

ICAHN ENTERPRISES L.P.
Form 8-K/A
January 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A

CURRENT REPORT

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

Date of Report (Date of earliest event reported): December 3, 2008

Icahn Enterprises L.P.

(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation)	1-9516 (Commission File Number)	13-3398766 (IRS Employer Identification No.)
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767 Fifth Avenue, Suite 4700, New York, NY (Address of Principal Executive Offices)	10153 (Zip Code)
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Registrant's Telephone Number, Including Area Code: (212) 702-4300

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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On December 3, 2008, Icahn Enterprises L.P. (“Icahn Enterprises”) filed a Form 8-K under Item 2.01 to report the acquisition of 24,491,924 shares (the “Federal-Mogul Shares”) of Federal-Mogul Corporation (“Federal-Mogul”) common stock (the “Federal-Mogul Common Stock”) from Thornwood Associates Limited Partnership (“Thornwood”). As a result of the transaction, Icahn Enterprises beneficially owns 75.7% of the total issued and outstanding Federal-Mogul Common Stock. In consideration for the acquisition of the additional Federal-Mogul Shares, Icahn Enterprises issued to Thornwood 4,286,087 fully paid and non-assessable depositary units representing limited partnership interests in Icahn Enterprises. This Form 8-K/A is being filed to provide the financial statements of Federal-Mogul and the unaudited pro forma financial information for Icahn Enterprises.

Section 9 - Financial Statements and Exhibits
Item 9.01

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* The financial statements indicated by * above are incorporated by reference from Icahn Enterprises' Form 8-K/A (SEC File No. 1-9516), filed on August 7, 2008.

(b) Pro Forma Financial Information.

The following required pro forma financial information is filed on the pages listed below.

Unaudited Pro Forma Condensed Combined Financial Information for Icahn Enterprises L.P. and Subsidiaries:

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(d) Exhibits.

Exhibits No.

23.1 Consent of Ernst & Young LLP

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ICAHN ENTERPRISES L.P.

(Registrant)

By: Icahn Enterprises G.P. Inc.,
its General Partner

By: /s/ Dominick Ragone
Dominick Ragone
Principal Financial Officer

Date: January 12, 2009

FEDERAL-MOGUL CORPORATION
Consolidated Statements of Operations (Unaudited)

	Successor Three Months Ended September 30 2008	Predecessor 2007	Successor Nine Months Ended September 30 2008	Predecessor 2007
(Millions of Dollars, Except Per Share Amounts)				
Net sales	\$ 1,692.0	\$ 1,685.5	\$ 5,546.4	\$ 5,165.4
Cost of products sold	(1,413.1)	(1,406.0)	(4,605.5)	(4,255.7)
Gross margin	278.9	279.5	940.9	909.7
Selling, general and administrative expenses	(191.7)	(207.7)	(612.8)	(627.3)
Interest expense, net	(46.6)	(49.9)	(137.2)	(151.8)
Amortization expense	(21.4)	(4.7)	(56.7)	(14.0)
Chapter 11 and U.K. Administration related reorganization expenses	(2.3)	(15.3)	(15.3)	(56.5)
Equity earnings of unconsolidated affiliates	4.2	9.6	20.7	27.6
Restructuring expense, net	(11.3)	(9.8)	(14.0)	(39.4)
Other income, net	12.1	5.6	7.8	19.7
Income before income taxes	21.9	7.3	133.4	68.0
Income tax (expense) benefit, net	(18.3)	6.4	(71.7)	(45.8)
Net income	\$ 3.6	\$ 13.7	\$ 61.7	\$ 22.2
Income per common share:				
Basic	\$ 0.04	\$ 0.15	\$ 0.62	\$ 0.25
Diluted	\$ 0.04	\$ 0.15	\$ 0.62	\$ 0.24

See accompanying notes to consolidated financial statements.

