation Agreement between the Company and José Maria Alapont dated as of February 15, 2008 (Incorporated by reference to the Company's Current Report on Form 8-K dated February 15, 2008) †
10 39	Stock Option Agreement by and between the Company and Jose Maria Alapont dated as of February 15, 2008 (Incorporated by reference to Exhibit 10 4 to the Company s Current Report on Form 8-K dated February 15, 2008) †
10 40	Deferred Compensation Agreement by and between the Company and José Maria Alapont dated as of December 27, 2007 (Incorporated by reference to Exhibit 4 8 to the Company's Current Report on Form 8-K dated December 27, 2007)
10 41	Term Loan and Revolving Credit Agreement by and among the Company, as Borrower, the Lenders party thereto, Citicorp USA, Inc , as Administrative Agent, and JPMorgan Chase Bank, N A , as Syndication Agent dated as of December 27 2007 (Incorporated by reference to Exhibit 4 11 to the Company s Current Report on Form 8-K dated December 27, 2007)
10 42	Tranche A Term Loan Agreement by and among the Company as Borrower, the several lenders from time to time parties thereto, and JPMorgan Chase Bank, N A , as Administrative Agent, dated as of December 27, 2007 (Incorporated by reference to Exhibit 4 12 to the Company s Current Report on Form 8-K dated December 27 2007)
10 43	Indenture by and among the Company, Guarantors therein and U S Bank National Association, dated as of December 27, 2007 (Incorporated by reference to Exhibit 4 13 to the Company's Current Report on Form 8-K dated December 27, 2007)
10 44	$140 Million Loan Agreement by and between the Company and the Federal-Mogul Asbestos Personal Injury Trust, dated as of December 27, 2007 (Incorporated by reference to Exhibit 4 14 to the Company's Current Report on Form 8-K dated December 27, 2007)
10 45	$125 Million Loan Agreement by and between the Company and the Federal-Mogul Asbestos Personal Injury Trust, dated as of December 27, 2007 (Incorporated by reference to Exhibit 4 15 to the Company's Current Report on Form 8-K dated December 27, 2007)
10 46	Amended and Restated Employment Agreement dated as of June 18, 2002 between the Company and George Michael Lynch (Incorporated by reference to Exhibit 10 45 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007) †
10 47	Severance Agreement dated as of June 18, 2002 between the Company and George Michael Lynch (Incorporated by reference to Exhibit 10 46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007) †
10 48	Amended and Restated Employment Agreement dated as of June 24, 2002 between the Company and Jeff J Kaminski (Incorporated by reference to Exhibit 99 1 to the Company s Current Report on Form 8-K dated March 13, 2008) †

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10 49	Severance Agreement dated as of June 24, 2002 between the Company and Jeff J Kaminski (Incorporated by reference to Exhibit 99 2 to the Company's Current Report on Form 8-K dated March 13, 2008) †
*10 50	Federal-Mogul 2009 Management Incentive Plan †
*10 51	Federal-Mogul 2009 Management Incentive Uplift Plan †
*21	Subsidiaries of the Registrant
*24	Powers of Attorney
*31 1	Certification by the Company's Chief Executive Officer pursuant to Rule 13a-14
*31 2	Certification by the Company s Chief Financial Officer pursuant to Rule 13a-14
*32	Certification by the Company s Chief Executive Officer and Chief Financial Officer pursuant to 18 U S C Section 1350 and Rule 13a-14(b)

* Filed Herewith

† Management contracts and compensatory plans or arrangements

15(c). Separate financial statements of affiliates whose securities are pledged as collateral.

None

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized

FEDERAL-MOGUL CORPORATION

By /s/ Jeff J Kaminski
Jeff J Kaminski
Senior Vice President and Chief
Financial Officer

Date February 23, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Jose Maria Alapont Jose Maria Alapont	Director, President and Chief Executive Officer (Principal Executive Officer)	February 23, 2010
/s/ Jeff J Kaminski Jeff J Kaminski	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 23, 2010
/s/ Alan Haughie Alan Haughie	Vice President and Controller (Principal Accounting Officer)	February 23, 2010
* George Feldenkreis	Director	February 23, 2010
/s/ Vincent J Intrieri Vincent J Intrieri	Director	February 23, 2010
* J Michael Laisure	Director	February 23, 2010
/s/ Keith A Meister Keith A Meister	Director	February 23, 2010

/s/ David S Schechter David S Schechter	Director	February 23, 2010
* Neil S Subin	Director	February 23, 2010
* James H Vandenberghe	Director	February 23, 2010

*By /s/ Robert L Katz
(Robert L Katz, Attorney-in-fact)

Federal-Mogul 2009 Management Incentive Plan (MIP)

Goal:

The Management Incentive Plan (MIP) is intended to align the actions of participants with the goals of the Company and reward participants for achieving or exceeding those goals

Participants:

Individual employees are eligible for participation in the MIP based on an appointment by the employee s Vice President

Target Bonus.

