



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

DATE: December 14, 2004
TO: Michigan Economic Growth Authority
FROM: James Donaldson, Vice President
Michigan Business Development
SUBJECT: Briefing Memo - Federal-Mogul Corporation
Retention Credit

COMPANY NAME AND ADDRESS:

Federal-Mogul Corporation
26555 Northwestern Highway
Southfield, Michigan 48034

HISTORY OF COMPANY:

Federal-Mogul Corporation was founded in 1899 as the Muzzy-Lyon Company. The company expanded its operations through acquisitions in the 1990s, including thirteen acquisitions in 1998. The company grew from \$2 billion in annual revenues to over \$6 billion through these acquisitions. Today the company employs 45,000 people in 24 countries, including 1,866 in the State of Michigan.

The historical use of asbestos by these acquired companies resulted in overwhelming litigation expenses. To separate its asbestos liabilities from its true operating potential, the company and its United States subsidiaries voluntarily filed for financial restructuring under Chapter 11 of the U.S. Bankruptcy Code. Since the October 1, 2001 filing, the company has continued its business operations without interruption, and with the full support of its major customers and suppliers. The company's plan of reorganization, as amended, was filed with the Bankruptcy Court in Delaware on June 4, 2004. On December 9, 2004, the court will hold a hearing to confirm the company's plan of reorganization.

PROJECT DESCRIPTION:

As part of its restructuring plan, the company has performed detailed assessments of its facilities around the globe. Through this analysis, the Greenville and St. Johns facilities were identified as producers of products that could be manufactured at lower cost at other Federal-Mogul facilities.

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Over the past year, the company has worked with its employees to improve operations, and has negotiated new, lower cost contracts with its workers at all three manufacturing facilities in the state. As a result, the company has agreed to invest \$6 million in the next year to implement new environmentally friendly product lines at the Greenville and St. Johns facilities. Over the next five years, the company could invest up to \$100 million in its Michigan manufacturing, research and development, and headquarters facilities.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan utilizing Regional Economic Models, Inc. software, we estimate that retention of the company's manufacturing facilities will retain a total of 9,544 jobs in the state by the year 2024. We also estimate that the project would maintain total state government revenues through the year 2024, net of MEGA cost and adjusted for inflation, of \$480 million (2004 dollars) due to the retention of this facility.

BUSINESS CASE:

Federal-Mogul performed a comprehensive analysis of potential facilities where this production could be performed, and determined that most Michigan production could be moved to its facility in Puebla, Mexico. The company estimates that closure of the Greenville and St. Johns facilities could save up to \$30 million in annual operations costs.

OTHER STATE AND LOCAL ASSISTANCE:

The City of Greenville approved 50 percent abatement of the company's new real and personal property taxes for 12 years. This abatement has an estimated value of \$140,000.

The City of St. Johns approved 50 percent abatement of the company's new real and personal property taxes for 6 years. This abatement has an estimated value of \$186,000.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a 100 percent employment credit for twenty years for the retention of up to 1,866 jobs at the company's Michigan facilities.

The credit will be contingent upon the company maintaining at least 1000 jobs in Michigan and keeping at least 3 of 5 facilities open. In addition, the percentage of the credit will be adjusted downward from 100 percent (based on a formula) should total employment in Michigan fall below 1,700. Finally, as required by the MEGA statute, this credit is subject to a clawback should the company not meet certain contractual requirements.