FEDERAL-MOGUL CORPORATION
Consolidated Balance Sheets

	Successor (Unaudited)	
	September 30 2008	December 31 2007
	(Millions of dollars)	
ASSETS		
Current assets:		
Cash and equivalents	\$ 781.5	\$ 425.4
Accounts receivable, net	1,185.7	1,095.9
Inventories, net	1,034.0	1,074.3
Prepaid expenses and other current assets	318.3	526.4
Total current assets	3,319.5	3,122.0
Property, plant and equipment, net	2,014.9	2,061.8
Goodwill and indefinite-lived intangible assets	1,500.5	1,852.0
Definite-lived intangible assets, net	582.7	310.0
Other noncurrent assets	496.3	520.5
	\$ 7,913.9	\$ 7,866.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt, including current portion of long-term debt	\$ 135.8	\$ 117.8
Accounts payable	641.5	726.6
Accrued liabilities	465.0	496.0
Current portion of postemployment benefit liability	60.8	61.2
Other current liabilities	152.1	167.3
Total current liabilities	1,455.2	1,568.9
Long-term debt	2,771.9	2,517.6
Postemployment benefits	920.0	936.9
Long-term portion of deferred income taxes	339.4	331.4
Other accrued liabilities	262.6	300.3
Minority interest in consolidated subsidiaries	51.3	87.5
Shareholders' equity:		
Common stock	1.0	1.0
Additional paid-in capital, including warrants	2,122.7	2,122.7
Retained earnings	61.7	—
Accumulated other comprehensive loss	(55.2)	—
Treasury stock, at cost	(16.7)	—
Total shareholders' equity	2,113.5	2,123.7
	\$ 7,913.9	\$ 7,866.3

See accompanying notes to consolidated financial statements.

FEDERAL-MOGUL CORPORATION
Consolidated Statements of Cash Flows (Unaudited)

	Successor Nine Months Ended September 30 2008 (Millions of Dollars)	Predecessor 2007 (Millions of Dollars)
Cash Provided From (Used By) Operating Activities		
Net income	\$ 61.7	\$ 22.2
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	265.8	261.4
Cash received from 524(g) Trust	225.0	—
Change in postemployment benefits, including pensions	8.5	(80.8)
Change in deferred taxes	1.7	(20.5)
Changes in operating assets and liabilities:		
Accounts receivable	(107.9)	(127.6)
Inventories	21.9	(14.3)
Accounts payable	(75.9)	56.4
Other assets and liabilities	(25.5)	41.2
Net Cash Provided From Operating Activities	375.3	138.0
Cash Provided From (Used By) Investing Activities		
Expenditures for property, plant and equipment	(240.2)	(220.4)
Net proceeds from the sale of property, plant and equipment	10.9	26.1
Net proceeds from the sale of business	—	14.0
Proceeds from sale of investment	—	13.8
Payments to acquire minority interests	—	(6.8)
Payments to acquire business	(4.7)	—
Net Cash Used By Investing Activities	(234.0)	(173.3)
Cash Provided From (Used By) Financing Activities		
Proceeds from borrowings on exit facility	2,082.0	—
Repayment of Tranche A, Revolver and PIK Notes	(1,790.8)	—
Proceeds from borrowings on DIP credit facility	—	658.8
Principal payments on DIP credit facility	—	(247.0)
Repayment of pre-petition Tranche C debt	—	(330.0)
Increase (decrease) in short-term debt	(0.2)	9.0
Decrease in other long-term debt	(31.4)	(5.0)
Purchase of treasury stock	(16.7)	—
Decrease in factoring arrangements	(15.5)	(55.4)
Debt refinance fees	(0.6)	(0.1)
Net Cash Provided From Financing Activities	226.8	30.3
Effect of foreign currency exchange rate fluctuations on cash	(12.0)	11.9
Increase in cash and equivalents	356.1	6.9
Cash and equivalents at beginning of period	425.4	359.3
Cash and equivalents at end of period	\$ 781.5	\$ 366.2

See accompanying notes to consolidated financial statements.

FEDERAL-MOGUL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2008

1. BASIS OF PRESENTATION

Interim Financial Statements: The predecessor to Federal-Mogul Corporation (the “Predecessor Company”, “Predecessor Federal-Mogul” or the “Predecessor”) and all of its then-existing wholly-owned United States subsidiaries (“U.S. Subsidiaries”) filed voluntary petitions on October 1, 2001 (the “Petition Date”), 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 the Petition Date, certain of the Predecessor Company’s United Kingdom subsidiaries (together with the U.S. Subsidiaries, the “Debtors”) also 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 (the “District Court”) 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 consolidated financial statements for the period the Predecessor Company was in Bankruptcy were prepared in accordance with AICPA Statement of Position 90-7 (“SOP 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 its activity between December 28, 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. Financial statements for the three and nine months ended September 30, 2007 do not reflect the impact of changes in the Company’s capital structure or changes in the estimated fair values of assets and liabilities as a result of fresh-start reporting, and are therefore not comparable to the financial statements for the three and nine months ended September 30, 2008. For further information on fresh-start reporting, see Note 3.

The unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. These statements include all adjustments (consisting of normal recurring adjustments) that management believes are necessary for a fair presentation of the results of operations, financial position and cash flows. The Company’s management believes that the disclosures are adequate to make the information presented not misleading when read in conjunction with the financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC.

Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

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.

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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 generally 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 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.

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.

Trade Accounts Receivable: Federal-Mogul subsidiaries in Brazil, France, Germany, Italy and Spain are party to accounts receivable factoring arrangements. Gross accounts receivable factored under these facilities were \$298 million and \$347 million as of September 30, 2008 and December 31, 2007, respectively. Of those gross amounts, \$270 million and \$315 million, respectively, were factored without recourse and treated as a sale under Statement of Financial Accounting Standards ("SFAS") No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Under terms of these factoring arrangements, the Company is not obligated to draw cash immediately upon the factoring of accounts receivable. Thus, as of September 30, 2008 and December 31, 2007, the Company had outstanding factored amounts of \$12 million and \$8 million, respectively, for which cash had not yet been drawn. Expenses associated with receivables factored or discounted are recorded in the consolidated statements of operations within "Other income, net."

Adoption of New Accounting Pronouncements: In April 2007, the Financial Accounting Standards Board (the "FASB") issued FASB Staff Position FIN 39-1 ("FSP 39-1"), Amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts. FSP 39-1 permits entities to offset fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting agreement. FSP 39-1 clarifies that the fair value amounts recognized for the right to reclaim cash collateral, or the obligation to return cash collateral, arising from the same master netting arrangement, should also be offset against the fair value of the related derivative instruments. In addition, this FSP requires an entity to make an accounting policy decision to present these amounts at either their gross or net values. FSP 39-1 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2007. The Company has historically presented all of its derivative positions and any related material collateral under master netting agreements on a net basis consistent with the guidance in FIN 39 and FSP 39-1. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, which requires that ownership interests in subsidiaries held by parties other than the parent are clearly identified. In addition, SFAS 160 requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the statement of operations. SFAS 160 is effective for financial statements issued for fiscal years and interim periods beginning on or after December 15, 2008. The adoption of SFAS 160 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133, which requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company continues to evaluate the provisions of this standard and anticipates adopting this standard as of January 1, 2009.

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2. REORGANIZATION UPON EMERGENCE FROM CHAPTER 11 PROCEEDINGS

Background

On the Petition Date, the Predecessor Company and all of its U.S. Subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in 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. 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 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 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 30 days after its affirmance by the District Court. The Plan became effective in accordance with its terms on December 27, 2007.

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).

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 CVA Debtors.

On December 1, 2006, the discharge of the administration proceedings for the CVA 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 has commenced processes in England that will result in either the liquidation or the striking off from the English register of companies of those 70 remaining U.K. Debtors, virtually all of which are dormant entities. The Company anticipates that those processes will be complete by the end of 2008.

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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.
- 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 approximate 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 the Exit Facilities (as defined in Note 11).
- 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 reserved approximately \$41 million and \$64 for payment of unsecured claims against the U.S. Debtors as of September 30, 2008 and December 31, 2007, respectively. Because such payments are expected to be made through early 2010, \$21 million and \$41 million of the amounts reserved have been classified as long-term as of September 30, 2008 and December 31, 2007, respectively.

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.

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. Settlement Agreement 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, and Cooper Industries, LLC (“Cooper”), Pneumo Abex LLC (“Pneumo Abex”), and certain of their affiliates. 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

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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 the grounds that it failed to comply with Section 524(g) of the Bankruptcy Code. 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 pursuant to 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.

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, critical employee retention costs, and other directly related internal costs. The Company has previously incurred Chapter 11 reorganization expenses in connection with pursuing the Plan A

Settlement as discussed above, and has both previously incurred and will continue to incur expenses in connection with completing distributions pursuant to the Plan.