Target Bonuses are expressed as a percentage of the employee s Base Annual Salary If the employee is paid on a monthly basis, the Base Annual Salary, for purposes of the MIP Plan is 12 times the monthly rate If the employee is paid on an every-other-week basis, the Base Annual Salary is 26 times the bi-weekly rate For bonus calculations, exclude 13th month or other mandated payments in countries that require them For calculation purposes the employee s Base Annual Rate as of December 31 2009 is used

Target Bonus percentages vary by the position occupied by the individual in the organization No changes may be made to the assigned target bonuses without the written approval of the Director of Compensation and Benefits and/or the Sr Vice President of Human Resources and Organization It is the responsibility of the Human Resource Directors to insure that Target Bonuses are consistent

Pro-Ration

When an individual first becomes eligible to participate in the MIP, or is promoted from a job with one Target Bonus level to another with a different Target Bonus level, or from one operation to another with different metric measures, the calculated bonus is pro-rated based on the number of months in the applicable job There is no pro-ration for periods of service of less than two months

For example, a person newly hired with less than 2 months service would not receive a MIP payment while a person with 10 months service or more would not be pro-rated

If a participant is not actively at work for a period of more than three months (90 days), his/her award will be pro-rated

Communications:

Business Unit Human Resource Directors are solely responsible for communication of this MIP plan to participants

2009 MIP Outline & Appendix

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Metrics:

2009 MIP metrics are outlined in Appendix I

Adjustments - The metrics and their achievement levels are the basis for payout calculations However each participant's individual performance and contributions will also be considered and may alter the final payout In addition, the Company may reduce the 2009 MIP payment to a Group Operations Vice President, Group Finance Director or Plant Manager based on its assessment of the results of an audit or series of audits of plants or locations within the individuals group

MIP Payout Ranges

The payout range for the 2009 MIP is from 0 to 200% of a participant's Target Bonus For example, if an employee's Target Bonus is 10% of Base Annual Salary, he may receive an amount ranging from zero up to 20% of Base Annual Salary Payout percentages are rounded to the nearest whole percent (0 5 and above rounds up and any amount under 0 5 rounds down)

The 2009 MIP bonus payment is limited to a maximum of 200% of an individual's Target Bonus

Target Achievement Level.

If for any metric the achievement level equals 100% of the goal, the payout for that metric will be 100%

Minimum Metric Achievement Level.

If, for any metric, the achievement level does not equal or exceed 75% of the target, the payout for that metric will be zero At 75% achievement the payout for a metric will be 50%

Maximum Metric Achievement Level.

The maximum level of achievement eligible for a payout is 125% of the target for a metric At 125% achievement the MIP payout level is 200% for that metric

The payout curve between the minimum achievement level and 100% is linear, as is the payout curve between 100% and the maximum achievement level

Payout Timing.

MIP participants must be actively employed on the day of payout to be eligible for a MIP payment Payments under the 2009 MIP will be made between January 1, 2010 and March 15, 2010 after business results are calculated and audited In all countries, local tax laws apply MIP payments are pensionable income In the U S , payments are subject to 401(k) deduction elections and statutory withholding

2009 MIP Outline & Appendix

Compensation Committee of the Board of Directors

All incentive plan designs and awards, if any, are subject to approval of the Compensation Committee of the Board of Directors

Company Discretion.