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	Successor Three Months Ended September 30 2008		Predecessor Nine Months Ended September 30 2007	
			(Millions of Dollars)	
Professional fees directly related to the filing	\$	2.3	\$	13.2
Critical employee retention costs		—		2.1
	\$	2.3	\$	15.3
	\$	15.3	\$	15.3
	\$	56.5	\$	50.0

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 SOP 90-7. 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. In connection with 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 on or prior to December 31, 2007 are not comparable to those of the Successor Company.

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; (ii) a review and analysis of several transactions of companies in similar industries to the Company; and (iii) a calculation of the present value of the future cash flows of the Company under its projections. 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 at the Effective Date.

In accordance with fresh-start reporting, the Company's reorganization value has been allocated to existing assets using the measurement guidance provided in SFAS 141. 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 SFAS No. 109, Accounting for Income Taxes. The

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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 balance sheets.

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 SFAS 141, the preliminary allocation of the reorganization value is 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. Future adjustments may result from:

- Finalization of valuation reports associated with long-lived tangible and intangible assets which may derive further adjustments or recording of additional assets or liabilities;
- Adjustments to deferred tax assets and liabilities, which may be based upon additional information, including adjustments to valuation estimates of underlying assets or liabilities; or
- Adjustments to amounts recorded based upon estimated fair values or upon other measurements, which could change the amount of recorded goodwill.

The values assigned to identified intangible assets and goodwill as of September 30, 2008 continue to be considered preliminary as the Company has not yet completed its internal review and approval of the latest valuation estimates. The Company expects to complete the internal review and approval processes within the upcoming months.

4. RESTRUCTURING

The Company defines restructuring expense to include costs directly associated with exit or disposal activities accounted for in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, employee severance costs incurred as a result of an exit or disposal activity accounted for in accordance with SFAS Nos. 88 and 112, and pension and other postemployment benefit costs incurred as a result of an exit or disposal activity accounted for in accordance with SFAS Nos. 87 and 106.

Estimates of restructuring charges are based on information available at the time such charges are recorded. In general, management anticipates that restructuring activities will be completed within a timeframe such that significant changes to the exit plan are not likely. 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, previously recorded reserves of \$2.3 million and \$3.4 million were reversed for the nine months ended September 30, 2008 and 2007, respectively. Such reversals are recorded consistent with SEC Staff Accounting Bulletin No. 100, Restructuring and Impairment Charges, and result from actual costs at program completion being less than costs estimated at the commitment date. In most instances where final costs were lower than original estimates, the rate of voluntary employee attrition was higher than the

attrition rate originally estimated as of the commitment dates, resulting in lower severance costs.

Management expects to finance these restructuring programs over the next several years through cash generated from its ongoing operations or through cash available under the Exit Facilities, 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.

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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 countries or to other locations with available capacity.
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 following is a summary of the Company's consolidated restructuring reserves and related activity as of and for the nine months ended September 30, 2008. "PTE", "PTSB", "VSP", "AP" and "GA" represent Powertrain Energy, Powertrain Sealing and Bearings, Vehicle Safety and Protection, Automotive Products and Global Aftermarket, respectively.

	PTE	PTSB	VSP	AP	GA	Corporate	Total
	Successor Company (Millions of dollars)						
Balance at December 31, 2007	\$ 6.1	\$ 4.3	\$ 1.4	\$ —	\$ 4.7	\$ 2.6	\$ 19.1
Provisions	0.2	0.3	—	0.7	—	1.4	2.6
Reversals	—	(0.2)	—	(0.2)	(0.5)	—	(0.9)
Payments	(0.8)	(1.4)	(0.4)	(0.3)	(2.7)	(0.1)	(5.7)
Foreign currency	0.2	0.3	—	—	0.1	(0.1)	0.5
Balance at March 31, 2008	5.7	3.3	1.0	0.2	1.6	3.8	15.6
Provisions	1.0	0.1	—	0.4	—	—	1.5
Reversals	(0.2)	—	(0.1)	—	—	(0.2)	(0.5)
Payments	(1.1)	(1.2)	(0.5)	(0.4)	(0.3)	(0.4)	(3.9)
Foreign currency	0.1	—	—	—	(0.1)	—	—
Balance at June 30, 2008	5.5	2.2	0.4	0.2	1.2	3.2	12.7
Provisions	2.7	2.4	2.6	1.8	1.6	1.1	12.2
Reversals	(0.2)	—	—	—	—	(0.7)	(0.9)
Payments	(2.7)	(1.4)	(1.2)	(1.0)	(0.6)	(0.2)	(7.1)
Foreign currency	(0.5)	(0.1)	0.1	(0.1)	—	—	(0.6)
Balance at September 30, 2008	\$ 4.8	\$ 3.1	\$ 1.9	\$ 0.9	\$ 2.2	\$ 3.4	\$ 16.3

Restructuring 2009

In September 2008, the Company announced a restructuring plan, herein referred to as "Restructuring 2009", designed to improve operating performance and respond to increasingly challenging conditions in the global automotive market. This plan, when combined with other workforce adjustments, is expected to reduce the Company's global workforce by approximately 8%. The Company continues to solidify the individual components of this plan, and will

announce those components as plans are finalized. For the period ended September 30, 2008, the Company has recorded the amount of severance that is probable and estimable, and that is not attributable to future service from the current employees. The Company has recorded \$10.7 million in restructuring charges associated with Restructuring 2009, and expects to incur additional restructuring charges up to \$69 million through 2009. 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.

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Significant components of charges related to Restructuring 2009 are as follows:

	Total Expected Costs	Third Quarter 2008	Estimated Additional Charges
(Millions of dollars)			
Powertrain Energy	\$ 2.2	\$ 1.8	\$ 0.4
Powertrain Sealing and Bearings	16.3	2.2	14.1
Vehicle Safety and Protection	29.4	2.6	26.8
Automotive Products	14.8	1.7	13.1
Global Aftermarket	15.3	1.3	14.0
Corporate	2.0	1.1	0.9
	\$ 80.0	\$ 10.7	\$ 69.3

Restructuring 2006

In January 2006, the Predecessor Company announced a global restructuring plan (“Restructuring 2006”) as part of its global sustainable profitable growth strategy. From the inception of this program through December 31, 2007, the Predecessor Company incurred expenses of \$119.9 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.

The Restructuring 2006 program will be completed as of December 30, 2008 and the Company will not initiate additional facility closures or production transfers under this program. Payments associated with this program are expected to continue into 2009. From January 1, 2008 through September 30, 2008, the Successor Company has incurred expenses of \$3.6 million for Restructuring 2006. The Company expects that approximately \$5 million of additional expense will be incurred under this program, primarily related to equipment transportation.

5. OTHER INCOME, NET

The specific components of “Other income, net” are as follows:

	Successor Three Months Ended September 30 2008	Predecessor Three Months Ended September 30 2007	Successor Nine Months Ended September 30 2008	Predecessor Nine Months Ended September 30 2007
(Millions of Dollars)				
Environmental claims settlements	\$ 15.8	\$ —	\$ 16.3	\$ —
Foreign currency exchange	(5.2)	(0.7)	(10.3)	(1.2)
Minority interest in consolidated subsidiaries	(3.6)	0.8	(5.2)	3.5
Accounts receivable discount expense	(2.3)	(2.1)	(7.1)	(5.7)
Unrealized gain (loss) on hedge instruments	(1.5)	(1.3)	(2.3)	6.2
Royalty income	1.3	0.6	0.1	1.3
Gain on sale of assets	0.7	0.8	1.2	11.3
Gain on sale of businesses	—	9.1	—	8.7
Adjustment of assets to fair value	—	(3.5)	—	(7.0)

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Other		6.9		1.9		15.1		2.6
	\$	12.1	\$	5.6	\$	7.8	\$	19.7

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6. 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.

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. These hedges were highly effective and their impact on earnings was not significant during the three and nine months ended September 30, 2008 and 2007. The Company had a notional value of approximately \$5 million of foreign currency hedge contracts outstanding at both September 30, 2008 and December 31, 2007, respectively, that were designated as hedging instruments for accounting purposes. As such, unrealized net losses of \$0.9 million were recorded in accumulated other comprehensive loss as of September 30, 2008.