The Company may, with the consent of the Compensation Committee, make changes to the MIP program and alter postpone or disallow individual or location payments as it deems appropriate, within the plan's payout range of zero to 200% of Target

General Provisions.

a) Withholding of Taxes Federal-Mogul shall withhold the amount of taxes which, in the determination of the Company, are required under law with respect to any amount due or paid under the Plan

b) Expenses Federal-Mogul is responsible for all expenses and costs in connection with the adoption and administration of the Plan

c) Active Employment Active employment means actively engaged in the work of the Corporation Those in severance period, notice period or on garden leave status pending termination are not considered in active employment

d) Voluntary Termination Subject to the Company Discretion clause above, in the event a participant elects to leave or elects to retire from Federal-Mogul before payment of the 2009 MIP bonus is made, all rights under the MIP cease and no benefit is vested, accrued or due under the MIP

e) Involuntary Termination Subject to the Company Discretion clause above, if a participant is involuntarily terminated for reasons other than "for cause", dies, or becomes permanently disabled prior to December 31, 2009 he or she may be paid a pro-rated portion of his/her calculated MIP Bonus The pro-ration will be calculated based on the formula (x times Target MIP Bonus times the final calculated payout percentage) where x equals a fraction where the numerator is the number of days the employee is employed in the year and the denominator is 365 (366 in a Leap Year) Payment will be made at the same time active participants are paid In the event of involuntary termination, payment of this pro-rated MIP Bonus is contingent on the employee signing the Agreement and Release form

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Limitations.

a) No Continued Employment

Neither the establishment of the Plan participation in the Plan, nor any payment thereunder shall be deemed to constitute an express or implied contract of employment of any participant for any period of time or in any way abridge the rights of Federal-Mogul to determine the terms and conditions of employment or to terminate the employment of any employee with or without cause at any time

b) Other Plans

Nothing contained herein shall limit Federal-Mogul's power to make regular or discretionary payments to employees of Federal-Mogul, whether or not they are participants in this Plan

Source FEDERAL MOGUL CORP 10-K February 23 2010

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2009 MIP Metrics

1. Operational EBITDA.

Operational EBITDA - Operational EBITDA is defined as earnings before interest income taxes, depreciation and amortization and certain items such as restructuring and impairment charges, Chapter 11 related reorganization expenses, gains or losses on the sales of businesses, and the non-cash expense relating to U S based funded pension plans as audited by Ernst & Young on a quarterly and annual basis The finance department will calculate the Corporation's Operational EBITDA

Business Unit Operational EBITDA - Each of the Corporation's business units, Powertrain Energy Powertrain Sealing and Bearings, Vehicle Safety and Protection and Global Aftermarket has a goal for Operational EBITDA Business Unit Operational EBITDA is calculated and reported by the finance department

Plant Operational EBITDA / Productivity - All locations have Operational EBITDA targets, the finance department will report the location achievement level However, at distribution centers or specific locations relying solely on transfer pricing the finance department will report the level of achievement against productivity improvement goals set in the budget

2. Cash Flow Before Interest and Financing (CFIF).

Net cash provided by operating activities less net cash used by investing before the deduction of interest paid, net of interest received per the Form 10-K statement of cash flows, and notes to the accounts, as audited by Ernst & Young on a quarterly and annual basis

3. Value Cash Flow.

Value Cash Flow is defined as Operational EBITDA less capital spending, as audited by Ernst & Young on a quarterly and annual basis

4 Safety, Customer Satisfaction and Service.

Safety

The Company's goal is to have zero work-related incidents injuries or illnesses Concealing of incidents which should have been reported under the incident reporting system will lead to discipline, up to and including termination for cause

Safety is measured by Incident Rate, as audited by operations finance and internal control on a monthly, quarterly and annual basis The injury Incident Rate is the number of recordable injuries, per 200 000 hours worked at the reporting facility

Plants that achieve or maintain an Incident Rate of zero will receive maximum payout for the Safety portion of this metric

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For 2009 plants and/or Business Units with a 2009 Incident Rate at 1 5 or below for two consecutive years will receive 200% payout for the Safety portion of this metric

For 2009, plants and/or Business Units with a 2008 Incident Rate above 1 5 have the goal of achieving a 10% improvement Improvement beyond these goals will be recognized consistent with the MIP payout curve

Customer Satisfaction (Quality)

Customer Satisfaction (Quality) is measured in Parts per Million (PPM) defects as reported by customers and audited on a monthly, quarterly and annual basis by operations, finance and internal control

Federal-Mogul's Quality goal is to provide products and services with zero defects For each Business Unit, product group and facility the targets are as listed in the Quality Management Information System

Parts per Million (PPM) defects for 2009 over 2008 are
A 50 % reduction, if previous year PPM was >= 50
A 25 % reduction if previous year PPM was between 50 and 30
A 15 % reduction, if previous year PPM was between 30 and 11
Below 10 PPM if previous year PPM was below 11

Service

Service is measured by on-time delivery to customers, as audited by operations, finance and internal control on a monthly, quarterly and annual basis