Interest Rate Risk

As of September 30, 2008, the Company was party to a series of five year interest rate swap agreements with a total notional value of \$1,150 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 5.4% on the hedged notional value of \$1,150 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 September 30, 2008, unrealized net gains of \$11.2 million were recorded in accumulated other comprehensive loss as a result of these hedges. Hedge ineffectiveness, determined using the hypothetical derivative method, was not material for the three or nine months ended September 30, 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'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, 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 eighteen 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. Through March 31, 2007, the Predecessor Company recognized all changes in fair value of these hedges in current earnings, resulting in unrealized gains of approximately \$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.

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The Company had 253 and 211 commodity price hedge contracts outstanding with a combined notional value of \$119 million and \$139 million at September 30, 2008 and December 31, 2007, respectively, that were designated as hedging instruments for accounting purposes. As such, unrealized net losses of \$5.6 million were recorded in accumulated other comprehensive loss as of September 30, 2008. Hedge ineffectiveness, determined using the hypothetical derivative method, was not material for the three and nine months ended September 30, 2008.

Other

For derivatives designated either as fair value or cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness. Hedge ineffectiveness, determined in accordance with SFAS No. 133, did not have a material effect on operations for the three and nine months ended September 30, 2008 and 2007. No fair value hedges or cash flow hedges were re-designated or discontinued during the three and nine months ended September 30, 2008 and 2007.

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 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. The Company requires placement of cash in financial institutions evaluated as highly creditworthy.

Fair Value Measurements

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and enhances disclosure about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. On February 2, 2008, the FASB issued FASB Staff Position No. FAS 157-2 ("FSP 157-2") which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Where the measurement objective specifically requires the use of "fair value", the Company has adopted the provisions of SFAS 157 related to financial assets and financial liabilities as of December 31, 2007 in connection with its fresh-start reporting.

SFAS 157 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, SFAS 157 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.

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques noted in SFAS 157:

- 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).

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- 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).

The Company remeasured its financial assets and financial liabilities as of December 31, 2007 as required by SOP 90-7 using the guidance for measurement found in SFAS 141. The gains and losses related to these fair value adjustments were recorded within the statement of operations of the Predecessor Company. Financial assets and liabilities remeasured and disclosed at fair value at September 30, 2008 are set forth in the table below:

	Frequency	Asset	Level 1 (In millions of dollars)	Level 2	Level 3	Valuation Technique
Hedge instruments	Recurring	\$ 1.4	\$ —	\$ 1.4	\$ —	A

7. INVENTORIES

Prior to the application of fresh-start reporting, inventories were stated at the lower of cost or market. Cost was determined by the first-in, first-out (“FIFO”) method at September 30, 2008 and December 31, 2007. 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.

In connection with fresh-start reporting, inventory balances as of December 31, 2007 were increased by \$68 million in accordance with SFAS No. 141 using the following valuation methodology:

- 1) finished goods were valued at estimated selling prices less the sum of (a) costs of disposal and (b) a reasonable profit allowance for the selling effort of the Successor Company;
- 2) work-in-process was valued at the estimated selling prices of finished goods less the sum of (a) costs to complete, (b) costs of disposal and (c) a reasonable profit allowance for the completing and selling effort of the Successor Company; and
- 3) raw materials were valued at current replacement cost.

The fresh-start reporting valuation increase to inventory impacted cost of goods sold as the related inventory was sold. During the nine months ended September 30, 2008, the Company recognized \$68 million in additional cost of goods sold, reducing gross margin by the same, due to this valuation adjustment to inventory.

Net inventories consisted of the following:

	Successor Company	
	September 30 2008	December 31 2007
	(Millions of Dollars)	
Raw materials	\$ 207.6	\$ 202.2
Work-in-process	167.8	180.9

Finished products	658.6	691.2
	\$ 1,034.0	\$ 1,074.3

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8. GOODWILL AND OTHER INTANGIBLE ASSETS

At September 30, 2008 and December 31, 2007, goodwill and other intangible assets consist of the following:

	September 30, 2008			Successor Company December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount (Millions of Dollars)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-Lived Intangible Assets						
Developed technology	\$ 115.0	\$ (7.9)	\$ 107.1	\$ 140.0	\$ —	\$ 140.0
Customer relationships	524.4	(48.8)	475.6	170.0	—	170.0
	\$ 639.4	\$ (56.7)	\$ 582.7	\$ 310.0	\$ —	\$ 310.0
Goodwill and Indefinite-Lived Intangible Assets						
Goodwill			\$ 1,016.5			\$ 1,544.0
Trademarks and brand names			484.0			308.0
			\$ 1,500.5			\$ 1,852.0

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.

The Company received valuation estimates for intangible assets other than goodwill during the quarter ended June 30, 2008 that were more detailed and comprehensive than those used for its initial application of fresh-start reporting. Based upon the revised valuation estimates, the Company, during the quarter ended June 30, 2008, recorded adjustments to the initially recorded fresh-start reporting amounts. During the quarter ended September 30, 2008, the Company has continued to review these revised valuation estimates and the underlying data and basis for estimating value. As this review continues, adjustments are recorded to the amounts assigned to identifiable intangible assets and to goodwill.

The Company has preliminarily assigned \$115.0 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 estimate was reduced from \$140.0 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 preliminary 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 more difficult.

The Company, during the quarter ended June 30, 2008, 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. Valuation estimates for brand names and customer relationships were then determined based upon the estimated revenue streams. As a result of the latest valuation estimates, the Company recorded \$484.0 million for its trademarks and brand names. As part of fresh-start reporting, value was assigned to each

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trademark or brand name based on its earnings potential or relief from costs associated with licensing the trademark or brand name. 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 and will be tested annually for impairment.

Based upon the latest valuation estimates, the Company has assigned \$519.2 million to its customer relationships, of which \$62.0 million relates to original equipment (“OE”) customer relationships and \$457.2 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 preliminary 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.

The Company has also recorded \$5.2 million in customer relationships in connection with the February 2008 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 values assigned to identifiable intangible assets based upon the latest valuations represent the Company’s best estimates of fair value based upon internal and external valuations. If these values were to be considered final, the Company’s ongoing amortization expense for its definite-lived intangible assets for each of the following years would be as follows (in millions of dollars):

2008	\$	75.6
2009		48.9
2010		48.9
2011		47.2
2012		47.2
Thereafter		371.6
	\$	639.4

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.

For the three and nine months ended September 30, 2008, the Company has recorded amortization expense of \$21.4 million and \$56.7 million, respectively, associated with definite-lived intangible assets. Included in the amortization expense of \$21.4 million for the quarter ended September 30, 2008 is \$2.5 million of expense related to the six months ended June 30, 2008, recorded during the current quarter as a result of revisions to the estimates of value for definite-lived intangible assets. To the extent the estimates of fair value for definite-lived intangible assets continue to change, the cumulative recorded amortization expense will be adjusted to reflect such changes in underlying asset values.

9. INVESTMENTS IN NON-CONSOLIDATED AFFILIATES

The Company maintains investments in 14 non-consolidated affiliates, which are located in China, Germany, Italy, Japan, 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 investment in these affiliates approximates \$319 million and

\$324 million at September 30, 2008 and December 31, 2007, respectively, and is 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. These estimated fair values were determined based upon internal and external valuations which considered various relevant market rates and transactions, and discounted cash flow valuation methods, among other factors, as further described in Note 3.

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Equity in the earnings of non-consolidated affiliates amounted to approximately \$21 million and \$28 million for the nine months ended September 30, 2008 and 2007, respectively. During the nine months ended September 30, 2008, these entities generated sales of approximately \$533 million, net income of approximately \$62 million and at September 30, 2008 had total net assets of approximately \$370 million. Dividends received from non-consolidated affiliates by the Company for the nine months ended September 30, 2008 were \$30 million. 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 September 30, 2008, the total amount of the contingent guarantee, were all triggering events to occur, approximated \$59 million. The Company 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 SFAS No. 141, Business Combinations.

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.

In accordance with SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, 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.

10. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	Successor Company	
	September 30 2008	December 31 2007
	(Millions of Dollars)	
Accrued compensation	\$ 240.6	\$ 224.4
Accrued rebates	95.7	93.6
Accrued income taxes	49.6	48.5
Accrued professional services	25.4	22.8
Accrued product returns	19.0	20.0
Restructuring reserves	16.3	19.1
Accrued warranty	10.3	11.1
Accrued Chapter 11 and U.K. Administration expenses	8.1	35.3
Non-income taxes payable	—	21.2
	\$ 465.0	\$ 496.0

11. 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 \$1,334.6 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 in 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 principal amount of 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.

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