The 2009 goal for manufacturing plants is 100% on-time delivery to OE customers and 97% on-time delivery to the Aftermarket

The goal for Aftermarket distribution centers is 100% on-time delivery

Business unit leaders and participants in manufacturing and distribution will, in general, be measured on all three metrics - Safety, Customer Satisfaction (Quality) and Service

Designated corporate functions will be measured on Safety and Customer Satisfaction (Quality)

Purchasing will be measured on Supplier Quality and Supplier Service Supplier Quality is measured in PPM as reported by the manufacturing plants in the F-M Supply Net system against the budget goal Supplier Service is delivery shipping by suppliers as reported by the plants in the F-M Supply Net system vs the budget goal

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5. Productivity and Restructuring

Productivity is measured by non-volume related cost changes as reported in the Form 10-K as audited by Ernst & Young on a quarterly and annual basis

6 SG&A

Measured by level of SG&A reductions outlined in the budget, as audited by finance and internal control on a monthly, quarterly and annual basis The finance department will report the level of achievement compared to the budget

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Federal-Mogul 2009 Management Incentive
Uplift Plan Outline

Goal.

The 2009 Management Incentive Uplift Plan (2009 Uplift) is a special program designed to incentivize long term performance and retain critical skills Toward this goal it provides participants with the opportunity to receive additional incentives for 2009 achievements

Participants.

This program is being offered to a select group of employees and applies solely to the calendar year 2009 Individual employees are eligible for participation in the 2009 Uplift based upon appointment by the President and Chief Executive Officer Because of limited participation in this program, employees are expected to keep their participation confidential

Target Bonus

The 2009 Uplift Target Bonus Percentage is assigned to eligible participants at the discretion of the President and Chief Executive Officer

For example, the President and Chief Executive Officer may elect to assign a Manager with a normal MIP Target Award of 20% of base a 2009 Uplift Target Bonus of 10% When combined with the annual MIP program his/her combined 2009 Target Award is 30%
Shown another way this example would provide

Annual MIP Target Bonus	20%
2009 Uplift Target Bonus	10%
Combined 2009 Target Awards	30%

Pro-Ration

If an employee is hired or promoted during 2009, the calculation of his/her award will be prorated in the same manner as the annual MIP prorated calculation formula If a participant is not actively at work for a period of more than three months, his/her award will be pro-rated

Metrics

The 2009 Uplift program metrics focus on Operational EBITDA Value Cash Flow, New Business Bookings and Return on Tangible Assets

Operational EBITDA - Operational EBITDA is defined as earnings before interest, income taxes, depreciation and amortization, and certain items such as restructuring and impairment charges, Chapter 11 related reorganization expenses, gains or losses on the sales of businesses, and the non-cash expense relating to U S based funded pension plans, as audited by Ernst & Young on a quarterly and annual basis

Source FEDERAL MOGUL CORP 10-K February 23 2010

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Value Cash Flow - Value Cash Flow is defined as Operational EBITDA less capital spending, as audited by Ernst & Young on a quarterly and annual basis

New Business Bookings - New Business Bookings is defined as the total dollar value over the program life of newly awarded future business in 2009, as audited by finance and internal control on a monthly, quarterly and annual basis

Return on Tangible Assets – Return on Tangible Assets is defined as Operational EBITDA for the year divided by average Assets over 5 most recent quarters "Assets" is defined as total assets per the consolidated balance sheet excluding intangible assets, cash and equivalents, as audited by Ernst & Young on a quarterly and annual basis

2009 Uplift Payout Ranges.

The metrics and their achievement levels are the basis for payout calculations However, each participant's individual performance and contributions will also be considered and may alter the final payout The payout range for the 2009 Uplift program is from 0 to 200% of a participant s 2009 Uplift Target Bonus If an employee s 2009 Uplift Target Bonus is, for example, 10% of base salary, he may receive an amount equal to zero up to 20% of base salary

Target Achievement Level.

If for any metric the achievement level equals 100% of the goal, the payout for that metric will be 100%

Minimum Achievement Level.

If, for any metric the achievement level does not equal or exceed 75% of the target, the payout for that metric will be zero At the 75% achievement level the payout is 50%

Maximum Achievement Level:

The maximum level of achievement for a payout is 125% of the target for a metric At 125% achievement, the 2009 Uplift payout level is 200% for that metric

The payout curve between the minimum achievement level and 100% is linear, as is the payout curve between 100% and the maximum achievement level

Payout Timing.

Cash Portion One half of the achieved 2009 Uplift award will be paid to participants in cash in two installments

Payment of two-thirds (2/3) of the 2009 Uplift cash portion will be made within 30 days after completion of the annual audit of results and between January 1, 2010 and March 15, 2010 Payment of one-third (1/3) of the 2009 Uplift cash portion will be made between January 1 2011 and March 15, 2011 Interest will be credited to the second installment at a rate equal to the average one-month LIBOR plus 1 9375% over the period from January 1, 2010 to such payment date

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2009 Uplift participants must be actively employed on the day of payout to be eligible for either installment payable under the 2009 Uplift payment

In all countries, local tax laws apply 2009 Uplift payments are pensionable income In the U S , payments are subject to 401(k) deduction elections and statutory withholding

Stock Appreciation Rights Portion One half of the achieved 2009 Uplift award will be paid to the participant in the form of stock appreciation rights (SARs)

The SARs will be priced based on fair market value of a share of Federal-Mogul Common Stock and will have a five-year life The SARs will vest over a three year period as follows

First Anniversary of Grant Date 1/3
Second Anniversary of Grant Date 1/3
Third Anniversary of Grant Date 1/3

Upon vesting the SARs may be exercised at the participant's discretion up to the expiration date which is close of business on the fifth anniversary of the Grant Date

At its sole option, the Company may settle the exercise of an SAR in shares of Common Stock, in cash or in a combination of cash and shares When exercised, the proceeds will be paid in cash to the participant on the next available payroll date but not later than 60 days following the date of exercise A participant will receive a SARs Agreement containing the terms of conditions of the SARs on or as soon as practicable after the Grant Date

Company Discretion.

The Company may, with the consent of the Compensation Committee, make changes to the 2009 Uplift program and alter, postpone or disallow individual or location payments, within its sole discretion as it deems appropriate within the plan's payout range of zero to 200% of Target With respect to the President and Chief Executive Officer's participation and award payment the Compensation Committee of the Board of Directors shall have sole discretion

Compensation Committee of the Board of Directors

All incentive plan designs and awards, if any, and all terms relating to the SARs and to awards under this MIP Uplift Plan, are subject to approval of the Compensation Committee of the Board of Directors

General Provisions.

a) Withholding of Taxes Federal-Mogul shall withhold the amount of taxes which, in the determination of the Company, are required under law with respect to any amount due or paid under the Plan

b) Expenses Federal-Mogul is responsible for all expenses and costs in connection with the adoption and administration of the Plan

c) Active Employment Active employment means actively engaged in the work of the corporation Those in severance period, notice period or on garden leave status pending termination are not considered in active employment

d) Voluntary Termination of Employment Subject to the Company Discretion clause above, in the event a participant elects to leave Federal-Mogul before either both cash installments of the 2009 Uplift payment have been paid, all rights under this Plan to receive such installments shall cease and no benefit is vested accrued or due under the Plan A participant s SARs Agreement will contain specific provisions regarding termination of employment

e) Retirement If a participant retires in accordance with the provisions of an applicable retirement or pension plan or policy, he/she will be paid any unpaid cash installment of the 2009 Uplift at the same time as other participants Upon retirement (as such term is defined in the incentive plan) all granted SARs immediately vest and are exercisable for the shorter of the remainder of the SARs' life or 12 months from the date of retirement subject to the specific terms of a participant s SARs Agreement regarding termination of employment

f) Involuntary Termination In the discretion of the Compensation Committee if a participant is involuntarily terminated for reasons other than for "cause", dies, or becomes permanently disabled prior to December 31, 2009 he/she may be paid a pro-rated portion of his/her calculated 2009 Uplift bonus The pro-ration will be calculated based on the formula (x times Target 2009 Uplift bonus times the final calculated payout percentage) where x equals a fraction where the numerator is the number of days the employee is employed in the year and the denominator is 365 Payment will be made at the same time active participants are paid between January 1, 2010 and March 15, 2010 In the event of involuntary termination, payment of this pro-rated 2009 Uplift bonus is contingent on the employee signing the form of Federal-Mogul Agreement and Release A participant s SARs Agreement will contain specific provisions regarding termination of employment

Limitations.

a) No Continued Employment Neither the establishment of the Plan, participation in the Plan, nor any payment hereunder shall be deemed to constitute an express or implied contract of employment of any participant for any period of time or in any way abridge the rights of Federal-Mogul to determine the terms and conditions of employment or to terminate the employment of any employee with or without cause at any time

b) Other Plans Nothing contained herein shall limit Federal-Mogul s power to make regular or discretionary payments to employees of Federal-Mogul, whether or not they are participants in this Plan

c) SARs Agreement and Incentive Plan This 2009 MIP Uplift Plan Outline is subject in all respects to the provisions of a participant's SARs Agreement and the incentive plan If the terms of this 2009 MIP Uplift Plan Outline conflict with the terms of either a participant s SARs Agreement or the incentive plan, the participant s SARs Agreement or the incentive plan, as applicable, will control

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Exhibit 21

FEDERAL-MOGUL CORPORATION SUBSIDIARIES

The direct and indirect operating subsidiaries of the Company and their respective States or other jurisdictions of incorporation as of December 31, 2009 are as follows

Name of Subsidiaries	Country	Percentage of Voting Stock Owned Directly and Indirectly by Federal-Mogul
Federal Mogul Argentina SA	Argentina	96 3%
Federal-Mogul Plasticos Puntanos, S A	Argentina	96 3%
Federal-Mogul Pty Ltd	Australia	100 0%
Federal-Mogul Automotive Pty Ltd	Australia	100 0%
Federal-Mogul S A	Belgium	100 0%
Federal-Mogul EMEA Distribution Services, BVBA	Belgium	100 0%
Coventry Assurance, Ltd	Bermuda	100 0%
Federal Mogul do Brasil Ltda	Brazil	100 0%
Federal Mogul Materiais de Friccao Ltda	Brazil	100 0%
Federal-Mogul Industria de Autopecas Ltda	Brazil	100 0%
Federal-Mogul Canada Limited	Canada	100 0%
Federal-Mogul (Shanghai) Automotive Co , Ltd	China	100 0%
Federal-Mogul Champion Spark Plug (Guangzhou) Co , Ltd	China	100 0%
Federal-Mogul Dongsuh (Qingdao) Pistons Co , Ltd	China	75 5%
Federal-Mogul Friction Products Co Ltd	China	100 0%
Federal-Mogul Management (China) Co , Ltd	China	100 0%
Federal-Mogul Qingdao Automotive Company , Ltd	China	100 0%
Federal-Mogul Qingdao Piston Co Ltd	China	61 5%
Federal-Mogul Sealing Systems Co , Ltd	China	100 0%
Federal-Mogul Shanghai Bearings Co , Ltd	China	60 0%
Federal-Mogul Shanghai Compound Material Co , Ltd	China	60 0%
Federal-Mogul Friction Products A S	Czech Rep	100 0%
Federal Mogul Aftermarket France SAS	France	100 0%
Federal-Mogul Financial Services SAS	France	100 0%
Federal-Mogul Friction Products SAS	France	100 0%
Federal-Mogul Operations France SAS	France	100 0%
Federal-Mogul Sealing System SAS	France	100 0%
Federal-Mogul Services Sarl	France	100 0%
Federal-Mogul Systems Protection SAS	France	100 0%
Federal-Mogul, SAS	France	100 0%
Federal-Mogul Sintertech, SAS	France	100 0%
Federal-Mogul Automotive Verwaltungs GmbH	Germany	100 0%
Federal-Mogul Betriebsgrundstucke Burscheid GmbH	Germany	100 0%
Federal-Mogul Burscheid Beteiligungs GmbH	Germany	100 0%
Federal-Mogul Burscheid GmbH	Germany	100 0%
Federal-Mogul Deva GmbH	Germany	100 0%
Federal-Mogul Friction Products GmbH	Germany	100 0%
Federal-Mogul Friedberg GmbH	Germany	100 0%

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Name of Subsidiaries	Country	Percentage of Voting Stock Owned Directly and Indirectly by Federal-Mogul
Federal-Mogul Holding Deutschland GmbH	Germany	100 0%
Federal-Mogul Nurenberg GmbH	Germany	100 0%
Federal-Mogul Powertrain Russia GmbH	Germany	100 0%
Federal-Mogul Sealing Systems Bretten GmbH	Germany	100 0%
Federal-Mogul Sealing Systems GmbH	Germany	100 0%
Federal-Mogul TP Europe Gmbh & Co KG	Germany	66 7%
Federal-Mogul TP Piston Rings GmbH	Germany	66 6%
Federal-Mogul Vermogensverwaltungs GmbH	Germany	100 0%
Federal-Mogul Verwaltungs und Beteiligungs GmbH	Germany	100 0%
Federal-Mogul Wiesbaden GmbH	Germany	100 0%
Goetze Wohnungsbau GmbH	Germany	100 0%
Weyburn-Bartel GmbH	Germany	100 0%
Curzon Insurance Limited	Guernsey	100 0%
Federal-Mogul (T&N) Hong Kong Limited	Hong Kong	100 0%
Federal-Mogul World Trade (Asia) Limited	Hong Kong	100 0%
Federal-Mogul Hungary Kft	Hungary	100 0%
Federal-Mogul Bearing India Limited	India	63 8%
Federal-Mogul Goetze (India) Limited	India	75 0%
Federal-Mogul TPR (India) Limited	India	62 7%
Ferodo India Private Limited	India	100 0%
Satara Rubber and Chemicals Pvt Ltd	India	75 0%
Federal-Mogul Italy S r l	Italy	100 0%
Federal Mogul Japan K K	Japan	100 0%
KFM Bearing Co , Ltd	Korea	100 0%
Federal-Mogul Luxembourg S a r l	Luxembourg	100 0%
Federal-Mogul Holdings, Ltd	Mauritius Is	100 0%
F-M Holding Mexico, S A de C V	Mexico	100 0%
Federal-Mogul de Mexico, S A de C V	Mexico	99 4%
Federal-Mogul S A de C V.	Mexico	98 3%
McCord Payen de Mexico S de R L	Mexico	100 0%
Raimsa, S A de C V	Mexico	100 0%
Servicios Administrativos Industriales, S A	Mexico	100 0%
Servicio de Componentes Automotrices, S A de C A	Mexico	100 0%
Subensambles Internacionales, S A de S V	Mexico	100 0%
T&N de Mexico S de R L	Mexico	100 0%
Cooperatief Federal-Mogul Dutch Investments B A	Netherlands	100 0%
Federal-Mogul Global B V	Netherlands	100 0%
Federal-Mogul Growth B V	Netherlands	100 0%
Federal-Mogul Investments B V	Netherlands	100 0%
Federal-Mogul Netherlands B V	Netherlands	100 0%
Federal-Mogul Bimet Spolka Akcyjna	Poland	95 0%
Federal-Mogul Gorzyce S A	Poland	99 9%
Federal-Mogul Powertrain Vostok OOO	Russia	100 0%

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Exhibit 21

Name of Subsidiaries	Country	Percentage of Voting Stock Owned directly and Indirectly by Federal-Mogul
Federal Mogul of South Africa (Pty) Ltd	South Africa	100 0%
Federal-Mogul Aftermarket Espana, SA	Spain	51 0%
Federal-Mogul Friction Products SA	Spain	100 0%
Federal-Mogul Iberica S L	Spain	100 0%
Federal-Mogul SARL	Switzerland	100 0%
Federal-Mogul Friction Products (Thailand) Limited	Thailand	100 0%
AE International Limited	UK	100 0%
AE Limited	UK	100 0%
Federal-Mogul Aftermarket UK Limited	UK	100 0%
Federal-Mogul Bradford Limited	UK	100 0%
Federal-Mogul Camshaft Castings Limited	UK	100 0%
Federal-Mogul Camshaft Limited	UK	100 0%
Federal-Mogul (Continental European Operations) Limited	UK	100 0%
Federal-Mogul Employee Trust Administration Limited	UK	100 0%
Federal-Mogul Engineering Limited	UK	100 0%
Federal-Mogul Export Services Limited	UK	100 0%
Federal-Mogul Friction Products Limited	UK	100 0%
Federal-Mogul Global Growth Limited	UK	100 0%
Federal-Mogul Ignition (U K) Limited	UK	100 0%
Federal-Mogul Sealing Systems Limited	UK	100 0%
Federal-Mogul Sintered Products Limited	UK	100 0%
Federal-Mogul Systems Protection Group Limited	UK	100 0%
F-M International Limited	UK	100 0%
F-M Trademarks Limited	UK	100 0%
F-M UK Holding Limited	UK	100 0%
Sintration Limited	UK	100 0%
FDML Holdings Limited	UK	100 0%
Federal-Mogul UK Investments Limited	UK	100 0%
Federal-Mogul Limited	UK	100 0%
Wellworthy Limited	UK	100 0%
McCord Sealing, Inc	US-Alabama	100 0%
Federal-Mogul Dutch Holdings Inc	US-Delaware	100 0%
Federal-Mogul FAP, Inc	US-Delaware	100 0%
Federal-Mogul Finance 1, LLC	US-Delaware	100 0%
Federal-Mogul Finance 2, LLC	US-Delaware	100 0%
Federal-Mogul Global Inc	US-Delaware	100 0%
Federal-Mogul Ignition Company	US-Delaware	100 0%
Federal-Mogul Piston Rings Inc	US-Delaware	100 0%
Federal-Mogul Technical Center, LLC	US-Delaware	100 0%
Federal-Mogul U K Holdings Inc	US-Delaware	100 0%
Ferodo America, Inc	US-Delaware	100 0%
Ferodo Holdings, Inc	US-Delaware	100 0%
FM International, LLC	US-Delaware	100 0%
T&N Industries Inc	US-Delaware	100 0%
Federal-Mogul Powertrain Inc	US-Michigan	100 0%
Federal-Mogul World Wide, Inc	US-Michigan	100 0%
J W J Holdings Inc	US-Michigan	100 0%
Federal-Mogul Products, Inc	US-Missouri	100 0%
Federal Mogul Venture Corporation	US-Nevada	100 0%
Federal-Mogul de Venezuela, C A	Venezuela	100 0%

Source FEDERAL MOGUL CORP 10-K, February 23 2010

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POWER OF ATTORNEY

Each of the undersigned directors of Federal-Mogul Corporation (the "Company"), hereby appoints Robert L Katz and Brett Pynnonen, and each of them individually, his true and lawful attorney-in-fact or attorneys-in-fact, with full power of substitution, for and in his name, place and stead, to affix, as attorney-in-fact, his signature, by manual or facsimile signature, electronic transmission or otherwise to the Annual Report on Form 10-K of the Company for its fiscal year ended December 31, 2009, and any and all amendments thereto to be filed with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended with power to file said Annual Report and such amendments, and any and all other documents that may be required in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform any and all acts and things requisite or appropriate in connection therewith, as fully to all intents and purposes as he might or could do in person hereby ratifying and confirming all that said attorneys-in-fact or any of them may lawfully do or cause to be done by virtue hereof

This Power of Attorney may be executed in multiple counterparts, each of which shall be deemed an original with respect to the person executing it

SIGNATURES

/s/ Jose Maria Alapont Jose Maria Alapont	Director, President and Chief Executive Officer	February 23, 2010
/s/ George Feldenkreis George Feldenkreis	Director	February 23, 2010
/s/ J Michael Laisure J Michael Laisure	Director	February 23, 2010
/s/ Neil S Subin Neil S Subin	Director	February 23, 2010
/s/ James H Vandenberghe James H Vandenberghe	Director	February 23, 2010

Source FEDERAL MOGUL CORP 10-K, February 23 2010

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Exhibit 31 1

CERTIFICATION
Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, José Maria Alapont, the Chief Executive Officer of Federal-Mogul Corporation (the "Company"), certify that

1 I have reviewed this annual report on Form 10-K of Federal-Mogul Corporation,

2 Based on my knowledge this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report,

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report,

4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared,

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation, and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and

5 The registrant s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant s board of directors (or persons performing the equivalent functions)

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information, and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date February 23, 2010

By /s/ José Maria Alapont
Jose Maria Alapont
President and
Chief Executive Officer

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Exhibit 31 2

CERTIFICATION
Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, Jeff J Kaminski, the Chief Financial Officer of Federal-Mogul Corporation (the "Company), certify that

1 I have reviewed this annual report on Form 10-K of Federal-Mogul Corporation,

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report,

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report,

4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared,

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation, and

d) Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and

5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions)

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information, and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date February 23, 2010

By /s/ Jeff J Kaminski
Jeff J Kaminski
Senior Vice President and
Chief Financial Officer

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Exhibit 32

CERTIFICATION

Pursuant to 18 United States Code § 1350 and
Rule 13a-14(b) of the Securities Exchange Act of 1934

The Undersigned hereby certifies that to his knowledge the annual report on Form 10-K of Federal-Mogul Corporation (the Company) filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such annual report fairly presents, in all material respects, the financial condition and results of operations of the Company

A signed original of this written statement, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request

Date February 23, 2010

By /s/ Jose Maria Alapont
Jose Maria Alapont
President and
Chief Executive Officer

By /s/ Jeff J Kaminski
Jeff J Kaminski
Senior Vice President and
Chief Financial Officer

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